

**CHARLOTTE HARBOR WATER ASSOCIATION, INC.
FINANCIAL STATEMENTS**

December 31, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

To The Board of Directors
Charlotte Harbor Water Association, Inc.
2515 Highlands Road
Harbour Heights, FL 33983

We have audited the accompanying financial statements of Charlotte Harbor Water Association, Inc. (a Florida corporation), which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of operations, retained earnings, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Charlotte Harbor Water Association, Inc. as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Summers, Westby & Schiller CPAs
Summers, Westby & Schiller CPAs
Punta Gorda, Florida

March 16, 2018

CHARLOTTE HARBOR WATER ASSOCIATION, INC.

BALANCE SHEETS

December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,023,667	\$ 620,994
Investments - other	969,940	1,131,800
Accounts receivable	100,249	94,909
Inventories	64,650	61,850
Prepaid expenses	13,944	5,030
TOTAL CURRENT ASSETS	<u>2,172,450</u>	<u>1,914,583</u>
PLANT, PROPERTY AND EQUIPMENT		
Less accumulated depreciation of \$3,600,950 in 2017 and \$3,458,409 in 2016	<u>1,908,929</u>	<u>1,991,331</u>
OTHER ASSETS		
Restricted bank accounts for mortgages payable	<u>40,576</u>	<u>40,124</u>
TOTAL OTHER ASSETS	<u>40,576</u>	<u>40,124</u>
TOTAL ASSETS	<u>\$ 4,121,955</u>	<u>\$ 3,946,038</u>
 <u>LIABILITIES AND MEMBERS' EQUITY</u>		
CURRENT LIABILITIES		
Accrued expenses	\$ 50,288	\$ 1,106
Current portion of long-term debt	11,517	25,842
TOTAL CURRENT LIABILITIES	<u>61,805</u>	<u>26,948</u>
LONG-TERM DEBT		
Mortgages payable	1,114	12,631
OTHER LIABILITIES		
Customers' security deposits	<u>188,875</u>	<u>181,045</u>
TOTAL LIABILITIES	<u>251,794</u>	<u>220,624</u>
MEMBERS' EQUITY		
Contributions in aid of construction	2,172,626	2,125,539
Grant in aid of construction	1,009,385	1,009,385
Retained earnings	688,150	590,490
TOTAL MEMBERS' EQUITY	<u>3,870,161</u>	<u>3,725,414</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u>\$ 4,121,955</u>	<u>\$ 3,946,038</u>

The accompanying notes are an integral part of these financial statements

CHARLOTTE HARBOR WATER ASSOCIATION, INC.
 STATEMENTS OF OPERATIONS
 For the years ended December 31, 2017 and 2016

	2017	2016
REVENUES		
Water sales	\$ 1,213,445	\$ 1,124,386
Interest income	12,501	6,527
Late payment penalties	12,830	12,727
Reconnection fees	8,824	10,211
Miscellaneous	108	1,490
TOTAL REVENUES	1,247,708	1,155,341
EXPENSES		
Salaries	445,121	400,500
Depreciation	172,697	164,040
Utilities	64,929	59,359
Repairs and maintenance	125,466	101,958
Interest expense	1,180	3,207
Other operating expenses	344,829	304,796
TOTAL EXPENSES	1,154,222	1,033,860
NET INCOME (LOSS) FROM OPERATIONS	93,486	121,481
GAIN (LOSS) ON ASSETS SOLD AND RETIRED	4,174	19,094
NET INCOME (LOSS)	\$ 97,660	\$ 140,575

The accompanying notes are an integral part of these financial statements.

CHARLOTTE HARBOR WATER ASSOCIATION, INC.
STATEMENTS OF RETAINED EARNINGS
For the years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
RETAINED EARNINGS - BEGINNING OF YEAR	\$ 590,490	\$ 449,914
Net income (loss)	<u>97,660</u>	<u>140,576</u>
RETAINED EARNINGS - END OF YEAR	<u>\$ 688,150</u>	<u>\$ 590,490</u>

The accompanying notes are an integral part of these financial statements.

