THE ISLAND WATER ASSOCIATION, INC.

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

THE ISLAND WATER ASSOCIATION, INC.
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of The Island Water Association, Inc., which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of operations and system investment; functional expenses; changes in system investment, members' contribution in aid of construction, and accumulated other comprehensive income (loss); and cash flows for the years then ended, and the related notes to the financial statements.

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, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Island Water Association, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Island Water Association, Inc.'s ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Island Water Association, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Island Water Association, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Fort Myers, Florida
March 29, 2022

THE ISLAND WATER ASSOCIATION, INC.
BALANCE SHEETS
DECEMBER 31, 2021 AND 2020

	2021	2020
ASSETS		
PLANT PROPERTY		
Utility Plant in Service	$ 55,640,300	$ 54,657,700
Less: Accumulated Depreciation	(30,864,200)	(29,940,800)
Net Plant Property	24,776,100	24,716,900
CURRENT ASSETS		
Cash and Cash Equivalents	3,293,100	1,503,400
Accounts Receivable	498,400	476,600
Unbilled Revenue	359,400	387,300
Prepayments and Other	162,900	184,900
Total Current Assets	4,313,800	2,552,200
INVESTMENTS		
Participation Certificates	191,100	212,400
BOARD-RESTRICTED ASSETS		
Reserve Fund, Cash Equivalents	785,400	99,100
Reserve Fund, Marketable Securities	7,295,200	8,141,200
Total Board-Restricted Assets	8,080,600	8,240,300
RESTRICTED ASSETS		
Cash Equivalents	278,800	1,600
Marketable Securities	330,000	605,100
Total Restricted Assets	608,800	606,700
Total Assets	$ 37,970,400	$ 36,328,500

See accompanying Notes to Financial Statements.

THE ISLAND WATER ASSOCIATION, INC.
BALANCE SHEETS (CONTINUED)
DECEMBER 31, 2021 AND 2020

CAPITALIZATION, LIABILITIES, AND MEMBERS' CONTRIBUTIONS	2021	2020
CAPITALIZATION		
Net Revenues Reinvested in the Water System	$ 19,142,100	$ 17,633,500
Members' Contribution in Aid of Construction (CIAC)	17,113,000	16,885,300
Other Comprehensive Income (Loss)	328,200	307,200
Total Capitalization	36,583,300	34,826,000
LONG-TERM LIABILITIES		
Injection Well Liability	274,600	274,600
Postretirement Benefit Plan Obligation	356,500	402,200
Long-Term Debt, Less Current Maturities	260,300	346,400
Total Long-Term Liabilities	891,400	1,023,200
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	86,300	82,100
Accounts Payable and Accrued Expenses	409,400	397,200
Total Current Liabilities	495,700	479,300
Total Capitalization, Liabilities, and Members' Contributions	$ 37,970,400	$ 36,328,500

See accompanying Notes to Financial Statements.

THE ISLAND WATER ASSOCIATION, INC.
STATEMENTS OF OPERATIONS AND SYSTEM INVESTMENT
YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
OPERATING INCOME	$ 7,760,900	$ 7,358,600
OPERATING COSTS		
Operations	3,426,200	3,409,400
Maintenance	1,138,700	1,068,900
Administration	1,591,100	1,799,300
Total Operating Costs	6,156,000	6,277,600
Net Operating Income	1,604,900	1,081,000
OTHER INCOME (LOSS)		
Interest and Earnings (Loss) from Investments	(157,600)	436,900
Other Income	73,400	79,600
Total Other Income (Loss)	(84,200)	516,500
Income Before Interest Charges	1,520,700	1,597,500
INTEREST CHARGES ON LONG-TERM DEBT	19,900	31,600
Less: Interest Capitalized into Capital Projects	(7,800)	(1,800)
Total Interest Charges	12,100	29,800
Net Income	1,508,600	1,567,700
NET REVENUES REINVESTED IN THE WATER SYSTEM		
Beginning of Year	17,633,500	16,065,800
End of Year	$ 19,142,100	$ 17,633,500

See accompanying Notes to Financial Statements.

