

TIFA LLC

*Financial Statements –
As of and for the Years Ended
December 31, 2019 and 2018*

TIFA LLC

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Management Committee and Members
TIFA LLC
Titusville, Florida

We have audited the accompanying financial statements of TIFA LLC, which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of operations and changes in members' capital, 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 audits 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 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.

To the Management Committee and Members
TIFA LLC

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TIFA LLC 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.

MSL, P.A.

Certified Public Accountants

Orlando, Florida
February 27, 2020

TIFA LLC

BALANCE SHEETS

AS OF DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Current Assets:		
Cash	\$ 553,244	\$ 441,415
Accounts receivable	69,171	87,437
Prepaid expenses	17,129	16,222
Total Current Assets	<u>639,544</u>	<u>545,074</u>
Wells and Wellfield (Note 3):		
Area IV Wellfield - Phase 1, net	1,383,094	1,443,579
Area IV Wellfield - Phase 2, net	4,368,860	4,537,828
Monitoring wells, net	382,678	398,951
Easements	333,883	333,883
Mitigation credits	139,200	139,200
Wellfield assets - inactive	164,933	164,933
Total Wells and Wellfield	<u>6,772,648</u>	<u>7,018,374</u>
Intangible Assets (Note 4):		
Consumptive use permit, net	1,259,006	1,358,075
FPL fee, net	701,996	731,045
Total Intangible Assets	<u>1,961,002</u>	<u>2,089,120</u>
TOTAL ASSETS	<u>\$ 9,373,194</u>	<u>\$ 9,652,568</u>
LIABILITIES AND MEMBERS' CAPITAL		
Current Liabilities:		
Accounts payable	\$ 6,412	\$ 3,723
Total Current Liabilities	<u>6,412</u>	<u>3,723</u>
Members' Capital	<u>9,366,782</u>	<u>9,648,845</u>
TOTAL LIABILITIES AND MEMBERS' CAPITAL	<u>\$ 9,373,194</u>	<u>\$ 9,652,568</u>

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

TIFA LLC

STATEMENTS OF OPERATIONS AND CHANGES IN MEMBERS' CAPITAL FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
REVENUE:		
Water sales	\$ 1,145,223	\$ 1,140,304
Interest income	25	26
TOTAL REVENUE	<u>1,145,248</u>	<u>1,140,330</u>
OPERATING EXPENSES:		
Depreciation and amortization	373,844	373,845
Operations and maintenance	72,925	76,888
Utilities	69,608	58,217
Property and liability insurance	67,246	64,159
Tangible personal property tax	31,400	37,273
Managing agent fees	26,000	26,000
Accounting fees	15,000	7,000
Hydrogeological services	6,568	-
Wetland monitoring	4,200	4,200
Miscellaneous	520	583
TOTAL OPERATING EXPENSES	<u>667,311</u>	<u>648,165</u>
NET INCOME	477,937	492,165
MEMBERS' CAPITAL - BEGINNING OF YEAR	9,648,845	10,196,680
Capital distributions	<u>(760,000)</u>	<u>(1,040,000)</u>
MEMBERS' CAPITAL - END OF YEAR	<u>\$ 9,366,782</u>	<u>\$ 9,648,845</u>

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

TIFA LLC

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 477,937	\$ 492,165
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	373,844	373,845
Changes in operating assets and liabilities:		
Accounts receivable	18,266	(8,013)
Prepaid expenses	(907)	(306)
Accounts payable	2,689	(8,163)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>871,829</u>	<u>849,528</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Members' capital distributions	<u>(760,000)</u>	<u>(1,040,000)</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(760,000)</u>	<u>(1,040,000)</u>
NET INCREASE (DECREASE) IN CASH	111,829	(190,472)
CASH AT BEGINNING OF YEAR	<u>441,415</u>	<u>631,887</u>
CASH AT END OF YEAR	<u>\$ 553,244</u>	<u>\$ 441,415</u>

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

TIFA LLC

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

1. ORGANIZATION AND DESCRIPTION OF THE ENTITY

TIFA LLC ("TIFA") was organized as a Florida Limited Liability Company on April 21, 2010, pursuant to the terms of a Settlement Framework Agreement and a Limited Liability Company Operating Agreement ("Operating Agreement") between the City of Titusville, Florida ("City"), and Farmton Water Resources, LLC ("Farmton") (collectively, the "Members").

TIFA's purpose is to facilitate the permitting, design, construction, and operation of a groundwater wellfield on certain property located in Brevard County and monitoring wells in Volusia County, Florida, and to do so in a manner designed to reasonably avoid adverse impact on the water resource and ecosystem. On May 10, 2011, the St. Johns River Water Management District granted TIFA's application for expansion of the Consumptive Use Permit ("CUP") to 2.75 million gallons per day ("MGD"). Phase 1 of the wellfield produces 0.75 MGD. Phase 2 of the wellfield produces 2.0 MGD. As of December 31, 2015, the entire wellfield has been placed in service.

The proposed groundwater wellfield is intended to provide certain agreed-upon minimum amounts of bulk water exclusively to the City and, to the extent available, to Farmton and others. The pricing and rate structure for the sale of water is defined in the Operating Agreement.

The Operating Agreement provides that the City has the exclusive right to purchase bulk water from TIFA at prices based on the cost of TIFA's operation, plus a return on Members' capital. The rates are set annually, as indicated in the Operating Agreement, and are subject to adjustment quarterly, as of and when additional maintenance capital contributions are made and/or wellfield assets are placed in service. In consideration for these rights, the City has agreed to purchase a minimum of 0.75 MGD of water, if available, annually from TIFA for a period of ten years, with certain automatic, additional ten-year options to renew. The Operating Agreement further provides that the City will pay for the minimum amount of water to be purchased, regardless of whether the minimum amount is actually used.

