

THE ISLAND WATER ASSOCIATION, INC.
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021



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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of The Island Water Association, Inc., which comprise the balance sheets as of December 31, 2022 and 2021, 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.

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, 2022 and 2021, 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.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, in 2022 the Association adopted new accounting guidance for leases. The guidance requires lessees to recognize a right-of-use asset and corresponding liability for all operating and finance leases with lease terms greater than one year. Our opinion is not modified with respect to this matter.

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.

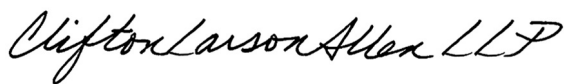
Auditors' Responsibilities for the Audit of the Financial Statements

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

Fort Myers, Florida
April 24, 2023

THE ISLAND WATER ASSOCIATION, INC.
BALANCE SHEETS
DECEMBER 31, 2022 AND 2021

ASSETS	2022	2021
PLANT PROPERTY		
Utility Plant in Service	\$ 57,031,300	\$ 55,640,300
Less: Accumulated Depreciation	<u>(31,725,400)</u>	<u>(30,864,200)</u>
Net Plant Property	25,305,900	24,776,100
CURRENT ASSETS		
Cash and Cash Equivalents	2,660,400	3,293,100
Accounts Receivable	166,900	498,400
Unbilled Revenue	634,100	359,400
Prepayments and Other	<u>124,900</u>	<u>162,900</u>
Total Current Assets	3,586,300	4,313,800
INVESTMENTS		
Participation Certificates	191,100	191,100
BOARD-RESTRICTED ASSETS		
Reserve Fund, Cash Equivalents	483,200	785,400
Reserve Fund, Marketable Securities	<u>8,866,500</u>	<u>7,295,200</u>
Total Board-Restricted Assets	9,349,700	8,080,600
RESTRICTED ASSETS		
Cash Equivalents	4,100	278,800
Marketable Securities	<u>605,500</u>	<u>330,000</u>
Total Restricted Assets	609,600	608,800
Total Assets	<u><u>\$ 39,042,600</u></u>	<u><u>\$ 37,970,400</u></u>
CAPITALIZATION, LIABILITIES, AND MEMBERS' CONTRIBUTIONS		
CAPITALIZATION		
Net Revenues Reinvested in the Water System	\$ 19,864,000	\$ 19,142,100
Members' Contribution in Aid of Construction (CIAC)	17,239,000	17,113,000
Other Comprehensive Income (Loss)	<u>384,800</u>	<u>328,200</u>
Total Capitalization	37,487,800	36,583,300
LONG-TERM LIABILITIES		
Injection Well Liability	314,700	274,600
Postretirement Benefit Plan Obligation	270,800	356,500
Long-Term Debt, Less Current Maturities	<u>300,000</u>	<u>260,300</u>
Total Long-Term Liabilities	885,500	891,400
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	-	86,300
Accounts Payable and Accrued Expenses	<u>669,300</u>	<u>409,400</u>
Total Current Liabilities	669,300	495,700
Total Capitalization, Liabilities, and Members' Contributions	<u><u>\$ 39,042,600</u></u>	<u><u>\$ 37,970,400</u></u>

See accompanying Notes to Financial Statements.

**THE ISLAND WATER ASSOCIATION, INC.
STATEMENTS OF OPERATIONS AND SYSTEM INVESTMENT
YEARS ENDED DECEMBER 31, 2022 AND 2021**

	2022	2021
OPERATING INCOME	\$ 6,472,000	\$ 7,760,900
OPERATING COSTS		
Operations	3,871,000	3,426,200
Maintenance	1,411,900	1,138,700
Administration	1,554,900	1,591,100
Total Operating Costs	6,837,800	6,156,000
Net Operating Income	(365,800)	1,604,900
OTHER INCOME (LOSS)		
Interest and Earnings (Loss) from Investments	834,400	(157,600)
Other Income	272,300	73,400
Total Other Income (Loss)	1,106,700	(84,200)
Income Before Interest Charges	740,900	1,520,700
INTEREST CHARGES ON LONG-TERM DEBT	35,100	19,900
Less: Interest Capitalized into Capital Projects	(16,100)	(7,800)
Total Interest Charges	19,000	12,100
Net Income	721,900	1,508,600
NET REVENUES REINVESTED IN THE WATER SYSTEM		
Beginning of Year	19,142,100	17,633,500
End of Year	\$ 19,864,000	\$ 19,142,100

See accompanying Notes to Financial Statements.

