

LEE COUNTY BOARD OF COUNTY COMMISSIONERS
AGENDA ITEM SUMMARY **BLUE SHEET NO: 20050195-UTL**

1. REQUESTED MOTION:

ACTION REQUESTED:

1) Accept Gasparilla Island Water Association, Inc. (GIWA) Petition for a rate increase for water and sewer services; 2) Authorize staff to set a public hearing for March 22, 2005 at 5:00 p.m., to adopt a Resolution approving the updated rates.

WHY ACTION IS NECESSARY:

As the franchising authority for this not-for-profit utility, Board approval is required for the approval of any modifications to its rates.

WHAT ACTION ACCOMPLISHES:

Provides required Board approval for GIWA to modify its water and sewer rates.

2. DEPARTMENTAL CATEGORY: 10 - UTILITIES
COMMISSION DISTRICT #: 1

C10A

3. MEETING DATE: 03-01-2005

4. AGENDA:

- CONSENT
- ADMINISTRATIVE
- APPEALS
- PUBLIC
- WALK ON
- TIME REQUIRED: _____

5. REQUIREMENT/PURPOSE:

- (Specify)
- STATUTE _____
 - ORDINANCE _____
 - ADMIN. CODE _____
 - OTHER Rate Increase Petition

6. REQUESTOR OF INFORMATION:

A. COMMISSIONER: _____
 B. DEPARTMENT: Lee County-Public Works
 C. DIVISION/SECTION: Utilities Division
 BY: Rick Diaz, P.E., Utilities Director
 DATE: 2/16/05

7. BACKGROUND:

On July 5, 1967 (and February 25, 1970), the Board of County Commissioners granted a franchise to Gasparilla Island Water Association, Inc. (GIWA). As the franchising authority for this not-for-profit utility, Board approval is required for all future changes in the rates or franchise area.

GIWA requests approval of the attached Petition for Rate Adjustment and its exhibits. GIWA's last two rate increases were approved by BOCC on May 19, 1993 and March 11, 2003. Since that time, the area has experienced a rapid period of growth. A committee of the Board studied the need for an increase and it has been determined that a 4% increase in rates is needed at this time.

Attachments: GIWA Letter dated 2-4-05
 GIWA Petition for Rate Adjustment w/attachments (Exhibits A-D)



8. MANAGEMENT RECOMMENDATIONS:

9. RECOMMENDED APPROVAL

| (A) DEPARTMENT DIRECTOR | (B) PURCH. OR CONTRACTS | (C) HUMAN RESOURCES | (D) OTHER | (E) COUNTY ATTORNEY | (F) BUDGET SERVICES | | | | (G) COUNTY MANAGER |
|--|-------------------------------|---------------------------|--------------|--|---------------------------------|-----------------------------|-----------------------------|--|--------------------------|
| | | | | | OA | OM | Risk | GC | |
| <i>J. Lavender</i> Date: <u>2-16-05</u> | N/A Date: | N/A Date: | N/A Date: | <i>S. Covert</i> Date: <u>2/17/05</u> | <i>P. III</i> <u>2/17/05</u> | <i>JF</i> <u>2/17/05</u> | <i>JF</i> <u>2/17/05</u> | <i>J. Lavender</i> Date: <u>2-16-05</u> | |

10. COMMISSION ACTION:

- APPROVED
- DENIED
- DEFERRED
- OTHER

RECEIVED BY
COUNTY ADMIN: JF

2/16/05

11:50am

COUNTY ADMIN
FORWARDED TO: JF

2/16/05

2/16

Rec. by CoAtty

Date: 2-16-05

Time: 4:50

Forwarded To:

JF

GASPARILLA ISLAND WATER ASSOCIATION, Inc.

P.O. Box 310
BOCA GRANDE, FLORIDA 33921-0310
Telephone (941) 964-2423 Fax (941) 964-0625

February 4, 2005

Mr. Rick Diaz, Utility Director
Utility Department
Lee County
P.O. Box 398
Fort Myers, FL 33902

Re: Gasparilla Island Water Association, Inc.
Petition for Rate Increase

Dear Rick:

Enclosed are the original and twelve copies of a "Petition for Rate Adjustment for Gasparilla Island Water Association, Inc. (GIWA) with the following attachments:

- Schedule of existing and proposed rates for water and sewer service;
- Certified auditor's report on the system for October 1, 2003 to September 30, 2004;
- Budget for the period of October 1, 2004 to September 30, 2005;
- Minutes of Annual Membership Meeting held on January 18, 2005 in which the membership approved the 4% rate increase.

The following information was taken from the audited financial statement and budget:

| | 2003 Fiscal Year | 2004 Fiscal Year | 2005 Budget |
|--------------------|-------------------------|-------------------------|--------------------|
| Operating Revenues | \$2,581,412 | \$2,836,730 | \$2,748,060 |
| Operating Expenses | 2,275,530 | 2,495,378 | 2,574,851 |
| Other Rev./Exp. | <u>244,919</u> | <u>268,157</u> | <u>310,615</u> |
| Total Expenses | 2,520,449 | 2,763,535 | 2,885,466 |

GIWA is budgeting a \$137,406 for the new fiscal year. As you can see, our budgeted operating revenues are down \$89,000. We budget sales based on the past three years' monthly average. Budgeting revenues this way allows cushion for a rainy year. Last year was a dry year for the island. Water sales were up twenty-seven million gallons from the prior year but new connections were minimal.