THE ISLAND WATER ASSOCIATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2021

	Operations	Maintenance	Administration	Totals
Salaries and Wages	$ 924,500	$ 648,000	$ 646,400	$ 2,218,900
Employee Benefits	306,300	230,600	197,400	734,300
Payroll Taxes	78,200	48,800	50,400	177,400
Insurance	-	-	222,400	222,400
Electricity and LP Gas	554,300	-	10,800	565,100
Chemicals	456,800	-	-	456,800
Supplies	110,500	112,600	58,300	281,400
Repairs and Maintenance	6,600	-	202,600	209,200
Depreciation	923,400	-	-	923,400
Professional Fees	-	-	70,400	70,400
Contract Services	37,100	53,200	-	90,300
Travel and Training	16,800	15,100	5,300	37,200
Meetings	-	-	4,500	4,500
Telephone and Internet	-	-	66,100	66,100
Vehicle Expenses and Fuel	5,200	30,400	-	35,600
Permits and Fees	6,500	-	-	6,500
Dues and Subscriptions	-	-	3,700	3,700
Other Miscellaneous	-	-	52,800	52,800
Total Functional Expenses	$ 3,426,200	$ 1,138,700	$ 1,591,100	$ 6,156,000

See accompanying Notes to Financial Statements.

THE ISLAND WATER ASSOCIATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2020

	Operations	Maintenance	Administration	Totals
Salaries and Wages	$ 918,200	$ 662,500	$ 699,800	$ 2,280,500
Employee Benefits	449,500	83,000	194,700	727,200
Payroll Taxes	102,600	14,700	49,500	166,800
Insurance	-	-	201,700	201,700
Electricity and LP Gas	528,800	-	12,000	540,800
Chemicals	380,300	-	-	380,300
Supplies	86,600	157,300	43,700	287,600
Repairs and Maintenance	-	-	93,800	93,800
Depreciation	923,000	-	-	923,000
Professional Fees	-	-	79,200	79,200
Contract Services	-	121,500	-	121,500
Travel and Training	8,500	4,900	4,700	18,100
Meetings	-	-	5,000	5,000
Telephone and Internet	-	-	61,700	61,700
Vehicle Expenses and Fuel	5,500	24,900	-	30,400
Permits and Fees	6,400	100	-	6,500
Dues and Subscriptions	-	-	3,600	3,600
Other Miscellaneous	-	-	349,900	349,900
Total Functional Expenses	$ 3,409,400	$ 1,068,900	$ 1,799,300	$ 6,277,600

See accompanying Notes to Financial Statements.

THE ISLAND WATER ASSOCIATION, INC.
STATEMENTS OF CHANGES IN SYSTEM INVESTMENT, MEMBERS' CONTRIBUTIONS IN AID OF CONSTRUCTION, AND ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)
YEARS ENDED DECEMBER 31, 2021 AND 2020

	System Investment	Members' Contribution in Aid of Construction	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE - DECEMBER 31, 2019	$ 16,065,800	$ 16,772,500	$ 298,200	$ 33,136,500
Net Income for 2020	1,567,700	-	-	1,567,700
New Members	-	42,500	-	42,500
Meter Upgrades	-	70,300	-	70,300
Comprehensive Income:				
Actuarial Gain, including Effect of Change in Discount Rate	-	-	25,100	25,100
Amortization of Actuarial Gain	-	-	(16,100)	(16,100)
Total	1,567,700	112,800	9,000	1,689,500
BALANCE - DECEMBER 31, 2020	17,633,500	16,885,300	307,200	34,826,000
Net Income for 2021	1,508,600	-	-	1,508,600
New Members	-	136,500	-	136,500
Meter Upgrades	-	91,200	-	91,200
Comprehensive Income:				
Actuarial Gain, including Effect of Change in Discount Rate	-	-	39,000	39,000
Amortization of Actuarial Gain	-	-	(18,000)	(18,000)
Total	1,508,600	227,700	21,000	1,757,300
BALANCE - DECEMBER 31, 2021	$ 19,142,100	$ 17,113,000	$ 328,200	$ 36,583,300

See accompanying Notes to Financial Statements.

