THE ISLAND WATER ASSOCIATION, INC.

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

THE ISLAND WATER ASSOCIATION, INC.
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

CliftonLarsonAllen LLP
CLAconnect.com

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, 2019 and 2018, and the related statements of operations and system investment; 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.

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.

Auditors' 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 auditors' 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.

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

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, 2019 and 2018, 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Fort Myers, Florida
March 12, 2020

THE ISLAND WATER ASSOCIATION, INC.
BALANCE SHEETS
DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
PLANT PROPERTY		
Utility Plant in Service	$ 53,660,100	$ 52,860,500
Less: Accumulated Depreciation	(29,096,600)	(28,132,700)
Net Plant Property	24,563,500	24,727,800
CURRENT ASSETS		
Cash and Cash Equivalents	2,348,100	1,573,500
Accounts Receivable	506,500	544,600
Unbilled Revenue	387,300	374,200
Prepayments and Other	175,900	174,200
Total Current Assets	3,417,800	2,666,500
INVESTMENTS		
Participation Certificates	222,900	234,900
BOARD RESTRICTED ASSETS		
Reserve Fund, Cash Equivalents	605,300	156,500
Reserve Fund, Marketable Securities	7,205,500	6,857,700
Total Board Restricted Assets	7,810,800	7,014,200
RESTRICTED ASSETS		
Cash Equivalents	22,700	15,400
Marketable Securities	576,700	565,800
Total Restricted Assets	599,400	581,200
Total Assets	$ 36,614,400	$ 35,224,600

See accompanying Notes to Financial Statements.

THE ISLAND WATER ASSOCIATION, INC.
BALANCE SHEETS (CONTINUED)
DECEMBER 31, 2019 AND 2018

CAPITALIZATION, LIABILITIES, AND MEMBERS' CONTRIBUTIONS	2019	2018
CAPITALIZATION		
Net Revenues Reinvested in the Water System	$ 16,065,800	$ 14,579,900
Members' Contribution in Aid of Construction (CIAC)	16,772,500	16,588,200
Other Comprehensive Income (Loss)	298,200	307,300
Total Capitalization	33,136,500	31,475,400
LONG-TERM LIABILITIES		
Injection Well Liability	263,600	206,500
Postretirement Benefit Plan Obligation	436,500	445,100
Long-Term Debt, Less Current Maturities	2,046,500	2,244,000
Total Long-Term Liabilities	2,746,600	2,895,600
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	198,200	194,700
Accounts Payable and Accrued Expenses	533,100	658,900
Total Current Liabilities	731,300	853,600
Total Capitalization, Liabilities, and Members' Contributions	$ 36,614,400	$ 35,224,600

See accompanying Notes to Financial Statements.

THE ISLAND WATER ASSOCIATION, INC.
STATEMENTS OF OPERATIONS AND SYSTEM INVESTMENT
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
OPERATING INCOME	$ 7,614,700	$ 7,507,500
OPERATING COSTS		
Operations	3,715,800	3,791,500
Maintenance	1,151,700	1,131,000
Administration	1,563,400	2,112,200
Total Operating Costs	6,430,900	7,034,700
Net Operating Income	1,183,800	472,800
OTHER INCOME		
Interest and Earnings from Investments	314,800	128,400
Other Income	109,200	87,000
Gain on Curtailment of Postretirement Benefit Plan Obligation	-	3,198,200
Total Other Income	424,000	3,413,600
Income Before Interest Charges	1,607,800	3,886,400
INTEREST CHARGES ON LONG-TERM DEBT	129,800	145,900
Less: Interest Capitalized into Capital Projects	(7,900)	(35,900)
Total Interest Charges	121,900	110,000
Net Income	1,485,900	3,776,400
NET REVENUES REINVESTED IN THE WATER SYSTEM		
Beginning of Year	14,579,900	10,803,500
End of Year	$ 16,065,800	$ 14,579,900

See accompanying Notes to Financial Statements.