CHARLOTTE HARBOR WATER ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 97,660	\$ 140,576
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	172,697	164,040
Proceeds from sale of assets	4,279	29,600
Loss (gain) on disposal of assets	(4,174)	(19,094)
(Increase) Decrease in:		
Accounts receivable	(5,340)	(7,750)
Inventories	(2,800)	(14,233)
Prepaid expenses	(8,914)	183
Increase (Decrease) in:		
Accrued expense	49,182	(1,137)
	<u>302,590</u>	<u>292,185</u>
NET CASH PROVIDED BY (USED BY) OPERATING ACTIVITIES		
	<u>302,590</u>	<u>292,185</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment and improvements	(90,400)	(96,851)
Sale (purchase) of certificates of deposit	161,860	(803,401)
Interest earned on restricted assets	(452)	(437)
	<u>71,008</u>	<u>(900,689)</u>
NET CASH PROVIDED BY (USED BY) INVESTING ACTIVITIES		
	<u>71,008</u>	<u>(900,689)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Long term debt reduction	(25,842)	(35,058)
Customer security deposits	7,830	5,568
Contributions in aid of construction	47,087	33,268
	<u>29,075</u>	<u>3,778</u>
NET CASH PROVIDED BY (USED BY) FINANCING ACTIVITIES		
	<u>29,075</u>	<u>3,778</u>
NET INCREASE (DECREASE) IN CASH	402,673	(604,726)
CASH - BEGINNING OF YEAR	620,994	1,225,720
CASH - END OF YEAR	<u>\$ 1,023,667</u>	<u>\$ 620,994</u>

The accompanying notes are an integral part of these financial statements.

CHARLOTTE HARBOR WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 1 - ORGANIZATIONAL INFORMATION

The Association was incorporated on November 19, 1964 under the laws of the State of Florida as a corporation not-for-profit. Minor amendments to the Articles of Incorporation were made on February 7, 1967, July 25, 1975 and July 7, 1978. The Association provides purified water and water lines to approximately 2,300 residential and commercial customers. There are 1,831 meters installed.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Method - The Association maintains its records on the accrual basis of accounting. This is in accordance with the accounting principles recommended by the American Water Works Association. Under the accrual method, revenues are recognized when earned and expenses are recognized when incurred.

Accounts Receivable - Accounts receivable are stated at realizable value. No allowance for doubtful accounts is reflected in these financial statements because the Association requires a surety deposit from each customer based on meter size and estimated monthly usage. This deposit is considered sufficient to cover any anticipated bad debts. Therefore, no provision for bad debts is necessary.

Inventories - An inventory of materials and supplies used in meter connections and line extensions or repairs is taken at least annually and is stated at average cost not in excess of market.

Plant, Property and Equipment - Plant, property and equipment are recorded at original cost. Depreciation is computed primarily on the straight-line method and charged to income over the estimated useful lives of the assets.

Income Taxes - The Internal Revenue Service determined that the Association was exempt from federal income taxes under Code Section 501(c)(12) on March 10, 1969 and a subsequent examination in 1978. Consequently, no provision for income tax expense or liability is included in these financial statements.

The Association's tax filings are subject to audit by various taxing authorities. The Association's federal income returns for 2014, 2015 and 2016 remain open to examination by the Internal Revenue Service. In evaluating the Association's tax provisions and accruals, the Association believes that its estimates are appropriate based on current facts and circumstances.

The Association recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. During the years ended December 31, 2017 and 2016, the Association incurred no interest or penalties.

Cash and Cash Equivalents - For purposes of the statement of cash flows, the Association considers all highly liquid debt instruments purchased with maturities of three months or less to be cash equivalents.

Investment - Other - Investments - other consist of certificates of deposit with original maturities greater than three months. These certificates of deposit held as of December 31, 2017 and 2016 have interest rates ranging from .90% to 1.55%.

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 and disclosure of contingent 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.

Reclassifications- Certain amounts in the prior year financial statements have been reclassified, for comparative purposes to conform to the presentation in the current year financial statements.