THE ISLAND WATER ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received - Customers and Operating Activities	$ 7,861,700	$ 7,478,600
Cash Paid to Suppliers and Employees	(5,223,100)	(5,515,300)
Earnings from Investments	105,900	132,500
Interest Paid (Net of Amount Capitalized)	(12,100)	(29,800)
Net Cash Provided by Operating Activities	2,732,400	2,066,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital Expenditures (Including Capitalized Interest of $7,800 and $1,800 for 2021 and 2020, Respectively)	(982,600)	(1,074,900)
Purchases of Marketable Securities	(2,408,500)	(1,956,700)
Redemption of Marketable Securities	3,266,100	1,297,000
Net Cash Used by Investing Activities	(125,000)	(1,734,600)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of Debt	(81,900)	(1,816,200)
Member Contributions in Aid of Construction	227,700	112,800
Net Cash Provided (Used) by Financing Activities	145,800	(1,703,400)
INCREASE (DECREASE) IN CASH AND EQUIVALENTS	2,753,200	(1,372,000)
Cash and Equivalents at Beginning of Year	1,604,100	2,976,100
CASH AND EQUIVALENTS AT END OF YEAR	$ 4,357,300	$ 1,604,100
Cash and Cash Equivalents	$ 3,293,100	$ 1,503,400
Cash and Cash Equivalents - Board-Restricted	785,400	99,100
Cash and Cash Equivalents - Restricted	278,800	1,600
Total	$ 4,357,300	$ 1,604,100

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Island Water Association, Inc. (the Association) is a nonprofit organization exempt from federal and state income taxes under Internal Revenue Code (IRC) 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.

On July 16, 1995, the Association was granted a 20-year franchise by the Board of County Commissioners of Lee County, Florida (the County) and the city of Sanibel (the City). On June 2, 2015, this agreement was extended to July 16, 2045. This franchise agreement requires that the Sanibel City Council approve any rate changes requested by the Association.

As a requirement for qualification for exemption from real estate taxes, the Articles of Incorporation provides that “Upon retirement of all outstanding indebtedness of the corporation, ownership of the corporation shall revert to Lee County.” Further, and subject to the foregoing, the franchise gives the city of Sanibel and Lee County the first right of refusal and an option to purchase the corporation for fair market value.

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 is entitled to only one vote, regardless of the number of certificates of membership held.

The Association is subject to various commitments, contingencies, and restrictions due to obtaining permits from the state of Florida and from the South Florida Water Management District.

Income Taxes

The Association is a nonprofit organization and as such is not subject to income tax. As of the date of this report, the Association has not undertaken any activities that would potentially jeopardize its status as a nonprofit organization.

The Corporation follows the income tax standard for uncertain tax positions. As a result, the Corporation evaluated its tax positions and determined it has no uncertain tax positions as of December 31, 2021 and 2020.

The Association income tax returns are subject to review and examination by federal and state authorities. The Association is not aware of any activities that would jeopardize its tax-exempt status, nor is it aware of any activities that are subject to tax on unrelated business income or excise or other taxes.

Utility Plant in Service

Utility plant in service is recorded at cost or at fair value if the assets are contributed to the Association from a developer. Depreciation is provided by depreciating a group of assets over their estimated useful lives of each group, 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Association considers all highly liquid debt instruments with an initial maturity of less than three months to be cash equivalents. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to certain limits. At times the amounts in the bank accounts may exceed FDIC insurable limits.

Marketable Securities

Marketable securities consist of U.S. Treasury Securities at December 31, 2021 and 2020. U.S. Treasury Securities are carried at fair value. These securities are restricted in use and, therefore, are not considered to be cash equivalents.

Restricted Assets

Marketable securities are restricted by the board for working capital reserves. In addition, such assets are also restricted because they have been pledged as collateral for a standby letter of credit (see Note 5) and for debt service requirements under loan agreements (see Note 6).

Accounts Receivable

The Association recognizes uncollectible accounts on an individual basis. In management's opinion, the amount of uncollectible accounts at any point in time is negligible and a reserve for uncollectible accounts is not necessary. Accounts receivable as of December 31, 2021, 2020, and 2019 were $498,400, $476,600, and $506,500, respectively.

Unbilled Revenues

Unbilled revenues represent estimated revenues between the last dates of the cycle billings and year-end. Unbilled revenues as of December 31, 2021, 2020, and 2019 were $359,400, $387,300, and $387,300, respectively.

Investments

The Association is required to invest in participation certificates in the National Bank for Cooperatives (Co-Bank) as a requirement of its debt agreement. The Association recognizes income from this investment on the accrual basis. This method records income and increases the Association's invested amount, based on the patronage dividends declared by the bank. Refer to Note 6 for a more complete explanation of these participation certificates.

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. Interest capitalized for the years ended December 31, 2021 and 2020 was $7,800 and $1,800, respectively.