In the summer of 2003, GIWA added one position to its distribution and collection staff increasing our salaries and fringe benefits. Additionally, over the past two years our interest expense, chemicals, electricity, insurance and principal payments have increased dramatically as shown in the following table:

| | 2003 Fiscal Year | 2004 Fiscal Year | 2005 Budget |
|--------------------|-------------------------|-------------------------|--------------------|
| Electric | \$212,135 | \$252,754 | \$260,300 |
| Chemicals | 130,957 | 167,943 | \$168,250 |
| Insurance Expense | 112,198 | \$147,501 | \$161,550 |
| Interest Expense | 289,271 | \$308,148 | \$397,075 |
| | | | |
| Principal Payments | 264,312 | 269,613 | 315,402 |
| | | | |

The large increase in principal and interest payments this year is due to a \$1.5 million loan secured at the end of 2002. The first principal payment was due January of this year. Additionally, GIWA has just closed a new \$1.5 million loan from CoBank to help fund projects at the water and wastewater plants.

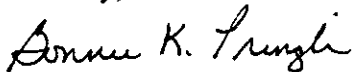
As you can see, we did not budget much of an increase in chemicals this year. This is because we plan to convert to sodium hypochlorite for disinfection in the near future, and should actually see a savings at the water plant because our caustic soda use will be down.

Now that we are in this budget year, we are finding unexpected expenses on the sewer system side that were not budgeted. With an aging water and sewer system, annual maintenance costs will continue to rise.

Based on this budget, our Board conducted a rate study and presented a 4% rate increase which was approved by our membership at their January 18, 2005 Annual Meeting.

We will greatly appreciate a quick response to this petition. Should you have any questions or need any additional information, please feel free to contact me at (941) 964-2423.

Sincerely,



Bonnie K. Pringle
Utility Director

Enclosures

**PETITION
FOR RATE ADJUSTMENT
FOR GASPARILLA ISLAND WATER ASSOCIATION, INC.**

**The Honorable County Commission for the
County of Lee, State of Florida**


The Gasparilla Island Water Association, inc., a corporation, not-for-profit, in the state of Florida, and having its offices at 1700 East Railroad Avenue, Boca Grande, Florida, pursuant to its franchise issued by the County of Lee on February 13, 2001 does herewith submit the following information and accompanying data to support its petition:

1. The existing and proposed rates to be charged for water and sewer services, attached herewith and labeled Exhibit "A";
2. The certified auditor's report on the system for the period October 1, 2003 to September 30, 2004, attached herewith and labeled Exhibit "B";
3. The current budget of the Association for the period October 1, 2004 to September 30, 2005 attached herewith and labeled Exhibit "C";
4. A copy of the minutes of the Annual Membership Meeting held on January 18, 2005, attached herewith and labeled Exhibit "D".

The Association will be grateful for your efforts to expedite this matter.

Respectfully submitted this 4th day of February 2005.

GASPARILLA ISLAND WATER ASSOCIATION, INC.

By: 

Joseph L. Albertson, Jr., President

GASPARILLA ISLAND WATER ASSOCIATION, INC.
PROPOSED UTILITY RATE INCREASE
FEBRUARY 4, 2005
LEE COUNTY

| <u>Water</u> | | <u>Current Rates</u> | <u>Proposed Rates</u> |
|-----------------------|-------------------|----------------------|-----------------------|
| Residential | | | |
| 0-5,000 gallons | Monthly Minimum | \$20.65 | \$21.50 |
| 6,000-15,000 gallons | Per 1,000 gallons | \$4.15 | \$4.30 |
| 16,000-25,000 gallons | Per 1,000 gallons | \$4.40 | \$4.60 |
| Over 25,000 gallons | Per 1,000 gallons | \$5.50 | \$5.70 |
| General | | | |
| 0-5,000 gallons | Monthly Minimum | \$20.65 | \$21.50 |
| Over 5,000 gallons | Per 1,000 gallons | \$4.15 | \$4.30 |

* Minimums apply to each single family user and each individually owned family residence in a multi-family apartment group of two or more residential units, a multi-family condominium group of two or more residential units or a mobile home park of two or more residential units. Minimums also apply to each meter of all commercial and industrial users.

| <u>Sewer</u> | | <u>Current Rates</u> | <u>Proposed Rates</u> |
|--------------------|---|----------------------|-----------------------|
| Residential | | | |
| Base Charge | Per Unit, Monthly | \$19.80 | \$20.60 |
| Usage Charge | Per 1,000 gallons 10,000 gallons Cap | \$3.85 | \$4.00 |
| General | | | |
| Base Charge | Per Unit, Monthly | \$19.80 | \$20.60 |
| Usage Charge | Per 1,000 gallons No Cap | \$3.85 | \$4.00 |

Connection Fees Per Unit (All units as defined below)

No Proposed Changes to Connection Fees

Water:

\$4,018.00 per unit plus meter as follows:

| | |
|-------------------|------------|
| 5/8" x 3/4" Meter | \$ 340.00 |
| 1" Meter | \$ 470.00 |
| 1 1/2" Meter | \$1,175.00 |
| 2" Meter | \$1,360.00 |
| 3" Meter | \$2,218.00 |

Sewer:

\$2,793.00 per unit plus outlet as follows:

| | |
|-----------|------------|
| 4" Outlet | \$ 340.00 |
| 6" Outlet | \$2,200.00 |

A unit for purposes of assessing connection charges shall be:

- A. Each single-family residence.
- B. Each family residence of a multi-family apartment or condominium development.
- C. Each room of a motel or hotel or boatel, including a manager's apartment.
- D. Each office or store in a multiple commercial development.
- E. Large utility users such as large retail stores, car washes, laundromats, restaurants, marinas and other types of commercial users shall be assessed as units, based on water consumption at the rate of one unit per 4,000 gallons per month. Usage shall be based on the previous calendar years consumption and will be adjusted at the end of each calendar year. Usage for new customers shall be estimated for the first year and adjusted accordingly at the end of the first calendar year.