THE ISLAND WATER ASSOCIATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2019

	Operations	Maintenance	Administration	Totals
Salaries and Wages	$ 931,100	$ 703,000	$ 743,100	$ 2,377,200
Employee Benefits	592,900	101,000	211,500	905,400
Payroll Taxes	105,800	13,800	51,800	171,400
Insurance	-	-	197,100	197,100
Electricity and LP Gas	532,600	-	13,400	546,000
Chemicals	434,700	-	-	434,700
Supplies	79,500	161,900	41,900	283,300
Repairs and Maintenance	-	-	69,900	69,900
Depreciation	1,012,700	-	-	1,012,700
Professional Fees	-	-	121,100	121,100
Contract Services	-	127,200	-	127,200
Travel and Training	14,900	7,700	4,300	26,900
Meetings	-	-	9,900	9,900
Telephone and Internet	-	-	51,200	51,200
Vehicle Expenses and Fuel	5,200	37,100	-	42,300
Permits and Fees	6,400	-	-	6,400
Dues and Subscriptions	-	-	4,200	4,200
Other Miscellaneous	-	-	44,000	44,000
Total Functional Expenses	$ 3,715,800	$ 1,151,700	$ 1,563,400	$ 6,430,900

See accompanying Notes to Financial Statements.

THE ISLAND WATER ASSOCIATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018

	Operations	Maintenance	Administration	Totals
Salaries and Wages	$ 917,200	$ 765,100	$ 739,500	$ 2,421,800
Employee Benefits	749,900	100,700	687,000	1,537,600
Payroll Taxes	104,800	16,500	54,600	175,900
Insurance	-	-	230,200	230,200
Electricity and LP Gas	551,500	-	13,000	564,500
Chemicals	420,900	-	-	420,900
Supplies	77,300	131,800	47,800	256,900
Repairs and Maintenance	-	-	65,300	65,300
Depreciation	942,200	-	-	942,200
Professional Fees	-	-	127,600	127,600
Contract Services	-	77,500	-	77,500
Travel and Training	13,900	6,000	4,900	24,800
Meetings	-	-	10,200	10,200
Telephone and Internet	-	-	41,500	41,500
Vehicle Expenses and Fuel	6,000	33,400	-	39,400
Permits and Fees	7,800	-	-	7,800
Dues and Subscriptions	-	-	3,600	3,600
Other Miscellaneous	-	-	87,000	87,000
Total Functional Expenses	$ 3,791,500	$ 1,131,000	$ 2,112,200	$ 7,034,700

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, 2019 AND 2018

	System Investment	Members' Contribution in Aid of Construction	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE - DECEMBER 31, 2017	$ 10,803,500	$ 16,376,100	$ (753,300)	$ 26,426,300
Net Income for 2018	3,776,400	-	-	3,776,400
New Members	-	103,600	-	103,600
Meter Upgrades	-	107,200	-	107,200
Reconnections	-	1,300	-	1,300
Comprehensive Income: Actuarial Gain, including Effect of Change in Discount Rate	-	-	1,003,900	1,003,900
Amortization of Actuarial Loss	-	-	28,800	28,800
Change in Prior Service Cost	-	-	2,700	2,700
Amortization of Transition Obligation	-	-	25,200	25,200
Total	3,776,400	212,100	1,060,600	5,049,100
BALANCE - DECEMBER 31, 2018	14,579,900	16,588,200	307,300	31,475,400
Net Income for 2019	1,485,900	-	-	1,485,900
New Members	-	97,500	-	97,500
Meter Upgrades	-	86,800	-	86,800
Comprehensive Income: Actuarial Gain, including Effect of Change in Discount Rate	-	-	5,200	5,200
Amortization of Actuarial Gain	-	-	(14,300)	(14,300)
Total	1,485,900	184,300	(9,100)	1,661,100
BALANCE - DECEMBER 31, 2019	$ 16,065,800	$ 16,772,500	$ 298,200	$ 33,136,500

See accompanying Notes to Financial Statements.

