GASPARILLA ISLAND WATER ASSOCIATION, INC.

FINANCIAL STATEMENTS FOR THE

YEARS ENDED SEPTEMBER 30, 2020 AND 2019

AND

INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Gasparilla Island Water Association, Inc., which comprise the balance sheets as of September 30, 2020 and 2019, and the related statements of revenue and expenses, changes in equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gasparilla Island Water Association, Inc. as of September 30, 2020 and 2019, and the changes in its equity and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules on pages 17 and 18 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Suplee Shea Cramer & Rocklein, P.A.

SUPLEE, SHEA, CRAMER, & ROCKLEIN, P.A.
Sarasota, FL
January 15, 2021

GASPARILLA ISLAND WATER ASSOCIATION, INC.

BALANCE SHEETS

SEPTEMBER 30, 2020 AND 2019

Assets

	2020	2019
UTILITY PLANT		
Property, plant and equipment, at cost	$ 35,650,087	$ 34,606,705
Less accumulated depreciation	19,375,846	18,338,480
Net property, plant and equipment	16,274,241	16,268,225
Construction in progress	4,927,302	2,582,184
Total Utility Plant	21,201,543	18,850,409
CURRENT ASSETS		
Cash and cash equivalents	5,232,767	1,474,120
Accounts receivable, members	460,112	477,770
Inventory	165,038	100,008
Other current assets	398,765	358,085
Total Current Assets	6,256,682	2,409,983
RESTRICTED ASSETS, cash and cash equivalents	1,089,605	1,079,153
DEFERRED CHARGES AND OTHER ASSETS		
Non-marketable participation certificates	346,678	372,260
Unamortized regulatory expenses	199,677	142,838
Utility deposits	2,438	2,438
Total Deferred Charges and Other Assets	548,793	517,536
TOTAL ASSETS	$ 29,096,623	$ 22,857,081

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

GASPARILLA ISLAND WATER ASSOCIATION, INC.

BALANCE SHEETS (continued)

SEPTEMBER 30, 2020 AND 2019

Equity and Liabilities

	2020	2019
EQUITY		
Members' contributions	$ 6,042,927	$ 5,843,929
Developers' contributions	894,792	952,810
Retained earnings:		
Board designated for capital improvements	8,833,065	7,279,528
Total Equity	15,770,784	14,076,267
LONG-TERM LIABILITIES		
Notes payable, net of current portion	12,104,498	7,858,935
Less: unamortized debt issuance costs	(157,047)	(170,524)
Net notes payable	11,947,451	7,688,411
CURRENT LIABILITIES		
Current portion of notes payable	704,582	681,883
Accounts payable, trade	228,188	171,707
Accounts payable, construction in progress	311,015	121,812
Accrued interest	33,844	27,037
Accrued wages	21,874	12,260
Total Current Liabilities	1,299,503	1,014,699
Deposits payable from restricted assets	78,885	77,704
Total Liabilities	13,325,839	8,780,814
TOTAL EQUITY AND LIABILITIES	$ 29,096,623	$ 22,857,081

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

GASPARILLA ISLAND WATER ASSOCIATION, INC.

STATEMENTS OF REVENUES AND EXPENSES

FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

	2020	2019
OPERATING REVENUES		
Water services	$ 4,026,613	$ 3,663,927
Sewer services	1,947,186	1,770,377
Water hook-up fees	10,500	4,000
Sewer hook-up fees	6,620	2,040
Total Operating Revenues	5,990,919	5,440,344
OPERATING EXPENSES		
Water system	1,270,143	1,346,541
Sewer system	950,881	1,026,705
General and administrative	929,080	956,148
Depreciation	1,151,241	1,086,448
Total Operating Expenses	4,301,345	4,415,842
Operating Income	1,689,574	1,024,502
OTHER REVENUES (EXPENSES)		
Interest income	20,502	26,162
Patronage dividends	32,079	17,924
Capital improvement assessment	5,052	6,136
Interest expense and amortization of debt expenses	(203,115)	(188,746)
Membership fees	900	420
Gain (loss) on disposal of assets	(6,215)	18,983
Other income	14,760	13,498
Total Other Revenues (Expenses)	(136,037)	(105,623)
EXCESS OF REVENUES OVER EXPENSES	$ 1,553,537	$ 918,879