Independent Auditors' Report

Fiscal Year Ended

September 30, 2004

Attachment "B"

GASPARILLA ISLAND WATER ASSOCIATION, INC.

FINANCIAL STATEMENTS FOR THE
YEARS ENDED SEPTEMBER 30, 2004 AND 2003

AND

INDEPENDENT AUDITORS' REPORT

GASPARILLA ISLAND WATER ASSOCIATION, INC.

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FINANCIAL STATEMENTS

SEPTEMBER 30, 2004 AND 2003

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Independent Auditors' Report

To the Board of Directors
Gasparilla Island Water Association, Inc.

We have audited the accompanying balance sheets of Gasparilla Island Water Association, Inc., as of September 30, 2004, and 2003, and the related statements of revenues and expenses, changes in equity and cash flows for the years then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 statements 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 Gasparilla Island Water Association, Inc., as of September 30, 2004, and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedules on pages 13 through 14 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Suplee & Shea P.A.

SUPLEE & SHEA, P.A.

October 26, 2004

GASPARILLA ISLAND WATER ASSOCIATION, INC.

BALANCE SHEETS

SEPTEMBER 30, 2004 AND 2003

Assets

| | <u>2004</u> | <u>2003</u> |
|---|---------------------------------|---------------------------------|
| UTILITY PLANT | | |
| Property, plant and equipment, at cost | \$ 21,273,004 | \$ 20,783,318 |
| Less accumulated depreciation | <u>8,428,449</u> | <u>7,736,809</u> |
| Net property, plant and equipment | 12,844,555 | 13,046,509 |
| Construction in progress | <u>381,943</u> | <u>220,531</u> |
| Total Utility Plant | <u>13,226,498</u> | <u>13,267,040</u> |
| CURRENT ASSETS | | |
| Cash and cash equivalents | 406,442 | 388,335 |
| Accounts receivable, members | 199,688 | 208,364 |
| Inventory | 40,622 | 39,775 |
| Other current assets | <u>72,465</u> | <u>35,142</u> |
| Total Current Assets | <u>719,217</u> | <u>671,616</u> |
| RESTRICTED ASSETS, cash and certificates of deposit | <u>165,288</u> | <u>163,753</u> |
| DEFERRED CHARGES AND OTHER ASSETS | | |
| Non-marketable participation certificates | 290,106 | 251,405 |
| Unamortized debt expense | 105,104 | 111,828 |
| Unamortized regulatory expenses | 113,882 | 107,331 |
| Utility deposits | <u>6,615</u> | <u>6,565</u> |
| Total Deferred Charges and Other Assets | <u>515,707</u> | <u>477,129</u> |
| TOTAL ASSETS | <u><u>\$ 14,626,710</u></u> | <u><u>\$ 14,579,538</u></u> |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

GASPARILLA ISLAND WATER ASSOCIATION, INC.

BALANCE SHEETS

SEPTEMBER 30, 2004 AND 2003

Equity and Liabilities

| | <u>2004</u> | <u>2003</u> |
|---|----------------------|----------------------|
| EQUITY | | |
| Members' contributions | \$ 4,989,760 | \$ 4,928,461 |
| Developers' contributions | 1,867,634 | 1,961,152 |
| Retained Earnings: | | |
| Board designated for capital improvements | 926,773 | 853,578 |
| Restricted by governmental agencies | 100,000 | 100,000 |
| Undesignated | <u>-</u> | <u>-</u> |
| Total Equity | <u>7,884,167</u> | <u>7,843,191</u> |
| LONG-TERM LIABILITIES | | |
| Notes payable, net of current portion | <u>6,234,279</u> | <u>6,267,273</u> |
| CURRENT LIABILITIES | | |
| Current portion of notes payable | 315,402 | 312,689 |
| Accounts payable, trade | 86,711 | 56,026 |
| Accrued interest | 25,759 | 24,150 |
| Accrued wages | 13,415 | 8,757 |
| Other current liabilities | <u>1,689</u> | <u>3,699</u> |
| Total Current Liabilities | <u>442,976</u> | <u>405,321</u> |
| Deposits payable from restricted assets | <u>65,288</u> | <u>63,753</u> |
| Total Liabilities | <u>6,742,543</u> | <u>6,736,347</u> |
| TOTAL EQUITY AND LIABILITIES | <u>\$ 14,626,710</u> | <u>\$ 14,579,538</u> |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

GASPARILLA ISLAND WATER ASSOCIATION, INC.

STATEMENTS OF REVENUE AND EXPENSES

FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003

| | <u>2004</u> | <u>2003</u> |
|--|------------------|------------------|
| Operating Revenue | | |
| Water services | \$ 1,724,962 | \$ 1,537,790 |
| Sewer services | 1,100,583 | 1,033,587 |
| Water hook-up fees | 7,105 | 6,975 |
| Sewer hook-up fees | <u>4,080</u> | <u>3,060</u> |
| Total Operating Revenues | <u>2,836,730</u> | <u>2,581,412</u> |
| Operating Expenses | | |
| Water system | 859,734 | 769,703 |
| Sewer system | 549,668 | 614,954 |
| General and administrative | 473,390 | 395,555 |
| Depreciation | <u>612,586</u> | <u>495,318</u> |
| Total Operating Expenses | <u>2,495,378</u> | <u>2,275,530</u> |
| Operating Income | <u>341,352</u> | <u>305,882</u> |
| Other Revenues (Expenses) | | |
| Interest income | 5,557 | 6,202 |
| Patronage dividends | 55,288 | 52,787 |
| Interest expense and amortization of debt expenses | (308,148) | (289,271) |
| Membership fees | 720 | 540 |
| Gain (Loss) on disposal of assets | (8,796) | (22,805) |
| Other income | 8,326 | 10,028 |
| Consulting fee | (2,400) | (2,400) |
| Hurricane storm damage, net of insurance | <u>(18,704)</u> | <u>-</u> |
| Total Other Revenues (Expenses) | <u>(268,157)</u> | <u>(244,919)</u> |
| EXCESS OF REVENUE OVER EXPENSES | <u>\$ 73,195</u> | <u>\$ 60,963</u> |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