CHARLOTTE HARBOR WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 3 – CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Association to credit risk include cash and cash equivalents. The Association’s Board of Directors attempts to prudently manage cash and cash equivalents. The Association’s cash is on deposit with high quality financial institutions. The Association had uninsured deposits of \$-0- and \$20,836, respectively, at December 31, 2017 and 2016 that were in excess of the \$250,000 insurance provided through the Federal Deposit Insurance Corporation.

NOTE 4 – PLANT, PROPERTY AND EQUIPMENT

The estimated lives of the assets and account balances are as follows:

Description	Life	Cost	Accumulated Depreciation
Distribution system, reverse osmosis units, wells and line extensions	20-50 years	\$ 4,271,104	\$ 2,870,526
Buildings and land improvements	7-40 years	470,971	201,913
Water tanks	7-25 years	411,179	352,482
Vehicles, machinery and equipment	5-10 years	305,665	176,029
Land	N/A	50,960	N/A
Total		<u>\$ 5,509,879</u>	<u>\$ 3,600,950</u>

Depreciation expense was \$172,697 and \$164,040 respectively, for the years ended December 31, 2017 and 2016.

NOTE 5 - LONG-TERM DEBT

	Total	Due Before 12/31/18	Due After 12/31/18
5% Berkadia Commercial Mortgage note payable, secured by property, with yearly payment of \$25,792, including interest, due July 8, 2017	\$ -0-	\$ -0-	\$ -0-
5% Berkadia Commercial Mortgage note payable, secured, yearly payment of \$3,497, including interest, due June 29, 2019	4,392	3,278	1,114
5% Berkadia Commercial Mortgage note payable, secured by property, with yearly payment of \$9,442, including interest, due August 21, 2020	<u>8,239</u>	<u>8,239</u>	<u>-0-</u>
	<u>\$ 12,631</u>	<u>\$ 11,517</u>	<u>\$ 1,114</u>

CHARLOTTE HARBOR WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 5 – LONG-TERM DEBT (continued)

The maturities of long-term debt for the five years subsequent to December 31, 2017 are as follows:

2018	\$ 11,517
2019	1,114
Thereafter	<u>-0-</u>
Total	<u>\$ 12,631</u>

According to the terms of the mortgage, the Association is required to have a cash reserve equal to the annual payment in a restricted account. The required reserves and corresponding bank account balances are as follows:

	Total Reserve Required	Reserve Balance
Bank		
Bank United	\$ 3,497	\$ 3,726
Bank United	-0-	27,042
Bank United	<u>9,442</u>	<u>9,808</u>
	<u>\$12,939</u>	<u>\$ 40,576</u>

NOTE 6 - CONTRIBUTIONS AND GRANTS IN AID OF CONSTRUCTION

Members are invoiced at fixed rates for meter installations, and at cost for line extensions, with amounts collected credited to members' equity. Cost of connections and extensions are charged to the distribution system asset account.

Contributions in aid of construction from members at December 31, 2017 and 2016 were \$2,172,626 and \$2,125,539 respectively, and reflect contributions from the Harbour Heights and Charlotte Harbor areas.

Grants in aid of construction at December 31, 2017 and 2016 were \$1,009,385 for both years. The Association installed new lines and hydrants paid for by Charlotte County from a State Grant totaling \$605,285 in 2008.

NOTE 7 - PENSION PLAN

The Association has a retirement plan managed by Full Spectrum Retirement Services. The funds, at present, are in a mutual fund of American Funds. The Association's policy is to fund pension costs as they accrue, contributing seven percent of the participants' gross salary. The participants contribute an additional three percent of their gross salary. Pension plan expense amounted to \$22,353 and \$20,113 for 2017 and 2016, respectively.

CHARLOTTE HARBOR WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 8 - SUPPLEMENTAL DISCLOSURES ON CASH FLOWS

For purposes of the statement of cash flows, operating activities reflect interest paid of \$1,180 and \$3,207 for 2017 and 2016, respectively. No income taxes were paid in 2017 or 2016.

NOTE 9 – RELATED PARTY TRANSACTIONS

A former member of the Association's Board of Directors was paid approximately \$8,700 during 2017 for services as Superintendent.

