

THE ISLAND WATER ASSOCIATION, INC.

FINANCIAL STATEMENTS

December 31, 1992 and 1991

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT

FINANCIAL STATEMENTS

Balance sheets	2
Statements of operations and system investment	3
Statements of cash flows	4
Notes to financial statements	5 - 9



HOLT SCHULTZ & CHAIPEL

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Members
The Island Water Association, Inc.
Sanibel Island, Florida

We have audited the accompanying balance sheets of the Island Water Association, Inc. as of December 31, 1992 and 1991, and the related statements of operations and system investment, and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Island Water Association, Inc. as of December 31, 1992 and 1991, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Holt, Schultz & Chaipel
Holt, Schultz & Chaipel
Fort Myers, Florida
January 29, 1993

4575 VIA ROYALE, SUITE 110
FORT MYERS, FLORIDA 33919
(813) 939-5333
FAX (813) 939-4682



THE ISLAND WATER ASSOCIATION, INC.
BALANCE SHEETS

	December 31,	
ASSETS	<u>1992</u>	<u>1991</u>
PLANT PROPERTY (Note 2)		
Utility plant in service	\$23,691,100	\$22,799,400
Construction work in progress	<u>252,200</u>	<u>99,200</u>
	23,943,300	22,898,600
Less accumulated depreciation	<u>9,708,300</u>	<u>8,873,900</u>
Net plant property	<u>14,235,000</u>	<u>14,024,700</u>
CURRENT ASSETS		
Cash	79,500	312,000
Cash, Environmental Contingency Fund	<u>125,000</u>	<u>-</u>
Total cash	204,500	312,000
Marketable securities (Note 1)	370,000	-
Accounts receivable	376,500	199,100
Unbilled revenues	180,600	189,400
Prepayments and other	46,000	74,900
Inventory	18,200	18,200
Contributions receivable	<u>126,000</u>	<u>-</u>
Total current assets	<u>1,321,800</u>	<u>793,600</u>
INVESTMENTS		
Participation certificates (Note 3)	<u>124,400</u>	<u>70,100</u>
RESTRICTED ASSETS (Note 3)		
Cash	178,800	300,500
Marketable securities	<u>121,200</u>	<u>-</u>
	<u>300,000</u>	<u>300,500</u>
	<u>\$15,981,200</u>	<u>\$15,188,900</u>
CAPITALIZATION, LIABILITIES AND MEMBERS' CONTRIBUTIONS		
CAPITALIZATION		
Net revenues invested in the water system	\$ 2,687,600	\$ 2,584,800
Long-term debt, less current maturities, (Note 3)	<u>2,390,600</u>	<u>2,421,300</u>
Total capitalization	<u>5,078,200</u>	<u>5,006,100</u>
CURRENT LIABILITIES		
Current maturities of long-term debt (Note 3)	30,700	27,500
Accounts payable and accrued expenses	<u>245,000</u>	<u>239,200</u>
Total current liabilities	<u>275,700</u>	<u>266,700</u>
MEMBERS' CONTRIBUTIONS IN AID OF CONSTRUCTION	<u>10,627,300</u>	<u>9,916,100</u>
	<u>\$15,981,200</u>	<u>\$15,188,900</u>

The accompanying notes are an integral part of these statements.

THE ISLAND WATER ASSOCIATION, INC.
 STATEMENTS OF OPERATIONS AND SYSTEM INVESTMENT

	For the Years Ended December 31,	
	<u>1992</u>	<u>1991</u>
OPERATING REVENUES	\$4,016,300	\$3,517,900
Costs		
Operation	1,060,700	973,600
Maintenance	770,300	741,000
Administration	1,097,300	1,128,800
Depreciation	<u>834,400</u>	<u>880,000</u>
Total costs	<u>3,762,700</u>	<u>3,723,400</u>
Operating income (loss)	<u>253,600</u>	<u>(205,500)</u>
Other income		
Interest	28,700	43,300
Other	<u>70,500</u>	<u>61,800</u>
Total other income	<u>99,200</u>	<u>105,100</u>
Income (loss) before interest charges	<u>352,800</u>	<u>(100,400)</u>
Interest charges on long-term debt	268,900	245,800
Less interest capitalized into capital projects	<u>18,900</u>	<u>56,700</u>
	<u>250,000</u>	<u>189,100</u>
Net income (loss)	102,800	(289,500)
NET REVENUES INVESTED IN THE WATER SYSTEM		
Beginning of year	<u>2,584,800</u>	<u>2,874,300</u>
End of year	<u>\$2,687,600</u>	<u>\$2,584,800</u>

The accompanying notes are an integral part of these statements.