GASPARILLA ISLAND WATER ASSOCIATION, INC.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003

| | <u>Contributed Capital in Aid of Construction</u> | | | |
|--|---|--------------------------------------|------------------------------|---------------------|
| | <u>Members' Contributions</u> | <u>Developers' Contributions</u> | <u>Retained Earnings</u> | <u>Total</u> |
| Balance, September 30, 2002 | \$ 4,873,974 | \$ 2,054,670 | \$ 892,615 | \$ 7,821,259 |
| Contributions received | 54,487 | - | - | 54,487 |
| Amortization of developers' Contributions | - | (93,518) | - | (93,518) |
| Excess of Revenues over Expenses | <u>-</u> | <u>-</u> | <u>60,963</u> | <u>60,963</u> |
| Balance, September 30, 2003 | 4,928,461 | 1,961,152 | 953,578 | 7,843,191 |
| Contributions received | 61,299 | - | - | 61,299 |
| Amortization of developers' Contributions | - | (93,518) | - | (93,518) |
| Excess of Revenues over Expenses | <u>-</u> | <u>-</u> | <u>73,195</u> | <u>73,195</u> |
| Balance, September 30, 2004 | <u>\$ 4,989,760</u> | <u>\$ 1,867,634</u> | <u>\$ 1,026,773</u> | <u>\$ 7,884,167</u> |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

GASPARILLA ISLAND WATER ASSOCIATION, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003

| | <u>2004</u> | <u>2003</u> |
|---|------------------|------------------|
| Cash flows from operating activities: | | |
| Excess of Revenues over Expenses | \$ 73,195 | \$ 60,963 |
| Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities: | | |
| Depreciation | 612,586 | 495,318 |
| Amortization | 35,423 | 25,778 |
| (Gain) Loss on disposal of assets | 8,796 | 22,805 |
| Patronage equity distributions | (38,702) | (36,951) |
| Changes in assets and liabilities | | |
| (Increase) decrease in accounts receivable | 8,676 | (34,262) |
| (Increase) decrease in inventory | (847) | 598 |
| (Increase) decrease in other current assets | (37,323) | (32,528) |
| (Increase) decrease in unmaortized debt expenses | - | (39,461) |
| (Increase) decrease in unmaortized regulatory expenses | (35,250) | (44,154) |
| (Increase) decrease in unamortized utility deposits | (50) | - |
| Increase (decrease) in accounts payable | 30,685 | (96,147) |
| Increase (decrease) in other liabilities | 4,257 | 953 |
| Increase (decrease) in deposits payable from restricted assets | <u>1,535</u> | <u>959</u> |
| Total adjustments | <u>589,786</u> | <u>262,908</u> |
| Net cash provided by operating activities | <u>662,981</u> | <u>323,871</u> |
| Cash flows from investing activities: | | |
| Cash proceeds from sale of assets | - | 300 |
| Capital expenditures | <u>(674,357)</u> | <u>(953,759)</u> |
| Net cash used in investing activities | <u>(674,357)</u> | <u>(953,459)</u> |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

GASPARILLA ISLAND WATER ASSOCIATION, INC.

STATEMENTS OF CASH FLOWS (Continued)

FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003

| | <u>2004</u> | <u>2003</u> |
|--|-------------------|-------------------|
| Cash flows from financing activities: | | |
| Proceeds from issuance of long-term debt | 239,332 | 809,746 |
| Repayment of long-term debt | (269,613) | (264,312) |
| Contributed capital in aid of construction | <u>61,299</u> | <u>54,487</u> |
| Net cash provided by (used in) financing activities | <u>31,018</u> | <u>599,921</u> |
| Increase (decrease) in cash and cash equivalents | 19,642 | (29,667) |
| Less: cash transferred from (to) restricted funds | <u>(1,535)</u> | <u>(959)</u> |
| Net increase (decrease) in cash and cash equivalents | 18,107 | (30,626) |
| Cash and cash equivalents at beginning of year | <u>388,335</u> | <u>418,961</u> |
| Cash and cash equivalents at end of year | <u>\$ 406,442</u> | <u>\$ 388,335</u> |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

GASPARILLA ISLAND WATER ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2004 AND 2003

Note 1 - Organization and Significant Accounting Policies

Organization

The Association was incorporated under the laws of the State of Florida on September 12, 1966, as a corporation not for profit. The purpose of the Association is to provide water and sewer services to its subscribers (members) in the areas of Gasparilla Island.

Significant Accounting Policies

Accounts Receivable

No provision has been made for uncollectible accounts, as management considers all receivables at September 30, 2004, and 2003, to be collectible.

Inventory

Supplies inventory is recorded at the lower of cost (first-in, first-out) or market.

Income Taxes

No provision has been made for income taxes. The Association is a tax-exempt organization under IRC Section 501(c)(12), whereby only unrelated business income is subject to income tax. For the fiscal years ended September 30, 2004, and 2003, the Association's entire gross income has come under Section 115(a) and, therefore, includes no unrelated business income.