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

GASPARILLA ISLAND WATER ASSOCIATION, INC.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

	Contributed Capital in Aid of Construction			
	Members' Contributions	Developers' Contributions	Retained Earnings	Total
Balance, September 30, 2018	$ 5,785,321	$ 1,010,841	$ 6,360,649	$ 13,156,811
Contributions received	58,608	-	-	58,608
Amortization of developers' contributions	-	(58,031)	-	(58,031)
Excess of Revenues over Expenses	-	-	918,879	918,879
Balance, September 30, 2019	$ 5,843,929	$ 952,810	$ 7,279,528	$ 14,076,267
Contributions received	198,998	-	-	198,998
Amortization of developers' contributions	-	(58,018)	-	(58,018)
Excess of Revenues over Expenses	-	-	1,553,537	1,553,537
Balance, September 30, 2020	$ 6,042,927	$ 894,792	$ 8,833,065	$ 15,770,784

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

GASPARILLA ISLAND WATER ASSOCIATION, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

	2020	2019
Cash flows from operating activities:		
Excess of revenues over expenses	$ 1,553,537	$ 918,879
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation	1,151,241	1,086,448
Amortization	62,938	61,754
(Gain) loss on disposal of assets	6,215	(18,983)
Patronage equity distributions	(11,406)	(7,169)
Changes in assets and liabilities		
(Increase) decrease in accounts receivable, members	17,658	(84,073)
(Increase) decrease in inventory	(65,030)	14,849
Increase in other current assets	(40,680)	4,517
Increase in unamortized regulatory expenses	(106,300)	(98,350)
(Increase) decrease in utility deposits	-	180
Increase (decrease) in accounts payable, trade	56,481	(30,672)
Increase (decrease) in other liabilities	16,421	4,422
Increase in deposits payable from restricted assets	1,181	501
Total adjustments	1,088,719	933,424
Net cash provided by operating activities	2,642,256	1,852,303
Cash flows from investing activities:		
Patronage equity retirement payment	36,988	43,088
Proceeds from the disposition of assets	2,500	60,000
Capital expenditures	(3,379,905)	(3,399,981)
Net cash used by investing activities	$ (3,340,417)	$ (3,296,893)

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

GASPARILLA ISLAND WATER ASSOCIATION, INC.

STATEMENTS OF CASH FLOWS (continued)

FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

	2020	2019
Cash flows from financing activities:		
Repayment of long-term debt	$ (631,088)	$ (810,612)
Proceeds from financing	4,899,350	2,600,650
Contributed capital in aid of construction	198,998	58,608
Net cash provided (used) by financing activities	4,467,260	1,848,646
Increase in cash and cash equivalents	3,769,099	404,056
Cash transferred to restricted funds	(10,452)	(941,001)
Net increase (decrease) in cash and cash equivalents	3,758,647	(536,945)
Cash and cash equivalents at beginning of year	1,474,120	2,011,065
Cash and cash equivalents at end of year	$ 5,232,767	$ 1,474,120

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

GASPARILLA ISLAND WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2020 AND 2019

Note 1 - Organization and Significant Accounting Policies

Organization

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

Significant Accounting Policies

Basis of Accounting

The financial statements of the Association have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Accounts Receivable

Management has determined the amount of uncollectible accounts to be de minimis; therefore, no provision has been made for uncollectible accounts as of September 30, 2020 and 2019. An account is considered past due ten days after the due date. Past due accounts are charged interest at 18% per annum.

Inventory

Inventory is stated at the lower of cost (first-in, first-out) or net realizable value. Inventory consists of supplies and materials to maintain the Association's equipment.

Income Taxes

No provision has been made for income taxes. The Association is a tax-exempt organization under IRC Section 501(c)(12), whereby only unrelated business income is subject to income tax. For the fiscal years ended September 30, 2020 and 2019, the Association's entire gross income has come under Section 115(a) and, therefore, includes no unrelated business income.