**THE ISLAND WATER ASSOCIATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2022**

	<u>Operations</u>	<u>Maintenance</u>	<u>Administration</u>	<u>Totals</u>
Salaries and Wages	\$ 966,300	\$ 847,900	\$ 718,400	\$ 2,532,600
Employee Benefits	306,300	307,000	197,900	811,200
Payroll Taxes	71,400	61,600	48,400	181,400
Insurance	-	-	216,900	216,900
Electricity and LP Gas	608,500	-	12,600	621,100
Chemicals	777,300	-	-	777,300
Supplies	134,900	80,600	32,000	247,500
Repairs and Maintenance	14,900	-	88,500	103,400
Depreciation	886,500	-	-	886,500
Professional Fees	-	-	86,700	86,700
Contract Services	70,700	74,100	-	144,800
Travel and Training	13,600	7,900	3,500	25,000
Meetings	-	-	6,700	6,700
Telephone and Internet	-	-	72,800	72,800
Vehicle Expenses and Fuel	7,900	32,800	-	40,700
Permits and Fees	12,700	-	21,400	34,100
Dues and Subscriptions	-	-	2,400	2,400
Other Miscellaneous	-	-	46,700	46,700
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Functional Expenses	<u>\$ 3,871,000</u>	<u>\$ 1,411,900</u>	<u>\$ 1,554,900</u>	<u>\$ 6,837,800</u>

See accompanying Notes to Financial Statements.

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

	<u>Operations</u>	<u>Maintenance</u>	<u>Administration</u>	<u>Totals</u>
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
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Functional Expenses	<u><u>\$ 3,426,200</u></u>	<u><u>\$ 1,138,700</u></u>	<u><u>\$ 1,591,100</u></u>	<u><u>\$ 6,156,000</u></u>

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, 2022 AND 2021

	System Investment	Members' Contribution in Aid of Construction	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE - DECEMBER 31, 2020	\$ 17,633,500	\$ 16,885,300	\$ 307,200	\$ 34,826,000
Net Income for 2020	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	<u>1,508,600</u>	<u>227,700</u>	<u>21,000</u>	<u>1,757,300</u>
BALANCE - DECEMBER 31, 2021	19,142,100	17,113,000	328,200	36,583,300
Net Income for 2022	721,900	-	-	721,900
New Members	-	87,100	-	87,100
Meter Upgrades	-	38,900	-	38,900
Comprehensive Income:				
Actuarial Gain, including Effect of Change in Discount Rate	-	-	77,100	77,100
Amortization of Actuarial Gain	-	-	(20,500)	(20,500)
Total	<u>721,900</u>	<u>126,000</u>	<u>56,600</u>	<u>904,500</u>
BALANCE - DECEMBER 31, 2022	<u>\$ 19,864,000</u>	<u>\$ 17,239,000</u>	<u>\$ 384,800</u>	<u>\$ 37,487,800</u>

See accompanying Notes to Financial Statements.

THE ISLAND WATER ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received - Customers and Operating Activities	\$ 6,801,100	\$ 7,861,700
Cash Paid to Suppliers and Employees	(5,682,500)	(5,223,100)
Earnings from Investments	1,175,835	105,900
Interest Paid (Net of Amount Capitalized)	(19,000)	(12,100)
Net Cash Provided by Operating Activities	2,275,435	2,732,400
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital Expenditures (Including Capitalized Interest of \$7,800 and \$1,800 for 2022 and 2021, Respectively)	(1,376,200)	(982,600)
Purchases of Marketable Securities	(4,648,235)	(2,408,500)
Redemption of Marketable Securities	2,460,000	3,266,100
Net Cash Used by Investing Activities	(3,564,435)	(125,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of Debt	(346,600)	(81,900)
Proceeds from Debt	300,000	-
Member Contributions in Aid of Construction	126,000	227,700
Net Cash Provided by Financing Activities	79,400	145,800
INCREASE (DECREASE) IN CASH AND EQUIVALENTS	(1,209,600)	2,753,200
Cash and Equivalents at Beginning of Year	4,357,300	1,604,100
CASH AND EQUIVALENTS AT END OF YEAR	\$ 3,147,700	\$ 4,357,300
Cash and Cash Equivalents	\$ 2,660,400	\$ 3,293,100
Cash and Cash Equivalents - Board-Restricted	483,200	785,400
Cash and Cash Equivalents - Restricted	4,100	278,800
Total	\$ 3,147,700	\$ 4,357,300

See accompanying Notes to Financial Statements.