Utility Plant

Utility plant is recorded at cost at the time of acquisition or commencement of service for assets transferred from construction in progress. Maintenance and repairs, which significantly extend the life or enhance the value of an asset, are capitalized. Depreciation of utility plant is computed on the straight-line basis over the estimated useful lives of the related assets.

Revenue Recognition

Revenue is recognized when billed. Rates for water are based on a minimum fee plus a consumption charge. Sewer rates are based on a fixed charge plus a factor of water usage.

Reclassifications

Certain items in the prior year's financial statements have been reclassified to conform to current year presentation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

GASPARILLA ISLAND WATER ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2004 AND 2003

Note 2 - Utility Plant

Details of utility plant at September 30, 2004, and 2003, are as follows:

| | <u>2004</u> | <u>2003</u> |
|-------------------------------|---------------------|---------------------|
| Land | \$ 393,728 | \$ 393,728 |
| Utility plant in service | 20,556,938 | 20,092,494 |
| Automotive equipment | 132,873 | 112,493 |
| Office building | 62,336 | 62,336 |
| Office furniture and fixtures | 51,744 | 47,295 |
| Tools | <u>75,385</u> | <u>74,972</u> |
| | 21,273,004 | 20,783,318 |
| Less accumulated depreciation | <u>8,428,449</u> | <u>7,736,809</u> |
| | 12,844,555 | 13,046,509 |
| Construction in progress | <u>381,943</u> | <u>220,531</u> |
| | <u>\$13,226,498</u> | <u>\$13,267,040</u> |

Note 3 - Capitalization of Interest

The Association follows the policy of capitalizing interest as a component of the cost of utility plant constructed for its own use. Total interest incurred was \$306,828 for 2004, and \$296,638 for 2003, of which \$5,403 and \$13,212 was capitalized in 2004, and 2003, respectively.

The capitalization rate is based on the rate paid on the Association's long-term debt.

Note 4 - Restricted Assets

A summary of restricted cash and equivalents at September 30, 2004, and 2003, is as follows:

| | <u>2004</u> | <u>2003</u> |
|---------------------------------|-------------------|-------------------|
| Collateral for letter of credit | \$ 100,000 | \$ 100,000 |
| Customer deposits | <u>65,288</u> | <u>63,753</u> |
| | <u>\$ 165,288</u> | <u>\$ 163,753</u> |

GASPARILLA ISLAND WATER ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2004 AND 2003

Note 5 - Long-Term Debt

Following is a summary of long-term debt at September 30, 2004, and 2003:

| | <u>2004</u> | <u>2003</u> |
|---|---------------------|---------------------|
| <p>Mortgage note payable to National Bank for Cooperatives, in the original aggregate principal amount of \$6,166,000. Interest payable monthly under variable and fixed rate options, currently ranging from 3.55% to 7.92%. Principal repayable in 288 consecutive monthly installments beginning July 20, 1995 and ending June 20, 2019. Secured by all accounts, inventory, equipment, land, buildings and improvements, structures and income.</p> | \$ 3,453,317 | \$ 3,664,193 |
| <p>Mortgage note payable to National Bank for Cooperatives, in the original principal amount of \$2,200,000. Interest payable monthly under variable and fixed rate options, currently 3.55%. Principal repayable in 240 consecutive monthly installments beginning January 20, 2002 and ending December 20, 2021. Secured by all accounts, inventory, equipment, land, buildings and improvements, structures and income.</p> | 2,047,286 | 2,106,023 |
| <p>Mortgage note and revolving term loan payable to National Bank for Cooperatives, up to a principal amount of \$1,500,000. Interest payable monthly under a variable rate option, currently 4.75%. Principal repayable in 228 consecutive monthly installments beginning January 20, 2005 and ending December 20, 2023. Secured by all accounts, inventory, equipment, land, buildings and improvements, structures and income. As of September 30, 2004, \$1,049,078 has been drawn on this loan, and a balance of \$450,922 is available until December 31, 2004.</p> | <u>1,049,078</u> | <u>809,746</u> |
| <p>Total</p> | 6,549,681 | 6,579,962 |
| <p>Less current maturities</p> | <u>(315,402)</u> | <u>(312,689)</u> |
| | <u>\$ 6,234,279</u> | <u>\$ 6,267,273</u> |

GASPARILLA ISLAND WATER ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2004 AND 2003

Note 5 - Long-Term Debt (continued)

Following are maturities of long-term debt for each of the next five years:

| | |
|------------|---------------------|
| 2005 | \$ 315,402 |
| 2006 | 340,296 |
| 2007 | 349,589 |
| 2008 | 360,064 |
| 2009 | 370,665 |
| Thereafter | <u>4,813,665</u> |
| | <u>\$ 6,549,681</u> |

Note 6 - Contributions in Aid of Construction

Monies received as connection fees for hooking up to the Association's system obligate the Association to provide services; however, the Association is under no obligation to refund or return any part of these monies. For the years ended September 30, 2004, and 2003, a portion of this fee was recognized as income to offset the expenses involved with this connection. The remaining monies are recorded as contributed capital in aid of construction. Total connection fees recognized as income for the years ended September 30, 2004, and 2003, were \$11,185 and \$10,035, respectively.

System facilities constructed by land developers, which are contributed to the Association, are recorded at an amount equal to the construction cost incurred by the developer. The cost of these contributions is recorded as property and plant with an equal and corresponding credit to contributed capital in aid of construction. These contributions are being amortized on a straight-line basis over their estimated useful lives. This amortization is being charged to the related equity account and amounted to \$93,518 and \$93,518 for each of the years ended September 30, 2004, and 2003, respectively.