ASC Topic 740 requires the Organization to recognize in the financial statements the impact of a tax position, if that position is more likely than not of being sustained on audit, based on technical merits of the position. The Organization has determined that it does not have any material unrecognized tax benefits or obligations as of September 30, 2020 and 2019.

The Association files a U.S. Federal information return of an organization exempt from income tax (Form 990). The Federal returns for the tax years 2017 through 2019 remain subject to examination by the Internal Revenue Service.

Utility Plant

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

Note 1 - Organization and Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

Revenue Recognition

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

Deferred Charges

Costs associated with procuring loans and certain regulatory expenses are recorded as deferred charges when incurred and are amortized over the life of the related loan or regulatory permits.

Use of Estimates

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

Note 2 - Utility Plant

Details of the utility plant at September 30, 2020 and 2019 are as follows:

	2020	2019
Land	$ 459,174	$ 459,174
Utility plant in service	34,377,532	33,351,040
Automotive equipment	433,218	439,268
Office building	96,383	92,073
Office furniture and fixtures	81,937	77,087
Tools	201,843	188,063
	35,650,087	34,606,705
Less accumulated depreciation	19,375,846	18,338,480
	16,274,241	16,268,225
Construction in progress	4,927,302	2,582,184
	$ 21,201,543	$ 18,850,409

Depreciation expense for the years ended September 30, 2020 and 2019 was $1,151,241 and $1,086,448, respectively.

Note 3 - Capitalization of Interest

The Association follows the policy of capitalizing interest as a component of the cost of the utility plant constructed for its own use. Total interest incurred was $222,149 for 2020 and $230,983 for 2019, of which $32,510 and $56,504 was capitalized in 2020 and 2019, respectively.

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

Note 4 – Unamortized Regulatory Expenses

The Organization is required to carry certain regulatory permits that are amortized over the life of the permit. The Organization's unamortized regulatory expenses for the years ended September 30, 2020 and 2019 are as follows:

	2020	2019
Unamortized regulatory expenses	$ 285,128	$ 269,451
Less: accumulated amortization	85,451	126,613
	$ 199,677	$ 142,838

Expected amortization expense for each of the five succeeding years are as follows:

2021	$ 60,922
2022	45,457
2023	40,402
2024	36,933
2025	15,963
	$ 199,677

Note 5 - Restricted Assets

Details of restricted cash and equivalents as of September 30, 2020 and 2019 are as follows:

	2020	2019
Customer deposits	$ 78,885	$ 77,704
Debt service reserve	1,010,720	1,001,449
	$ 1,089,605	$ 1,079,153

Note 6 - Long-Term Debt

Following is a summary of long-term debt at September 30, 2020 and 2019:

	2020	2019
Mortgage note payable to CoBank, ACB, in the original principal amount of $2,200,000. Interest payable monthly under fixed rate option, currently 7.11%. Principal repayable in 240 consecutive monthly installments beginning January 20, 2002 and ending December 20, 2021. Secured by all accounts, inventory, equipment, land, buildings and improvements, structures, and income.	246,885	427,317

Note 6 - Long-Term Debt (continued)

Mortgage note payable to CoBank, ACB, in the original principal amount of $1,500,000. Interest payable monthly under a fixed rate option, currently 6.99%. Principal repayable in 228 consecutive monthly installments beginning January 20, 2005 and ending December 20, 2023. Secured by all accounts, inventory, equipment, land, buildings and improvements, structures, and income.	343,347	440,335
Mortgage note payable to CoBank, ACB, in the original principal amount of $1,500,000. As of September 2010, interest is payable monthly at a fixed rate of 4.62%. Principal repayable in 186 consecutive monthly installments beginning June 20, 2009 and ending November 20, 2024. Secured by all accounts, inventory, equipment, land, buildings and improvements, structures, and income.	522,822	632,939
Promissory note payable to Florida Department of Environmental Protection in an aggregate principal amount not to exceed $5,225,021. Promissory note transitioned into a mortgage note payable on August 1, 2017. Interest payable semiannually at a fixed rate of 1.16%. Principal repayable in 40 consecutive semiannual installments beginning July 15, 2018. Secured by all accounts, inventory, equipment, land, buildings and improvements, structures, and income.	4,196,026	4,439,577
Multiple advance term promissory note payable to CoBank, ACB, in an aggregate principal amount not to exceed $16,000,000 to finance system capital expenditures and related closing costs available to August 31, 2022. Principal and interest payable in 300 consecutive monthly installments beginning September 20, 2022 at a fixed rate of 3.75%. Secured by all accounts, inventory, land, buildings and improvements, structures, income and a financial interest in a debt service reserve amounting to $1,010,720 as of September 30, 2020.	7,500,000	2,600,650
Total long-term debt	12,809,080	8,540,818
Less current maturities	(704,582)	(681,883)
Less unamortized debt expense	(157,047)	(170,524)
	$ 11,947,451	$ 7,688,411