THE ISLAND WATER ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received - Customers and Operating Activities	$ 7,760,900	$ 7,504,000
Cash Paid to Suppliers and Employees	(5,509,100)	(5,796,600)
Earnings from Investments	127,100	121,400
Interest Paid (Net of Amount Capitalized)	(121,900)	(98,300)
Net Cash Provided by Operating Activities	2,257,000	1,730,500
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital Expenditures (Including Capitalized Interest of $7,900 and $35,900 for 2019 and 2018, Respectively)	(845,600)	(1,336,300)
Purchases of Marketable Securities	(1,221,000)	(1,721,100)
Redemption of Marketable Securities	1,050,000	1,225,000
Net Cash Used by Investing Activities	(1,016,600)	(1,832,400)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of Debt	(194,000)	(190,500)
Member Contributions in Aid of Construction	184,300	212,100
Net Cash Provided (Used) by Financing Activities	(9,700)	21,600
INCREASE (DECREASE) IN CASH AND EQUIVALENTS	1,230,700	(80,300)
Cash and Equivalents at Beginning of Year	1,745,400	1,825,700
CASH AND EQUIVALENTS AT END OF YEAR	$ 2,976,100	$ 1,745,400
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Increases to Utility Plant in Service through Accounts Payable	$ 9,500	$ 73,300
Cash and Cash Equivalents	$ 2,348,100	$ 1,573,500
Cash and Cash Equivalents - Board Restricted	605,300	156,500
Cash and Cash Equivalents - Restricted	22,700	15,400
Total	$ 2,976,100	$ 1,745,400

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, 2019 and 2018.

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, 2019 and 2018. 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.

Unbilled Revenues

Unbilled revenues represent estimated revenues between the last dates of the cycle billings and year-end.

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, 2019 and 2018 was $7,900 and $35,900, 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, 2019 and 2018, 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 PRINCIPLES (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 March 12, 2020, the date the financial statements were available to be issued.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONTINUED)

Adoption of New Accounting Standards

In 2019, the Association adopted Financial Accounting Standards Board's Accounting Standards Codification Topic 606, *Revenues from Contracts with Customers*, which requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. There was no material impact on the Association's financial position and results of operations upon adoption of the new standard.

NOTE 2 UTILITY PLANT IN SERVICE

Utility plant in service consists of the following:

	2019	2018
Source of Supply Plant	$ 9,418,000	$ 9,260,700
Pumping Plant	1,155,300	1,155,300
Water Treatment Plant	12,877,200	12,640,200
Transmission and Distribution Plant	25,779,000	25,455,400
General Plant	4,430,600	4,345,400
Total	$ 53,660,100	$ 52,860,500

NOTE 3 MARKETABLE SECURITIES

Marketable securities are comprised of the following at December 31, 2019 and 2018:

	2019	2018
United States Treasury Securities	$ 7,782,200	$ 7,423,400

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, 2019 and 2018.

	2019			
	Level 1	Level 2	Level 3	Total
United States Treasury Securities	$ 7,782,200	$ -	$ -	$ 7,782,200

	2018			
	Level 1	Level 2	Level 3	Total
United States Treasury Securities	$ 7,423,400	$ -	$ -	$ 7,423,400

There were net unrealized holding gains and losses on United States Treasury Securities. There were net unrealized holding gains of $181,900 and net unrealized holding losses of $13,900 at December 31, 2019 and 2018, respectively.

NOTE 3 MARKETABLE SECURITIES (CONTINUED)

Marketable securities as of December 31, 2019 and 2018 are classified as follows:

	2019	2018
Board Restricted Assets		
Reserve Fund, Marketable Securities	$ 7,205,500	$ 6,857,700
Restricted Assets		
Marketable Securities	576,700	565,800
Total	$ 7,782,200	$ 7,423,500

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, 2019 and 2018, $7,205,500 and $6,857,700, 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:

	2019	2018
Cash and Cash Equivalents	$ 2,348,100	$ 1,573,500
Accounts Receivable	506,500	544,600
Unbilled Revenue	387,300	374,200
Total	$ 3,241,900	$ 2,492,300

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 $576,700 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 $430,500 liability for the anticipated cost of plugging this well in 2031.

As of December 31, 2019 and 2018, the Association had accrued $263,600 and $206,500, respectively, 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	2019	2018
6.75% mortgage note payable which financed the drilling of a deep injection well, monthly principal payment of $10,000 plus interest; final payment due December 2024	$ 600,000	$ 720,000
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	1,644,700	1,718,700
Subtotal	2,244,700	2,438,700
Less: Current Maturities	(198,200)	(194,700)
Total	$ 2,046,500	$ 2,244,000

Maturities of long-term debt as of December 31, 2019 are as follows:

Year Ending December 31,	Amount
2020	$ 198,200
2021	202,100
2022	206,300
2023	210,700
2024	215,300
Thereafter	1,212,100
Total	$ 2,244,700

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.