Note 7 - Simplified Employee Pension Plan

The Association has a simplified employee pension plan for employees with 3 or more years of service. The Association's contribution may be 0% to 15% of the compensation of each participant. Contributions to the plan were \$44,929 and \$40,819 for the years ended September 30, 2004, and 2003, respectively.

Note 8 - Statement of Cash Flows

For purposes of the statement of cash flows, the Association considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. However, restricted assets will not be considered highly liquid debt instruments for these purposes.

GASPARILLA ISLAND WATER ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2004 AND 2003

Note 8 - Statement of Cash Flows (continued)

The Association paid cash for interest in the amount of \$311,942 and \$298,647 for the years ended September 30, 2004, and 2003, respectively.

The Association received Class B - Participation Certificates from CoBank as a patronage equity distribution in the amount of \$38,702 and \$36,951 for the years ended September 30, 2004, and 2003, respectively.

Note 9 - Concentrations of Credit Risk

The Association has a portion of cash deposits invested in CoBank's overnight cash investment service account. Cash deposits in the account are not secured, or insured by the FDIC, however, CoBank is a member of the Farm Credit system and is backed by an implied guarantee of the U.S. Government. The Association's balance in this account was \$274,071 and \$273,010 as of September 30, 2004, and 2003, respectively.

In addition, cash deposits at financial institutions are not secured, or insured by the FDIC in amounts greater than \$100,000. As of September 30, 2004, the Association has \$102,285 in excess of this amount.

Note 10 - Non-marketable Participation Certificates

The Association receives patronage distributions from CoBank. A portion of the distributions are made in cash and the remainder of the distributions are made in Class B Participation Certificates in CoBank. The certificates are issued at par value and are not marketable. They are redeemable by CoBank when the Association reaches certain debt levels. The balances of the certificates were \$290,106 and \$251,405 as of September 30, 2004, and 2003, respectively.

Note 11 - Future Commitment

During the year ended September 30, 2004, the Association entered into a contract in the amount of \$596,707 for a filter addition. As of September 30, 2004, \$285,096 had been expended on the contract leaving a total remaining commitment of \$311,611.

GASPARILLA ISLAND WATER ASSOCIATION, INC.

WATER AND SEWER SYSTEM OPERATING EXPENSES

FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003

| | <u>2004</u> | <u>2003</u> |
|--|-----------------------|-----------------------|
| <u>Water System Operating Expenses</u> | | |
| Purchased water | \$ 260 | \$ 10,368 |
| Operations and maintenance | 137,412 | 139,868 |
| Regulatory expenses - permits | 6,930 | 2,110 |
| Electricity | 197,400 | 162,312 |
| Chemicals | 99,815 | 84,296 |
| Lab fees | 16,322 | 22,793 |
| Salaries and payroll taxes | 309,685 | 269,623 |
| Pensions and employee benefits | 88,829 | 77,705 |
| Training | <u>3,081</u> | <u>628</u> |
| Total Water System Operating Expenses | <u>\$ 859,734</u> | <u>\$ 769,703</u> |
| <u>Sewer System Operating Expenses</u> | | |
| Operations and maintenance | \$ 107,937 | \$ 222,480 |
| Regulatory expenses - permits | 22,456 | 21,770 |
| Electricity | 55,354 | 49,823 |
| Chemicals | 68,128 | 46,661 |
| Lab fees | 17,890 | 16,130 |
| Salaries and payroll taxes | 228,090 | 208,011 |
| Pensions and employee benefits | 48,403 | 49,524 |
| Training | <u>1,410</u> | <u>555</u> |
| Total Sewer System Operating Expenses | <u>\$ 549,668</u> | <u>\$ 614,954</u> |

GASPARILLA ISLAND WATER ASSOCIATION, INC.

GENERAL AND ADMINISTRATIVE EXPENSES

FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003

| | <u>2004</u> | <u>2003</u> |
|---|-----------------------|-----------------------|
| <u>General and Administrative Expenses</u> | | |
| Auto and truck expenses | \$ 23,367 | \$ 19,217 |
| General repairs and maintenance | 18,764 | 17,234 |
| Insurance | 147,501 | 112,198 |
| Miscellaneous | 7,495 | 9,539 |
| Office supplies and postage | 20,005 | 20,626 |
| Professional fees - accounting | 9,937 | 9,741 |
| Professional fees - engineering | 35,127 | 6,502 |
| Professional fees - legal | 6,286 | 18,133 |
| Salaries and payroll taxes, office | 148,020 | 134,532 |
| Pensions and employee benefits, office | 41,308 | 33,024 |
| Telephone | <u>15,580</u> | <u>14,809</u> |
| Total General and Administrative Expenses | <u>\$ 473,390</u> | <u>\$ 395,555</u> |

Gasparilla Island Water Association, Inc.

Budget

October 1, 2004 - September 30, 2005

| | <u>2004</u> <u>Actual</u> | <u>2005</u> <u>Budget</u> |
|--|------------------------------|------------------------------|
| Operating Revenues | | |
| Water services | \$ 1,724,962 | \$ 1,673,000 |
| Sewer services | 1,100,583 | 1,070,200 |
| Water hook-up fees | 7,105 | 2,820 |
| Sewer hook-up fees | <u>4,080</u> | <u>2,040</u> |
| Total Operating Revenues | <u>2,836,730</u> | <u>2,748,060</u> |
| Operating Expenses | | |
| Water System, schedule attached | 859,734 | 896,738 |
| Sewer System, schedule attached | 549,668 | 591,238 |
| General and administrative, schedule attached | 473,390 | 496,875 |
| Depreciation | <u>612,586</u> | <u>590,000</u> |
| Total Operating Expenses | <u>2,495,378</u> | <u>2,574,851</u> |
| Operating Income | 341,352 | 173,209 |
| Other Revenues (Expenses) | | |
| Interest Income | 5,557 | 5,000 |
| Patronage dividends | 55,288 | 56,000 |
| Interest expense and amortization of debt expense | (308,148) | (397,075) |
| Membership fees | 720 | 360 |
| Gain (Loss) on disposal of assets | (8,796) | - |
| Other income | 8,326 | 8,500 |
| Consulting fee | (2,400) | (2,400) |
| Hurricane storm damage, net of insurance and/or FEMA | <u>(18,704)</u> | <u>19,000</u> |
| Total Other Revenues (Expenses) | <u>(268,157)</u> | <u>(310,615)</u> |
| *EXCESS OF REVENUES OVER EXPENSES | <u>\$ 73,195</u> | <u>\$ (137,406)</u> |