Members' Contributions in Aid of Construction

Members' contributions in aid of construction amounts consist 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accumulated Other Comprehensive Income (Loss)

Accumulated Other Comprehensive Income (Loss) is required to be presented for each year a statement of operations is presented. At December 31, 2021 and 2020, Accumulated Other Comprehensive Income (Loss) consists of the unamortized prior service costs, unrecognized transition obligation, and the unamortized actuarial gain (loss) associated with its postretirement health insurance benefit plan. See Note 8 for further details on the postretirement health insurance obligation.

Fair Value Measurements

The Association measures fair value using a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The objective of a fair value measurement is to determine the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Accordingly, the fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The Association may use valuation techniques consistent with the market, income and cost approaches to measure fair value.

The inputs used to measure fair value are categorized into the following three categories:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Association has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating Income

The Association's operating income from contracts with customers is discussed below. Customer payments for contracts are generally due within 21 days of billing and none of the contracts with customers have payment terms that exceed one year. Therefore, the Association elected to apply the significant financing component practical expedient and no amount of consideration has been allocated as a financing component.

Operating income for the Association is generated from water services delivered to customers. These contracts generally contain a single performance obligation, the delivery of water services, as the promise to transfer goods or service is not separately identifiable from other promises within the contracts and, therefore, is not distinct. Operating income is recognized over time, as services are provided. There are generally no significant financing components or variable consideration. Operating income includes amounts billed to customers on a cycle basis and unbilled amounts calculated on estimated usage from the date of the meter reading associated with the latest customer bill, to the end of the accounting period. The amount that the Association has a right to invoice are determined by each customer's actual usage, an indicator that the invoice amount corresponds directly to the value transferred to the customer.

Measure of Operations

The Association considers other income, which includes interest and earnings from investments, gain on curtailment of postretirement benefit plan obligation and other income, and expenses recorded for interest on long-term debt to be outside activities from its normal operations.

Functional Expenses

The expenses of the Association are reported in the statement of functional expenses by their functional and natural classifications. Functional classification is a method of reporting expenses according to the department for which costs are incurred. Natural classification is a method of grouping expenses according to the kinds of economic benefits received in incurring those expenses. The Association's expenses are directly assigned to their functional classifications.

Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, and the reported revenues and expenses. Actual results could vary from these estimates.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported capitalization.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through March 29, 2022, the date the financial statements were available to be issued.

NOTE 2 UTILITY PLANT IN SERVICE

Utility plant in service consists of the following:

	2021	2020
Source of Supply Plant	$ 9,834,900	$ 9,603,200
Pumping Plant	1,155,300	1,155,300
Water Treatment Plant	13,695,500	13,326,700
Transmission and Distribution Plant	26,149,600	25,931,100
General Plant	4,596,700	4,432,900
Construction WIP	208,300	208,500
Total	$ 55,640,300	$ 54,657,700

NOTE 3 MARKETABLE SECURITIES

The following table presents the fair value hierarchy for the balances of the assets of the Association measured at fair value on a recurring basis as of December 31.

	2021			
	Level 1	Level 2	Level 3	Total
United States Treasury Securities	$ 7,625,200	$ -	$ -	$ 7,625,200

	2020			
	Level 1	Level 2	Level 3	Total
United States Treasury Securities	$ 8,746,400	$ -	$ -	$ 8,746,400

There were net unrealized holding losses of $265,800 and net unrealized holding gains of $307,500 at December 31, 2021 and 2020, respectively.

Marketable securities are classified as follows as of December 31:

	2021	2020
Board-Restricted Assets		
Reserve Fund, Marketable Securities	$ 7,295,200	$ 8,141,200
Restricted Assets		
Marketable Securities	330,000	605,100
Total	$ 7,625,200	$ 8,746,300

NOTE 4 LIQUIDITY

To ensure efficient operations of the Association, it is the board's policy that reserve funds equal to eight months of water sales based on the current budget be maintained. At December 31, 2021 and 2020, $7,295,200 and $8,141,200, respectively, was maintained for this purpose.