NOTE 10 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events through March 16, 2018, the date the financial statements were available to be issued.

Summers, Westby & Schiller
Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT
ON
SUPPLEMENTARY INFORMATION**

To The Board of Directors
Charlotte Harbor Water Association, Inc.
Harbour Heights, FL 33983

We have audited the financial statements of Charlotte Harbor Water Association, Inc. as of and for the years ended December 31, 2017 and 2016, and our report thereon dated March 16, 2018, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Summers, Westby & Schiller CPAs

Summers, Westby & Schiller CPAs
Punta Gorda, Florida
March 16, 2018

CHARLOTTE HARBOR WATER ASSOCIATION, INC.

OTHER OPERATING EXPENSES

For the years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
OTHER OPERATING EXPENSES		
Employee group insurance	\$ 73,567	\$ 88,135
Engineering	36,635	-0-
Insurance and bonds	39,326	41,912
Payroll taxes	33,287	28,820
Pension and employee benefits	22,353	20,113
Chemicals	16,867	16,883
Taxes and licenses	14,509	14,673
Gas and oil	12,956	12,348
Office expense	25,604	19,726
Water analysis	18,022	11,722
Accounting and legal	15,270	9,168
Employee education	2,969	8,082
Postage	10,591	8,813
Uniform rental	5,209	3,333
Laboratory supplies	3,939	3,222
Directors' and officers' expenses	684	2,242
Garbage collection	1,703	1,740
Miscellaneous	2,631	2,886
Small tools	1,861	3,718
Bank charges	6,846	7,260
	<u>\$ 344,829</u>	<u>\$ 304,796</u>

CHARLOTTE HARBOR WATER ASSOCIATION, INC.
ACTUAL TO BUDGET COMPARISON
For the year ended December 31, 2017

	ACTUAL	BUDGET UNAUDITED	VARIANCE- FAVORABLE (UNFAVORABLE) UNAUDITED
REVENUES			
Water sales	\$ 1,213,445	\$ 1,139,800	\$ 73,645
Penalties	12,830	12,500	330
Reconnect fees	8,824	11,000	(2,176)
Interest and investment income	12,501	2,900	9,601
Miscellaneous	108	12,000	(11,892)
Gain on assets sold	4,174	3,000	1,174
TOTAL REVENUES	1,251,882	1,181,200	70,682
EXPENSES AND LOSSES			
Salaries	445,121	410,000	(35,121)
Depreciation	172,697	171,000	(1,697)
Utilities	54,235	45,000	(9,235)
Repairs	125,466	85,000	(40,466)
Interest	1,180	8,000	6,820
Insurance and bonds	39,326	55,000	15,674
Chemicals	16,867	19,000	2,133
Employee group insurance	73,567	85,000	11,433
Engineering	36,635	-0-	(36,635)
Telephone	10,694	9,000	(1,694)
Payroll taxes	33,287	27,000	(6,287)
Pension and employee benefits	22,353	20,000	(2,353)
Gas and oil	12,956	13,000	44
Water analysis	18,022	13,000	(5,022)
Taxes and licenses	14,509	15,500	991
Postage	10,591	8,000	(2,591)
Accounting	9,950	9,500	(450)
Office expense	25,604	17,000	(8,604)
Employee education	2,969	8,000	5,031
Directors' and officers' expenses	684	3,000	2,316
Laboratory supplies	3,939	4,000	61
Legal expense	5,320	-0-	(5,320)
Uniforms	5,209	4,000	(1,209)
Garbage collection	1,703	2,000	297
Miscellaneous	2,631	725	(1,906)
Small tools	1,861	2,000	139
Bank charges	6,846	7,000	154
TOTAL EXPENSES AND LOSSES	1,154,222	1,040,725	(113,497)
EXCESS REVENUES OVER (UNDER) EXPENSES AND LOSSES	\$ 97,660	\$ 140,475	\$ (42,815)
CAPITAL EXPENDITURES	\$ 90,400	\$ 100,000	\$ 9,600