* Any Excess of Revenues Over Expenses will be put into a reserve fund for capital improvements.

Schedule of Operating Expenses

| | 2004 | 2005 |
|--|--------------------------|--------------------------|
| | <u>Actual</u> | <u>Budget</u> |
| Water System Operating Expenses | | |
| Purchase Water | \$ 260 | \$ 15,000 |
| Operations and maintenance | 137,412 | 125,000 |
| Regulatory expenses - permits | 6,930 | 9,118 |
| Electricity | 197,400 | 203,300 |
| Chemicals | 99,815 | 102,750 |
| Lab fees | 16,322 | 17,000 |
| Salaries and payroll taxes | 309,685 | 321,410 |
| Pensions and employee benefits | 88,829 | 100,160 |
| Training | 3,081 | 3,000 |
| | <u>\$ 859,734</u> | <u>\$ 896,738</u> |
| Sewer System Operating Costs | | |
| Operations and maintenance | \$ 107,937 | \$ 130,000 |
| Regulatory expenses - permits | 22,456 | 21,928 |
| Electricity | 55,354 | 57,000 |
| Chemicals | 68,128 | 65,500 |
| Lab fees | 17,890 | 19,000 |
| Salaries and payroll taxes | 228,090 | 236,960 |
| Pensions and employee benefits | 48,403 | 59,350 |
| Training | 1,410 | 1,500 |
| | <u>\$ 549,668</u> | <u>\$ 591,238</u> |
| General & Administrative Expenses | | |
| Auto and truck expenses | \$ 23,367 | \$ 24,825 |
| General repairs and maintenance | 18,764 | 20,300 |
| Insurance | 147,501 | 161,550 |
| Miscellaneous | 7,495 | 7,900 |
| Office supplies and postage | 20,005 | 21,100 |
| Professional fees - accounting | 9,937 | 10,000 |
| Professional fees - engineering | 35,127 | 15,000 |
| Professional fees - legal | 6,286 | 20,000 |
| Salaries and payroll taxes, office | 148,020 | 154,200 |
| Pensions and employee benefits, office | 41,308 | 45,000 |
| Training, office | - | 1,000 |
| Telephone | 15,580 | 16,000 |
| | <u>\$ 473,390</u> | <u>\$ 496,875</u> |
| Total General & Administrative Expenses | <u>\$ 473,390</u> | <u>\$ 496,875</u> |

Minutes of
Annual Membership Meeting
January 18, 2005

Attachment "D"

GASPARILLA ISLAND WATER ASSOCIATION, Inc.

P.O. Box 310
BOCA GRANDE, FLORIDA 33921-0310
Telephone (941) 964-2423 Fax (941) 964-0625

MINUTES ANNUAL MEMBERSHIP MEETING BOCA GRANDE COMMUNITY CENTER JANUARY 18, 2005

BOARD MEMBERS PRESENT: Joseph L. Albertson, Jr., President; Mark Spurgeon, Vice President; Gene Jacobs, Treasurer; Donna Moore, Secretary; Richard Morrison, MD; Yvonne Anderson, Mike Holmes, and Robert Caldwell, III, Directors.

ABSENT: Richard Ryan, Director.

OTHERS: Bonnie Pringle, Utility Director; Donna Marceron; Kathy Janoschek;
List of Members present attached.

Mr. Albertson called the meeting to order at 5:05 p.m.

- I. **NUMBER PRESENT:** Mrs. Moore reported that sixteen (16) voting members were present in person and 549 by proxy.
- II. **NOTICE OF ANNUAL MEETING:** Motion made to waive the reading of the January 18, 2005 Notice of Annual Meeting. Motion seconded and carried.
- III. **MINUTES:** Motion made to waive the reading of the minutes of the January 20, 2004 Annual Membership Meeting. Motion seconded and carried.
- IV. **PRESIDENT'S REPORT:** Mr. Albertson gave the president's report as follows:

In 1966 GIWA was incorporated and has provided water for the past thirty-eight (38) years to all of Gasparilla Island, and several adjoining islands as well as the causeway leading to the mainland, and a small portion of the mainland adjoining the causeway in Placida.

In 1975 General Development Corporation (GDU) filed a series of applications with the State with the intent to convert brackish water canals in the South Gulf Cove area into salt-water canals with direct access to Charlotte Harbor.

GIWA deemed this a risk to their drinking water well field, and entered objections to the issuance of their permits. As a result of this objection, we were able to enter into a contract with GDU, which provided two levels of water supply.

The first level was an agreement to provide up to 400,000 gallons per day without connection fee charges charged at the same usage rates as other customers similar to GIWA.

The second level would be to contract to purchase up to 1.8 million gallons per day with the understanding that GIWA would have to pay connection fees for water purchased over 400,000 gallons per day.