THE ISLAND WATER ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,	
	<u>1992</u>	<u>1991</u>
CASH FLOWS PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Cash received from customers	\$ 3,880,900	\$ 3,574,700
Cash paid to suppliers and employees	(2,893,000)	(2,863,000)
Interest received	27,300	51,400
Interest paid (net of amount capitalized)	<u>(249,200)</u>	<u>(187,000)</u>
Net cash flows provided by operating activities	<u>766,000</u>	<u>576,100</u>
CASH FLOWS USED IN INVESTING ACTIVITIES		
Capital expenditures (including capitalized interest of \$18,900 and \$56,700 for 1992 and 1991, respectively)	(644,700)	(1,478,200)
Purchases of marketable securities	(491,200)	-
Investments in participation certificates	<u>(17,000)</u>	<u>(20,900)</u>
Net cash flows used in investing activities	<u>(1,152,900)</u>	<u>(1,499,100)</u>
CASH FLOWS PROVIDED BY (USED IN)		
FINANCIAL ACTIVITIES		
Debt proceeds	-	600,000
Payment of debt	(27,500)	(220,000)
Increase in members' contributions in aid of construction	<u>185,200</u>	<u>122,900</u>
Net cash flows provided by financing activities	<u>157,700</u>	<u>502,900</u>
Net decrease in cash	(229,200)	(420,100)
CASH, beginning of year	<u>612,500</u>	<u>1,032,600</u>
CASH, end of year	<u>\$ 383,300</u>	<u>\$ 612,500</u>
CASH BALANCES		
Unrestricted	\$ 79,500	\$ 312,000
Restricted	<u>303,800</u>	<u>300,500</u>
	<u>\$ 383,300</u>	<u>\$ 612,500</u>

The accompanying notes are an integral part of these statements.

THE ISLAND WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

The Island Water Association, Inc. (the Association) is a not-for-profit organization exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(4). The Association provides water to commercial and residential structures on Sanibel and Captiva islands, two barrier islands located in southwest Florida.

Each connection for the services rendered by the Association entitles the subscriber to one membership certificate. At any meeting of the members of the Association, each member shall be entitled to only one vote, regardless of the number of certificates of membership held.

Significant Accounting Policies

Regulatory agency and franchise

On July 14, 1965, the Association was granted a thirty-year franchise by the Board of County Commissioners of Lee County, Florida (the County). The franchise agreement states that all rate adjustments require the prior written consent of the County.

The franchise agreement gives the County the right at any time during the franchise period to purchase the property of the Association at a purchase price not to exceed the original cost of the facilities less depreciation. Upon the retirement by the Association of all of its outstanding debt, ownership will revert back to the County.

Utility plant in service

Utility plant in service is recorded at cost. Depreciation is provided over the estimated useful lives of the assets, using the straight-line method. The cost of depreciable plant assets retired, plus the cost of removal, less any sale proceeds, is charged against accumulated depreciation.

Marketable securities

Marketable securities are carried at cost. At December 31, 1992 the market value of these securities was \$488,200.

THE ISLAND WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unbilled revenues

Unbilled revenues represent revenues between the last dates of the cycle billings and year end.

Inventory

Inventory is stated at the lower of cost (first-in, first-out method) or market.

Investments

The Association recognizes income from participation certificates in the National Bank for Cooperatives on the accrual basis. This method records income and increases the Association's invested amount, based on the patronage dividends declared by the Bank.

Allowance for funds used during construction

Interest is capitalized on funds used during construction at the weighted average rate paid by the Association on its long-term debt.

Members' contributions in aid of construction

Members' contributions in aid of construction consists of connection fees received from members and distribution lines contributed to the Association by real estate developers since the inception of the Association. These distribution lines are valued at an estimate of the developers' costs and are added to the Association's transmission and distribution plant.

Reclassifications

Certain items in the 1991 financial statements have been reclassified to conform to the 1992 presentation.

The caption "accumulated surplus" which has been used in prior years has been changed to "net revenues invested in the water system". It is management's opinion that this new caption better describes the account balance.