Note 6 - Long-Term Debt (continued)

Maturities of long-term debt for each of the five succeeding years are as follows:

2020	$ 704,582
2021	599,408
2022	831,575
2023	756,807
2024	617,412
Thereafter	9,299,296
	$ 12,809,080

Debt issuance costs associated with the Organization's notes payable are being amortized over the notes expected life. The Organization's unamortized debt issuance costs for the years ended September 30, 2020 and 2019 are as follows:

	2020	2019
Loan Costs	$ 265,873	$ 265,873
Less: accumulated amortization	108,826	95,349
	$ 157,047	$ 170,524

Expected amortization expense for each of the five succeeding years are as follows:

2019	$ 11,421
2020	11,421
2021	11,421
2022	11,421
2023	11,421
Thereafter	99,942
	$ 157,047

Line of Credit

The Association has an agreement with CoBank, ACB for an unsecured line of credit in the amount of $363,750, expires May 31, 2021. As of September 30, 2020 and 2019, there was $-0- drawn on this line.

Loan Covenants

The terms of the Organization's financing agreements contain certain covenants, the most restrictive of which is the maintenance of certain financial ratios. The Organization was in compliance with these covenants for the fiscal years ended September 30, 2020 and 2019.

Note 7 - Contributions in Aid of Construction

Monies received as connection fees for hooking up to the Association's system obligate the Association to provide services; however, the Association is under no obligation to refund or return any part of these monies. For the years ended September 30, 2020 and 2019, a portion of this fee was recognized as income to offset the expenses involved with this connection. Total connection fees recognized as income for the years ended September 30, 2020 and 2019 were $17,120 and $6,040, respectively. The remaining portions of the connection fees are recorded as contributed capital in aid of construction in the amounts of $198,998 and $58,608 for the years ended September 30, 2020 and 2019, respectively. System facilities constructed by land developers, which are contributed to the Association, are recorded at an amount equal to the construction cost incurred by the developer. The cost of these contributions is recorded as property and plant with an equal and corresponding credit to contributed capital in aid of construction. These contributions are being amortized on a straight-line basis over their estimated useful lives. This amortization is being charged to the related equity account and amounted to $58,018 and $58,031 for the years ended September 30, 2020 and 2019, respectively.

Note 8 - Pension Plan

The Association sponsors a 401(k)-pension plan for the benefit of its employees. The Association's contribution may be 0% to 15% of the compensation of each participant. Contributions to the plan were $96,782 and $91,068 for the year ended September 30, 2020 and 2019, respectively.

Note 9 - Statement of Cash Flows

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

The Association paid cash for interest in the amount of $189,639 and $174,479 for the years ended September 30, 2020 and 2019, respectively.

The Association received Class B - Participation Certificates from CoBank as a patronage equity distribution in the amount of $11,406 and $7,169 for the years ended September 30, 2020 and 2019, respectively.

Note 10 - Concentrations of Credit Risk

The Association maintains its cash accounts at commercial banks. Such amounts on deposit are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per institution. The Association had $375,353 and $656,990 on deposit at commercial banks exceeding the portion insured by the FDIC as of September 30, 2020 and 2019, respectively.