THE ISLAND WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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, 2022 and 2021.

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.

THE ISLAND WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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, 2022 and 2021. 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 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, 2022, 2021, and 2020 were \$166,900, \$498,400, and \$476,600, 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, 2022, 2021, and 2020 were \$634,100, \$359,400, 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, 2022 and 2021 was \$16,100 and \$7,800, 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.

THE ISLAND WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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, 2022 and 2021, 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 9 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.

THE ISLAND WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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.

Subsequent Events

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through April 24, 2023, the date the financial statements were available to be issued.

THE ISLAND WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

The Association determines if an arrangement is a lease at inception. As of December 31, 2022 and 2021, the Association has not entered into any material leases. However, if an arrangement should be identified as a material lease, operating leases would be included in right-of-use (ROU) assets – operating and lease liability – operating, and finance leases would be included in right-of-use assets – financing and lease liability – financing in the balance sheet.

ROU assets represent the Association's right to use an underlying asset for the lease term and lease liabilities represent the Association's obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Association will exercise that option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term. The Association has elected to recognize payments for short-term leases with a lease term of 12 months or less as expense as incurred and these leases will not be included as lease liabilities or ROU assets on the balance sheet.

Individual lease contracts may not provide information about the discount rate implicit in the lease. In these instances, the Association has elected to use a risk-free discount rate determined using a period comparable with that of the lease term for computing the present value of the lease liabilities.

The Association has elected not to separate nonlease components from lease components and instead will account for each separate lease component and the nonlease component as a single lease component.

NOTE 2 ADOPTION OF NEW ACCOUNTING STANDARDS

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, *Leases (Topic 842)*. This new standard increases transparency and comparability among organizations by requiring the recognition of ROU assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

THE ISLAND WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 2 ADOPTION OF NEW ACCOUNTING STANDARDS (CONTINUED)

The Association adopted the requirements of the guidance effective January 1, 2022, and has elected to apply the provisions of this standard to the beginning of the earliest comparative period presented.

The Association has elected to adopt the package of practical expedients available in the year of adoption. The Association has elected to adopt the available practical expedient to use hindsight in determining the lease term and in assessing impairment of the Association's ROU assets.

The adoption of the new standard resulted in no material changes to the financial statements as of December 31, 2022 and 2021.

NOTE 3 UTILITY PLANT IN SERVICE

Utility plant in service consists of the following:

	2022	2021
Source of Supply Plant	\$ 10,230,400	\$ 9,834,900
Pumping Plant	1,169,200	1,155,300
Water Treatment Plant	14,279,800	13,695,500
Transmission and Distribution Plant	26,474,600	26,149,600
General Plant	4,651,800	4,596,700
Construction WIP	225,500	208,300
Total	<u>\$ 57,031,300</u>	<u>\$ 55,640,300</u>

NOTE 4 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.

	2022			
	Level 1	Level 2	Level 3	Total
United States Treasury Securities	<u>\$ 9,472,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,472,000</u>
	2021			
	Level 1	Level 2	Level 3	Total
United States Treasury Securities	<u>\$ 7,625,200</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,625,200</u>

There were net unrealized holding losses of \$342,500 and \$265,800 as of December 31, 2022 and 2021, respectively.

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NOTE 4 MARKETABLE SECURITIES (CONTINUED)

Marketable securities are classified as follows as of December 31:

	<u>2022</u>	<u>2021</u>
Board-Restricted Assets		
Reserve Fund, Marketable Securities	\$ 8,866,500	\$ 7,295,200
Restricted Assets		
Marketable Securities	<u>605,500</u>	<u>330,000</u>
Total	<u>\$ 9,472,000</u>	<u>\$ 7,625,200</u>

NOTE 5 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, 2022 and 2021, \$9,349,700 and \$7,295,000, 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:

	<u>2022</u>	<u>2021</u>
Cash and Cash Equivalents	\$ 2,660,400	\$ 3,293,100
Accounts Receivable	166,900	498,400
Unbilled Revenue	<u>634,100</u>	<u>359,400</u>
Total	<u>\$ 3,461,400</u>	<u>\$ 4,150,900</u>

NOTE 6 DEPARTMENT OF ENVIRONMENTAL PROTECTION

The Association operates a deep injection well as a disposal site for its brine wastewater. 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 \$609,600 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, 2022 and 2021, the Association had accrued \$288,800, and \$274,600 for the accreted disposal liability.

