

**THE ISLAND WATER ASSOCIATION, INC.**

**FINANCIAL STATEMENTS**

**December 31, 1993 and 1992**

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# SCHULTZ CHAPEL & CO.

## 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, 1993 and 1992, 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, 1993 and 1992, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

*Schultz Chapel & Co.*

Schultz, Chapel & Co.  
Fort Myers, Florida  
February 4, 1994



## BALANCE SHEETS

	December 31,	
	<u>1993</u>	<u>1992</u>
<b>ASSETS</b>		
<b>PLANT PROPERTY (Note 2)</b>		
Utility plant in service	\$22,131,600	\$23,691,100
Construction work in progress	<u>334,600</u>	<u>252,200</u>
	22,466,200	23,943,300
Less accumulated depreciation	<u>7,852,000</u>	<u>9,708,300</u>
Net plant property	<u>14,614,200</u>	<u>14,235,000</u>
<b>CURRENT ASSETS</b>		
Cash	23,300	79,500
Marketable securities (Note 1)	670,500	16,000
Accounts receivable	308,300	376,500
Unbilled revenues	267,900	180,600
Prepayments and other	28,100	46,000
Inventory	12,300	18,200
Contributions receivable	-	<u>126,000</u>
Total current assets	<u>1,310,400</u>	<u>842,800</u>
<b>INVESTMENTS</b>		
Participation certificates (Note 3)	<u>179,000</u>	<u>124,400</u>
<b>BOARD RESTRICTED ASSETS</b>		
Cash, Environmental Compliance Fund	185,000	125,000
Cash, R.O. Membranes Fund	240,000	-
Marketable securities, R.O. Membranes Fund	-	<u>354,000</u>
Total board restricted assets	<u>425,000</u>	<u>479,000</u>
<b>RESTRICTED ASSETS (Note 3)</b>		
Cash	-	178,800
Marketable securities	<u>300,000</u>	<u>121,200</u>
	300,000	300,000
	<u>\$16,828,600</u>	<u>\$15,981,200</u>

The accompanying notes are an integral part of these statements.

	December 31,	
	<u>1993</u>	<u>1992</u>
<b>CAPITALIZATION, LIABILITIES AND MEMBERS' CONTRIBUTIONS</b>		
<b>CAPITALIZATION</b>		
Net revenues invested in the water system	\$ 3,283,400	\$ 2,687,600
Long-term debt, less current maturities (Note 3)	<u>2,355,800</u>	<u>2,390,600</u>
Total capitalization	<u>5,639,200</u>	<u>5,078,200</u>
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt (Note 3)	34,400	30,700
Accounts payable and accrued expenses	<u>278,700</u>	<u>245,000</u>
Total current liabilities	<u>313,100</u>	<u>275,700</u>
<b>MEMBERS' CONTRIBUTIONS IN AID OF CONSTRUCTION</b>	<u>10,876,300</u>	<u>10,627,300</u>
	<u>\$16,828,600</u>	<u>\$15,981,200</u>

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

	For the Years Ended December 31,	
	<u>1993</u>	<u>1992</u>
<b>OPERATING REVENUES</b>	<u>\$4,601,700</u>	<u>\$4,016,300</u>
Costs		
Operation	1,040,100	1,060,700
Maintenance	790,900	770,300
Administration	1,188,500	1,097,300
Depreciation	950,400	834,400
Total costs	<u>3,969,900</u>	<u>3,762,700</u>
Operating income	<u>631,800</u>	<u>253,600</u>
Other income		
Interest	71,000	28,700
Other	101,600	70,500
Total other income	<u>172,600</u>	<u>99,200</u>
Income before interest charges	<u>804,400</u>	<u>352,800</u>
Interest charges on long-term debt	265,700	268,900
Less interest capitalized into capital projects	<u>57,100</u>	<u>18,900</u>
	<u>208,600</u>	<u>250,000</u>
Net income	595,800	102,800
<b>NET REVENUES INVESTED IN THE WATER SYSTEM</b>		
Beginning of year	<u>2,687,600</u>	<u>2,584,800</u>
End of year	<u>\$3,283,400</u>	<u>\$2,687,600</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>1993</u>	<u>1992</u>
<b>CASH FLOWS PROVIDED BY (USED IN)</b>		
<b>OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 4,612,600	\$ 3,880,900
Cash paid to suppliers and employees	(2,925,800)	(2,893,000)
Interest received	71,000	27,300
Interest paid (net of amount capitalized)	<u>(208,100)</u>	<u>(249,200)</u>
Net cash flows provided by operating activities	<u>1,549,700</u>	<u>766,000</u>
<b>CASH FLOWS PROVIDED BY (USED IN)</b>		
<b>INVESTING ACTIVITIES</b>		
Capital expenditures (including capitalized interest of \$57,100 and \$18,900 for 1993 and 1992, respectively)	(1,354,600)	(644,700)
Proceeds from the sale of fixed assets	35,000	-
Purchases of marketable securities	(1,330,900)	(491,200)
Redemption of marketable securities	851,600	-
Investments in participation certificates	<u>(19,700)</u>	<u>(17,000)</u>
Net cash flows used in investing activities	<u>(1,818,600)</u>	<u>(1,152,900)</u>
<b>CASH FLOWS PROVIDED BY (USED IN)</b>		
<b>FINANCIAL ACTIVITIES</b>		
Payment of debt	(31,100)	(27,500)
Increase in members' contributions in aid of construction	<u>365,000</u>	<u>185,200</u>
Net cash flows provided by financing activities	<u>333,900</u>	<u>157,700</u>
Net increase (decrease) in cash	65,000	(229,200)
<b>CASH, beginning of year</b>	<u>383,300</u>	<u>612,500</u>
<b>CASH, end of year</b>	<u>\$ 448,300</u>	<u>\$ 383,300</u>
<b>CASH BALANCES</b>		
Unrestricted	\$ 23,300	\$ 79,500
Restricted	425,000	303,800
	<u>\$ 448,300</u>	<u>\$ 383,300</u>