Note 11 - Non-marketable Participation Certificates

The Association receives patronage distributions from CoBank. A portion of the distributions are made in cash and the remainder of the distributions is made in Class B Participation Certificates in CoBank. The certificates are issued at par value and are not marketable.

They are redeemable by CoBank when the Association reaches certain debt levels. The balances of the certificates were $346,678 and $372,260 as of September 30, 2020 and 2019, respectively. As of September 30, 2020 and 2019, $36,988 and $43,088 of Class B Participation Certificates have been redeemed, respectively.

Note 12 – Capital Improvement Assessment

The Association relocated water and sewer mains on three bridges due to new bridge construction of the Gasparilla Island Causeway bridges. In order to help pay for the cost of relocating the water and sewer mains, the Association membership approved a monthly assessment of $12 for each account for a period of five years, totaling $720 per member. The Association began charging the assessment in April 2011. In June 2012, the membership approved an increase in the assessment to $20 a month for each account for a total of $1,096. As of March 31, 2015 the majority of the Association members, those connected as of April 2011, have completed the assessment requirements. Members connected after that date will continue paying the assessment until the requirements are met. The total amount of assessment revenue for 2020 and 2019 was $5,052 and $6,136, respectively. As of September 30, 2020 the project was completed and remaining and future funds generated will be repurposed for expenditure through the Wastewater Treatment Plant project per board approval.

Note 13 – Commitments

The Association has a letter of credit from CoBank, dated June 22, 2009 in the amount of $136,250, to provide funding for plugging and abandonment and/or post-closure monitoring of the Association's injection wells if such need arises. The letter of credit expires May 31, 2021, but will be automatically extended for a successive period of one year, unless the Association is notified in advance by CoBank that the letter of credit will not be extended. As of September 30, 2020 and 2019, there was $-0- drawn on this line.

The Association has certain contract commitments related to water and sewer system improvements outstanding as of September 30, 2020. The remaining commitment on those contracts is approximately $8,585,314 as of September 30, 2020.

The Association made an advance loan draw in the amount of $3,184,731 on the multiple advance term promissory note to CoBank in September 2020. The advance will be used after September 30, 2020 for costs of the wastewater treatment plant rehabilitation project.

Note 14 – Subsequent Events

Subsequent events were evaluated through January 15, 2021, which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

GASPARILLA ISLAND WATER ASSOCIATION, INC.

WATER AND SEWER SYSTEM OPERATING EXPENSES

FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

	2020	2019
Water System Operating Expenses		
Purchased water	$ 1,363	$ 8,890
Operations and maintenance	214,106	363,210
Regulatory expenses - permits	15,270	15,382
Electricity	253,175	257,804
Chemicals	97,632	97,315
Lab fees	24,587	18,578
Salaries and payroll taxes	494,916	438,817
Pensions and employee benefits	167,598	142,344
Training	1,496	4,201
Total Water System Operating Expenses	$ 1,270,143	$ 1,346,541
Sewer System Operating Expenses		
Operations and maintenance	$ 222,021	$ 364,313
Regulatory expenses - permits	26,307	24,221
Electricity	62,681	64,201
Chemicals	104,036	92,202
Lab fees	37,242	36,321
Salaries and payroll taxes	392,134	344,149
Pensions and employee benefits	106,390	100,586
Training	70	712
Total Sewer System Operating Expenses	$ 950,881	$ 1,026,705

GASPARILLA ISLAND WATER ASSOCIATION, INC.

GENERAL AND ADMINISTRATIVE EXPENSES

FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

	2020	2019
General and Administrative Expenses		
Auto and truck expenses	$ 45,351	$ 77,946
General repairs and maintenance	64,309	73,981
Deferred rate study costs	7,884	7,884
Insurance	326,339	332,057
Miscellaneous	15,491	13,572
Office supplies and postage	22,125	25,224
Professional fees - accounting	19,149	18,844
Professional fees - engineering	12,961	33,674
Professional fees - legal	2,736	1,781
Salaries and payroll taxes, office	295,904	268,573
Pensions and employee benefits, office	83,432	70,737
Communications	33,399	31,820
Training	-	55
Total General and Administrative Expenses	$ 929,080	$ 956,148