In 1991 GDU was purchased by Charlotte County Utilities. The purchase included the Peace River water plant and the distribution system. The Peace River plant was immediately transferred to the Peace River Manasota Water Authority, and CCU retained the distribution system.

In 1993 CCU notified GIWA that their rate structure was changing, and bulk water users would be required to pay a monthly base facility capacity charge. CCU was contacted and agreed to charge GIWA their stand-by rate because we did not purchase much water.

After meetings with CCU in an attempt to update the original agreement, it was necessary, in September 2003, for GIWA to hire a lawyer that deals in utility law.

CCU was saying that if GIWA wants a 400,000 gallon per day bulk water agreement that we would need to either pay the back bulk fees or new connection fees which total approximately \$1.9 million.

Mr. Albertson stated that at this time he is bringing this matter to the attention of the members, as it may be necessary in the future for a membership vote, if the need should arise to take legal action against CCU.

Mr. Albertson continued to add that over the past few years our purchased water from CCU has declined each year, from 100,000 gallons down to 10,000 gallons, and in 2004, GIWA did not need to purchase any water from CCU. With the improvements that

have been made to our plant over the past several years, we are permitted to produce up to 1.7 million gallons per day.

- V. BEAUTIFICATION COMMITTEE REPORT: Mrs. Moore, chairperson of the Beautification Committee, addressed the members, and reviewed the display of the new landscaping at GIWA's sub station.

She explained the seven (7) principals of xeriscaping and its purpose in educating our members. She stated that members can obtain a copy of the design and its plantings, along with additional material provided by the Southwest Florida Water Management District made available at GIWA's office.

- VI. UTILITY DIRECTOR REPORT: Mrs. Pringle, Utility Director, reviewed with the members GIWA's Hurricane Plan that goes into effect every year, June 1st.

She explained the three (3) different phases of the plan and stated that we have implemented phases I and II many times, and phase III which includes at some point turning water off, a couple of times, with the exception of turning off the water.

A new control feature was added at our island pump station for hurricane preparation. When in "hurricane mode", the pumps should shut down in the event of a very high flow which if the island is under mandatory evacuation will indicate leaks. This is designed to keep the island with water as long as possible with minimal water loss in the event the storm does make a direct impact on the island.

GIWA's staff met the evening prior to Hurricane Charley's arrival and reviewed its final plans. At that time the water system was switched to hurricane mode, and the sewer pump stations were shut off.

Mrs. Pringle stated that in making the initial assessment of the water system the night after the storm had passed, there were leaks in the system, but the pumps shut down after the roof at the sub-station was torn off, and water got into the electrical system.

Saturday morning, we began turning water back on in grids. All total, GIWA had eleven (11) leaks and there were numerous homeowner leaks. She stated that the water plant and sewer plant sustained minimal damage from the storm. Our maintenance

building and sub-station had substantial damage to the roof and garage doors. The costs are as follows:

| | |
|-------------------------------------|------------------|
| Total cost incurred including labor | \$72,875.00 |
| Insurance | <u>23,668.00</u> |
| Cost after insurance | \$49,207.00 |
| FEMA grant money applied for | \$45,431.00 |

Mrs. Pringle thanked her staff along with the many businesses of the island and its residences for their help during, and after Hurricane Charley.

- VII. FINANCIAL STATEMENTS: The membership was presented with the 2004 audited financial statements, 2005 budget, and capital improvement statement for the 2004 fiscal year.

Mr. Jacobs gave the treasurer's report on the 2004 fiscal year and 2005 budget.

Mr. Jacobs stated that the Board is proposing a 4% increase in rates to off-set increases incurred over the past two (2) years in insurance, electric, and chemical costs. The 4% rate increase we are seeking will generate approximately \$110,000 additional revenue annually; however it will only generate about \$43,000 in fiscal year 2005 as the rate increase will probably not go into effect until May 2005.

- VIII. PROPOSED 4% RATE INCREASE: Mr. Albertson addressed the members and stated that based on our annual statements and increased costs which were just reviewed by the treasurer, the Board would like to propose a 4% rate increase.

On motion made and seconded, the 4% rate increase was approved with 565 (547 proxies) votes "For" and two (2) proxies "Against".

- IX. ELECTION OF DIRECTORS: Mr. Albertson advised the members that three (3) terms expire this year, Mrs. Moore, Mr. Spurgeon, and Mrs. Anderson. Mrs. Anderson is not eligible to serve another term, Mr. Spurgeon has declined to serve a second term, and Mrs. Moore has agreed to serve a second three (3) year term.

The three (3) nominees recommended by the nominating committee are as follows:

John Holyland
Bobby Miller
Donna Moore

Motion to close the nominations. There being no further nominations, the nominees were unanimously approved.

X. QUESTION & ANSWER PERIOD: Mr. Albertson opened the floor for questions and answers.

Mr. Pitstick asked if GIWA offers any type of incentive to customers who use less water than others.

Mr. Albertson stated that the incentive is in the rate schedule which is structured to where the lower volume user is not charged as much per thousand gallons as the individual who uses a higher volume of water.

Danny Campo asked if GIWA's watering restrictions of one (1) day a week is governed by Charlotte County or Southwest Florida Water Management District (SWFWMD).

Mr. Albertson stated that by GIWA board resolution all GIWA members in both counties are subject to the more stringent Charlotte County restrictions which limits watering to one (1) day per week.

Mr. Campo asked how the ratio was working with GIWA's deep well injection and the Gasparilla Inn using the reuse water for their golf course irrigation.

Mrs. Pringle stated that the Inn has gotten better about using the water and that they are staying within the required parameters.

There being no further business to discuss, meeting adjourned at 5:45 p.m.


Donna Moore, Secretary