Additionally, the following financial assets could readily be made available within one year of the balance sheet dated to meet general expenditures:

	2021	2020
Cash and Cash Equivalents	$ 3,293,100	$ 1,503,400
Accounts Receivable	498,400	476,600
Unbilled Revenue	359,400	387,300
Total	$ 4,150,900	$ 2,367,300

NOTE 5 DEPARTMENT OF ENVIRONMENTAL PROTECTION

The Association operates a deep injection well as a disposal site for its brine waste water. The Department of Environmental Protection (DEP) requires operators of deep injection wells to meet certain financial tests to demonstrate that the operators can plug the well when it is necessary. The Association has obtained a Standby Letter of Credit issued by Bank of America in the amount of $461,000 to provide the financial assurance required by DEP. In addition, the Association has set aside $608,800 in treasury notes in a holding account to collateralize the Standby Letter of Credit. These funds are presented within restricted assets on the Association's balance sheet.

The Association is recognizing an annual charge to recognize the $446,000 liability for the anticipated cost of plugging this well in 2031.

As of both December 31, 2021 and 2020, the Association had accrued $274,600 for the accreted disposal liability.

NOTE 6 LONG-TERM DEBT

Long-term debt, all of which is payable to Co-Bank, consists of the following:

Description	2021	2020
4.95% mortgage note payable which financed the High Service Building and Suwannee Production Well, monthly payment of principal and interest in the amount of $13,144; final payment due August 2034	$ 346,600	$ 428,500
Less: Current Maturities	(86,300)	(82,100)
Total	$ 260,300	$ 346,400

NOTE 6 LONG-TERM DEBT (CONTINUED)

Maturities of long-term debt as of December 31, 2021 are as follows:

Year Ending December 31,	Amount
2022	$ 86,300
2023	90,700
2024	95,300
2025	74,300
Total	$ 346,600

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

The agreements with Co-Bank call for the Association to maintain a cash or marketable securities balance in the amount of $360,000 as a debt service reserve. This amount is presented within the board restricted assets amount noted on the balance sheet. The agreements preclude the Association from entering into other indebtedness and require certain working capital and tangible net worth ratios be maintained.

The agreements with Co-Bank also call for certain financial covenants to be met. The first of these is a debt-service coverage ratio of not less than 1.25 to 1, defined as the ratio of net income plus depreciation expense, amortization expense and interest expense, over all principal payments plus all interest expense. The second financial covenant is a debt to operating cash flow ratio of not greater than 6.0 to 1, defined as total debt over the sum of net income plus depreciation expense, amortization expense, and interest expense. The third financial covenant is a debt to capitalization ratio of not more that 0.60 to 1, defined as total debt over total capitalization. Management believes the Association is in compliance with these financial covenants.

The Association is required to purchase Participation Certificates in Co-Bank. 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 7 PENSION PLANS

The Association maintains one "safe harbor 401(k) plan." This plan allows for two types of retirement funding. One type is a fixed-rate contributory plan, covering substantially all employees. This plan requires the Association to contribute annually an amount equal to 7% of each employee's salary. The Association's contributions for 2021 and 2020 were approximately $139,700 and $148,000, respectively, for this portion of the plan.

NOTE 7 PENSION PLANS (CONTINUED)

The second type of retirement funding is a salary deferral savings plan with limited company match. This portion of the plan allows employees to defer salary up to the maximum allowed by the limitations imposed by the IRC through payroll deductions. In accordance with the provisions of the plan, the Association will match 100% of employee contributions up to a maximum amount of 5% of gross pay and the Association will also match 50% of any deferral amount over 5%, but not more than 10% of gross pay. On October 23, 2019, the Association amended the plan to provide for a 100% match of employee contributions up to a maximum amount of 7% of gross pay. For the years ended December 31, 2021 and 2020, the Association recorded expense for the matching contributions of $131,900 and $142,500, respectively.

NOTE 8 POSTRETIREMENT BENEFIT PLAN

In 2005, the Association instituted a retirement health insurance benefit plan covering all employees and their spouses. On March 27, 2018, the Association's Board of Directors discontinued the retirement health insurance benefit plan for all current employees.

Prior to March 27, 2018, retiree benefits were reimbursed by the Association at the rate of 100% for the retiree and 75% for the retiree's spouse. The plan provided for the reimbursement of so-called "Medi-Gap" insurance premiums for retired employees and their spouses over the age of 65 for the remainder of their lifetime. For employees with at least 15 years of service who retired prior to March 27, 2018, the Association will continue to provide reimbursement for Medi-gap coverage at the average monthly cost of Medi-gap Plan F in the State of Florida as listed on medicare.gov. Cost covered will be 100% for employees and 75% for spouses. Under the current plan, coverage will continue for both the employee and the spouse for the remainder of their lifetime. Employees with at least 15 years of service who were 63 years or older on March 27, 2018, will receive a one-time payment of $10,000 upon retirement, and employees aged 60 years to 62 years will receive a one-time payment of $5,000 upon retirement.