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NOTE 7 LONG-TERM DEBT

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

<u>Description</u>	<u>2022</u>	<u>2021</u>
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
3.95% Note Payable with interest payments due monthly for 83 months. The full note is due paid in full in June 2029.	<u>\$ 300,000</u>	<u>\$ -</u>
Subtotal	300,000	346,600
Less: Current Maturities	<u>-</u>	<u>(86,300)</u>
Total	<u><u>\$ 300,000</u></u>	<u><u>\$ 260,300</u></u>

Maturities of long-term debt as of December 31, 2022 are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2023	\$ -
2024	-
2025	-
2026	-
2027	-
Thereafter	<u>300,000</u>
Total	<u><u>\$ 300,000</u></u>

NOTE 8 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 2022 and 2021 were approximately \$159,800 and \$139,700, respectively, for this portion of the plan.

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NOTE 8 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, 2022 and 2021, the Association recorded expense for the matching contributions of \$152,900 and \$131,900, respectively.

NOTE 9 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, 2022 and 2021, 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.

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NOTE 9 POSTRETIREMENT BENEFIT PLAN (CONTINUED)

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

	<u>2022</u>	<u>2021</u>
Beginning of the Year:	\$ 356,500	\$ 402,200
Increase for Annual Cost of Benefit	-	-
Interest Cost	8,500	8,000
Assumption Changes	(62,900)	(20,800)
Actuarial (Gain) Loss, including Effect of Change in Discount Rate	(14,100)	(18,200)
Benefit Payments Made	(17,200)	(14,700)
Plan Amendments	-	-
End of the Year	<u>\$ 270,800</u>	<u>\$ 356,500</u>

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

	<u>2022</u>	<u>2021</u>
Beginning of the Year:	\$ 328,200	\$ 307,200
Actuarial Gain (Loss), including Effect of Change in Discount Rate	77,100	39,000
Reduction due to employee turnover	-	-
Amortization of Actuarial Gain Loss	(20,500)	(18,000)
Change in Prior Service Cost	-	-
Amortization of Transition Obligation/Past Service Costs	-	-
End of the Year	<u>\$ 384,800</u>	<u>\$ 328,200</u>

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:

	<u>2022</u>	<u>2021</u>
Current Year Charges	\$ 8,500	\$ 8,000
Amortization of Transition Obligation	-	-
Amortization of Actuarial Loss	(20,500)	(18,000)
Net Post Retirement Benefit Costs	<u>\$ (12,000)</u>	<u>\$ (10,000)</u>

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NOTE 9 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:

	<u>2022</u>	<u>2021</u>
Actuarial Gain	\$ 384,800	\$ 328,200
Prior Service Cost	-	-
Net Transition Obligation	-	-
Total Amounts Not Yet Recognized	<u>\$ 384,800</u>	<u>\$ 328,200</u>

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

	<u>2022</u>	<u>2021</u>
Amortization of Actuarial Loss	\$ (20,500)	\$ (18,000)
Amortization of Transition Obligation	-	-
Total	<u>\$ (20,500)</u>	<u>\$ (18,000)</u>

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:

	<u>2022</u>	<u>2021</u>
Discount Rate for Obligations	4.89%	2.06%
Health Care Cost Trend Rate	5.20%	4.50%
*Ultimate Trend Rate	3.90%	3.80%

Assumptions used to determine postretirement benefit obligations at December 31:

	<u>2022</u>	<u>2021</u>
Discount Rate for Obligations	2.48%	2.48%
Health Care Cost Trend Rate	4.70%	4.70%
*Ultimate Trend Rate	3.70%	3.70%

*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, 2022 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):

<u>Year Ending December 31,</u>	<u>Amount</u>
2023	\$ 20,461
2024	20,864
2025	21,192
2026	21,413
2027	21,538
2028-2032	106,381