NOTE 6 LONG-TERM DEBT (CONTINUED)

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 loan agreements provide for a penalty if the loans are paid off prior to maturity. The penalty approximates the net present value of the difference between current market interest rates and the debt's stated rate. At December 31, 2019 and 2018, the approximate amount of the penalty was $255,600 and $148,400, respectively.

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 10% of each employee's salary. The Association's contributions for 2019 and 2018 were approximately $201,000 and $222,800, respectively, for this portion of the plan.

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 14% of gross pay. For the years ended December 31, 2019 and 2018, the Association recorded expense for the matching contributions of $140,700 and $161,300, 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.

The discontinuance of this benefit to current employees resulted in a curtailment gain of $3,198,200 in 2018.

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, 2019 and 2018, 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:

	2019	2018
Beginning of the Year:	$ 445,100	$ 4,320,400
Increase for Annual Cost of Benefit	-	210,000
Interest Cost	17,600	154,500
Assumption Changes	31,500	(443,800)
Actuarial (Gain) Loss, including Effect of Change in Discount Rate	(36,600)	(560,100)
Benefit Payments Made	(21,100)	(37,700)
Plan Amendments	-	(3,198,200)
End of the Year	$ 436,500	$ 445,100

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

	2019	2018
Beginning of the Year:	$ 307,300	$ (753,300)
Actuarial Gain (Loss), including Effect of Change in Discount Rate	5,200	1,003,900
Reduction due to employee turnover		
Amortization of Actuarial Gain (Loss)	(14,300)	28,800
Change in Prior Service Cost	-	2,700
Amortization of Transition Obligation/Past Service Costs	-	25,200
End of the Year	$ 298,200	$ 307,300

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:

	2019	2018
Current Year Charges	$ 17,600	$ 364,500
Amortization of Transition Obligation	-	25,200
Amortization of Actuarial Gain (Loss)	(14,300)	28,800
Net Post Retirement Benefit Costs	$ 3,300	$ 418,500

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:

	2019	2018
Actuarial Gain (Loss)	$ 298,200	$ 307,300
Prior Service Cost	-	-
Net Transition Obligation	-	-
Total Amounts Not Yet Recognized	$ 298,200	$ 307,300

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

	2019	2018
Amortization of Actuarial Gain (Loss)	$ (14,300)	$ 28,800
Amortization of Transition Obligation	-	-
Total	$ (14,300)	$ 28,800

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:

	2019	2018
Discount Rate for Obligations	4.07%	3.61%
Health Care Cost Trend Rate	5.10%	6.90%
*Ultimate Trend Rate	4.00%	4.51%

Assumptions used to determine postretirement benefit obligations at December 31:

	2019	2018
Discount Rate for Obligations	2.96%	4.07%
Health Care Cost Trend Rate	5.10%	5.10%
*Ultimate Trend Rate	4.00%	4.00%

*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, 2019 is expected to be achieved in 2075.

NOTE 8 POSTRETIREMENT BENEFIT PLAN (CONTINUED)

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
2020	$ 21,200
2021	21,800
2022	22,400
2023	23,000
2024	23,500
2025-2029	123,400

The effect of a one-percentage change in the Health Care Trend Rate follows:

	Based on Fiscal 2019 Trend Rates	Based on 1% Higher Trend Rates	Based on 1% Lower Trend Rates
Effect on the service and interest cost components of the fiscal 2019 benefit cost			
Service Cost	$ -	$ -	$ -
Interest Cost	17,630	19,869	15,729
Total	$ 17,630	$ 19,869	$ 15,729
Effect on the December 31, 2019 accumulated postretirement benefit obligation			
For Retirees and their Dependents	$ 436,497	$ 488,396	$ 392,116
For Other Fully Eligible Participants	-	-	-
For Other Active Plan Participants	-	-	-
Total	$ 436,497	$ 488,396	$ 392,116

NOTE 9 SUBSEQUENT EVENT

In January 2020, the Association paid off the balance of the Co-Bank mortgage note payable that was due in December 2024. The total payment of $656,200 included $590,000 in principal and $66,200 in prepayment penalties. In addition, the Association also made payments in the total amount of $1,310,700, including $1,138,400 in principal and $172,300 in prepayment penalties, on the Co-Bank mortgage note payable due in August 2034 to pay down the principal balance to $500,000.