For the year ended December 31, 2007, the Association adopted the accounting guidance for the recording of its postretirement health insurance obligation. The accounting guidance requires the cost of the postretirement benefit to be recognized over the term of the employee's period of employment. In addition, the initial implementation of the accounting principle created a transition obligation element for the cost of the program incurred before the actual implementation of the plan. This transition obligation has been recorded into other comprehensive income and is being amortized into health insurance expense ratably over a period of 12 years, consistent with existing accounting standards.

For the years ended December 31, 2021 and 2020, the Association's postretirement health insurance obligation, and the additions and reductions to that obligation disclosed below, have been calculated by an actuary. Key estimates used in the actuary's calculation, and estimated future benefit costs, are disclosed below.

NOTE 8 POSTRETIREMENT BENEFIT PLAN (CONTINUED)

The changes in the accrued postretirement health insurance obligation for the years ended December 31 were as follows:

	2021	2020
Beginning of the Year:	$ 402,200	$ 436,500
Increase for Annual Cost of Benefit	-	-
Interest Cost	8,000	12,600
Assumption Changes	(20,800)	16,700
Actuarial (Gain) Loss, including Effect of Change in Discount Rate	(18,200)	(41,800)
Benefit Payments Made	(14,700)	(21,800)
Plan Amendments	-	-
End of the Year	$ 356,500	$ 402,200

The following changes in the postretirement health insurance obligation were recognized in accumulated other comprehensive income (loss):

	2021	2020
Beginning of the Year:	$ 307,200	$ 298,200
Actuarial Gain (Loss), including Effect of Change in Discount Rate	39,000	25,100
Reduction due to employee turnover		
Amortization of Actuarial Gain (Loss)	(18,000)	(16,100)
Change in Prior Service Cost	-	-
Amortization of Transition Obligation/Past Service Costs	-	-
End of the Year	$ 328,200	$ 307,200

The actuarial loss reported in the table above is primarily the result of changes in the discount rate used in the calculation performed by an actuary.

The following table presents the components of the net postretirement benefit cost included in administrative expenses in the statements of operations and system investment for the years ended December 31:

	2021	2020
Current Year Charges	$ 8,000	$ 12,600
Amortization of Transition Obligation	-	-
Amortization of Actuarial Gain (Loss)	(18,000)	(16,100)
Net Post Retirement Benefit Costs	$ (10,000)	$ (3,500)

NOTE 8 POSTRETIREMENT BENEFIT PLAN (CONTINUED)

The following items included in accumulated other comprehensive income have not yet been recognized in net postretirement benefit cost at December 31:

	2021	2020
Actuarial Gain (Loss)	$ 328,200	$ 307,200
Prior Service Cost	-	-
Net Transition Obligation	-	-
Total Amounts Not Yet Recognized	$ 328,200	$ 307,200

The following amounts have been amortized into net postretirement benefit cost during the years ended December 31:

	2021	2020
Amortization of Actuarial Gain (Loss)	$ (18,000)	$ (16,100)
Amortization of Transition Obligation	-	-
Total	$ (18,000)	$ (16,100)

The plan is unfunded and will be paid for out of current operations as payments are required.

Assumptions used to determine postretirement health insurance benefit costs at January 1:

	2021	2020
Discount Rate for Obligations	2.06%	2.96%
Health Care Cost Trend Rate	4.50%	5.10%
*Ultimate Trend Rate	3.80%	4.00%

Assumptions used to determine postretirement benefit obligations at December 31:

	2021	2020
Discount Rate for Obligations	2.48%	2.06%
Health Care Cost Trend Rate	4.70%	4.50%
*Ultimate Trend Rate	3.70%	3.80%

*The ultimate trend rate is the rate at which the health care cost trend rate is assumed to decline. The ultimate trend rate used by the actuary for the calculation of the liability at December 31, 2021 is expected to be achieved in 2075.

Actual payments under this plan, based on expected retirement dates, are projected to be paid as follows (benefit payments are in future year dollars):

Year Ending December 31,	Amount
2022	$ 22,054
2023	20,446
2024	20,781
2025	21,061
2026	21,279
2027-2031	106,904