The accompanying notes are an integral part of these 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, which consist of FNMA and FHLMC certificates, are carried at cost. At December 31, 1993 the market value of these securities was \$967,220. These securities are not considered to be cash equivalents.

**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 1992 financial statements have been reclassified to conform to the 1993 presentation.

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>1993</u>	<u>1992</u>
Source of supply plant	\$ 3,089,300	\$ 2,796,900
Pumping plant	688,700	688,700
Water treatment plant	6,061,800	8,316,800
Transmission and distribution plant	10,042,600	9,711,200
General plant	<u>2,249,200</u>	<u>2,177,500</u>
	<u>\$22,131,600</u>	<u>\$23,691,100</u>

**NOTE 3 - LONG-TERM DEBT**

Long-term debt consists of the following:

	December 31,	
	<u>1993</u>	<u>1992</u>
11.22% mortgage note payable in quarterly installments of \$62,825 including interest, due April, 2014	\$ 2,001,700	\$2,026,500
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>388,500</u>	<u>394,800</u>
	2,390,200	2,421,300
Less current maturities	<u>34,400</u>	<u>30,700</u>
	<u>\$ 2,355,800</u>	<u>\$2,390,600</u>

Maturities of long-term debt are as follows:

<u>December 31,</u>	
1994	\$ 34,400
1995	38,100
1996	42,500
1997	47,400
1998	52,800
Thereafter	<u>2,175,000</u>
	<u>\$2,390,200</u>

**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 loan agreement provides for a penalty if the loan is paid off prior to maturity. The penalty approximates the net present value of the difference between current market interest rates and the debt's stated rate. At the end of 1993, the approximate amount of the penalty would have been \$707,000.

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 1993 and 1992 were approximately \$123,000 and \$94,000, respectively.

**NOTE 5 - CHANGE IN ESTIMATED USEFUL LIFE**

During 1993, the Association revised the estimated useful life of the membranes at the Reverse Osmosis plant to 5 years. This revision is based on the Association's experience. The effect of this change is to increase depreciation expense and decrease the Association's 1993 net income by \$54,000.

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, 1993 and 1992 totaled \$198,000 and \$305,000, respectively.

**NOTE 7 - STATEMENTS OF CASH FLOWS**

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

	For the Years Ended December 31,	
	<u>1993</u>	<u>1992</u>
<b>RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Net income	\$ <u>595,800</u>	\$ <u>102,800</u>
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	950,400	834,400
(Increase) decrease in:		
Accounts receivable	68,200	(177,400)
Unbilled revenues	(87,300)	8,800
Prepayments and other Investments	23,800	28,900
	(34,900)	(37,300)
Increase (decrease) in:		
Accounts payable and accrued expenses	<u>33,700</u>	<u>5,800</u>
	<u>953,900</u>	<u>663,200</u>
Net cash provided by operating activities	<u>\$1,549,700</u>	<u>\$ 766,000</u>

The Association received distribution lines contributed by developers in the amounts of \$10,000 and \$400,000 in 1993 and 1992, respectively. These items represent noncash investing and financing activities.