THE ISLAND WATER ASSOCIATION, INC.
 NOTES TO FINANCIAL STATEMENTS

NOTE 2 - UTILITY PLANT IN SERVICE

Utility plant in service consists of the following:

	December 31,	
	<u>1992</u>	<u>1991</u>
Source of supply plant	\$ 2,796,900	\$ 2,654,400
Pumping plant	688,700	688,700
Water treatment plant	8,316,800	8,039,000
Transmission and distribution plant	9,711,200	9,283,400
General plant	<u>2,177,500</u>	<u>2,133,900</u>
	<u>\$23,691,100</u>	<u>\$22,799,400</u>

NOTE 3 - LONG-TERM DEBT

Long-term debt consists of the following:

	December 31,	
	<u>1992</u>	<u>1991</u>
11.22% mortgage note payable in quarterly installments of \$62,825 including interest, due April 1, 2014	\$2,026,500	\$2,048,800
9.90% mortgage note payable to a financial institution, monthly payments of principal and interest in the amount of \$3,824, final payment due April, 2014	<u>394,800</u>	<u>400,000</u>
	2,421,300	2,448,800
Less current maturities	<u>30,700</u>	<u>27,500</u>
	<u>\$2,390,600</u>	<u>\$2,421,300</u>

Maturities of long-term debt are as follows:

<u>December 31,</u>	
1993	\$ 30,700
1994	34,200
1995	38,100
1996	42,500
1997	47,400
Thereafter	<u>2,228,400</u>
	<u>\$2,421,300</u>

THE ISLAND WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - LONG-TERM DEBT (Continued)

Substantially all assets are pledged as collateral for long-term debt.

The agreements with the National Bank for Cooperatives calls for the Association to maintain a cash or marketable securities balance of \$300,000 to be used for repair or replacement of plant assets, payments of principal and interest, and for expansion of plant assets with prior lender approval. The agreement precludes the Association from entering into other indebtedness and requires certain working capital and tangible net worth ratios be maintained.

The Association is required to purchase Participation Certificates in the National Bank for Cooperatives. These certificates are required by the Farm Credit Act of 1971 and the Bank's capital plan, as adopted by its Board of Directors, and represent capital ownership by the Association in the Bank. Additionally, the Association is allocated income from these participation certificates based on the Bank's profitability.

NOTE 4 - PENSION PLAN

The Association established a defined-contribution pension plan covering substantially all employees beginning November 1, 1979. The defined-contribution plan requires the Association to contribute annually an amount equal to 10% of each employee's salary up to the taxable wage base, plus an additional 5.7% of any salary in excess of the taxable wage base. The Association's contributions for 1992 and 1991 were approximately \$94,000 and \$104,320, respectively.

NOTE 5 - CHANGE IN ESTIMATED USEFUL LIFE

During 1991, the Association revised the estimated useful life of the piping within its system. Previously, the useful life was estimated to be 50 years. It has been increased to 100 years based on an evaluation conducted by an Association engineer. The result of this change on the 1991 operations was to reduce the net loss by \$58,700.

THE ISLAND WATER ASSOCIATION, INC.
 NOTES TO FINANCIAL STATEMENTS

NOTE 6 - COMMITMENTS

The Association had several uncompleted contracts outstanding at December 31, 1992 and 1991. The contracts are for improvements to the utility plant in service. All outstanding contracts are expected to be completed within a year. Capital contract commitments outstanding at December 31, 1992 and 1991 totaled \$305,000 and \$125,500, respectively.

NOTE 7 - STATEMENTS OF CASH FLOWS

Presented below is the reconciliation of net income (loss) to net cash provided by operating activities.

	For the Years Ended December 31,	
	<u>1992</u>	<u>1991</u>
RECONCILIATION OF NET INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net income (loss)	\$ <u>102,800</u>	\$ <u>(289,500)</u>
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation	834,400	880,000
(Increase) decrease in:		
Accounts receivable	(177,400)	48,400
Unbilled revenues	8,800	(20,700)
Prepayments and other Investments	28,900	12,500
	(37,300)	(24,600)
Increase (decrease) in:		
Accounts payable and accrued expenses	<u>5,800</u>	<u>(30,000)</u>
	<u>663,200</u>	<u>865,600</u>
Net cash provided by operating activities	\$ <u>766,000</u>	\$ <u>576,100</u>

The Association received distribution lines contributed by developers in the amounts of \$400,000 and \$170,000 in 1992 and 1991, respectively. These items represent noncash investing and financing activities.