Subject to the availability of 2.75 MGD of water, the Operating Agreement also includes the right for Farmton to purchase a maximum of up to 0.6 MGD of water from the City's 2.75 MGD under certain circumstances, as designated in the Operating Agreement. In the event that Farmton exercises its right under the Operating Agreement to purchase 0.6 MGD of water from TIFA, Farmton will be required to purchase water at rates consistent with the cost of the City securing replacement water.

2. SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

TIFA considers all unrestricted, highly liquid investments with a maturity of three months or less from the date of purchase to be cash equivalents.

Accounts Receivable

Accounts receivable represent amounts due from the City for the purchase of bulk water. TIFA values its receivables based on the volume of bulk water provided to the City each month at an approved rate.

Capitalization

The Operating Agreement provides, among other things, for the methodologies that the Members will use to make contributions for TIFA's initial and ongoing capitalization of its activities, as follows:

Initial Capitalization

Pursuant to the Operating Agreement, the Members contributed to TIFA an initial cash contribution of \$25,000 each and certain assets, including a CUP, easements, wells, mitigation credits, and other wellfield development costs. Contributed assets are recorded at their fair values, as determined by cost, appraisal, or other appropriate valuation methodologies.

Construction Capital Contributions

The City and Farmton are each further required to pay or contribute fifty percent of the cost to construct the wellfield. For Phase 1 construction, the obligation to make construction capital contributions were satisfied, in the case of the City, by direct payment of construction costs, and in the case of Farmton, by payment to the City of Farmton's share of construction costs paid directly by the City. For Phase 2 construction, TIFA directly incurred the construction costs. The City and Farmton paid their percentage upon completion of a capital call by the managers. Farmton made certain construction capital contributions by a grant or assignment of easements over certain property under its control.

Maintenance Capital Contributions

Subsequent to construction of the wellfield, each Member is required to contribute fifty percent of the cost of renewal and replacement of wellfield facilities, as required to maintain the wellfield in working condition.

Wellfield-related and Intangible Assets

Acquisitions of new wellfield-related and intangible assets with a cost basis, if acquired, or fair value, if contributed, greater than \$10,000, and an estimated useful life greater than one year are capitalized. The cost of maintenance, repairs, and recurring replacements is charged to operations as incurred. Depreciation and amortization of wellfield-related and intangible assets is provided using the straight-line method over estimated useful lives of 30 years and 20 years, respectively.

Revenue Recognition

Water rates charged per thousand gallons are determined in accordance with the Operating Agreement and annual budgeting process. Revenue from bulk water sales is recognized based on meter readings as water is delivered to the customer, at the amount expected to be received from the customer.

Income Taxes

TIFA has elected to be treated as a pass-through entity for income tax reporting purposes. As a result, all items of taxable income or loss are allocated to the individual Members to be reported on their individual income tax returns, as applicable. Accordingly, these financial statements include no provision or liability for federal or state income taxes.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from those estimates.

Subsequent Events

Events and transactions have been evaluated for potential recognition or disclosure through the date the financial statements were available to be issued.

New Accounting Standard Adoption

On January 1, 2019, TIFA adopted Accounting Standards Codification 606, *Revenue from Contracts with Customers* (the "New Revenue Standard"). The New Revenue Standard requires the recognition of revenue at the amount expected to be collected for the transfer of goods or services to the customers and enhances disclosures. The adoption of the New Revenue Standard did not have a significant impact on TIFA's financial statements.

3. WELLS AND WELLFIELD

Wells and wellfield, net, consist of the following as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Area IV Wellfield - Phase 1	\$ 1,814,563	\$ 1,814,563
Area IV Wellfield - Phase 2	5,069,053	5,069,053
Monitoring wells	488,189	488,189
	<u>7,371,805</u>	<u>7,371,805</u>
Accumulated depreciation	<u>(1,237,173)</u>	<u>(991,447)</u>
	6,134,632	6,380,358
Easements	333,883	333,883
Mitigation credits	139,200	139,200
Wellfield assets - inactive	164,933	164,933
Wells and wellfield, net	<u>\$ 6,772,648</u>	<u>\$ 7,018,374</u>

Depreciation expense was \$245,726 and \$245,727 for the years ended December 31, 2019 and 2018, respectively.

Inactive wellfield assets, while not currently in use, are capable of being activated and used in the future.

4. INTANGIBLE ASSETS

Intangible assets, net, consist of the following as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Consumptive use permit (CUP)	\$ 1,981,386	\$ 1,981,386
FPL fee - Phase 1	459,340	459,340
FPL fee - Phase 2	412,112	412,112
	<u>2,852,838</u>	<u>2,852,838</u>
Accumulated amortization	<u>(891,836)</u>	<u>(763,718)</u>
Intangible assets, net	<u>\$ 1,961,002</u>	<u>\$ 2,089,120</u>

Amortization expense was \$128,118 for each of the years ended December 31, 2019 and 2018. Amortization is approximately \$128,000 per year for the next five years on the intangible assets currently placed in service.

5. MANAGING AGENT FEES

On July 1, 2015, TIFA contracted with Governmental Management Services, LLC ("GMS") to provide, among other things, management and accounting services. The term of the management agreement is one year. Thereafter, the agreement shall be extended for one-year periods, unless either party gives written notice on or before 60 days prior to the anniversary date of the effective date, unless terminated earlier. During the years ended December 31, 2019 and 2018, TIFA paid management fees to GMS of \$26,000 each year.

6. COMMITMENTS AND CONTINGENCIES

Concentrations and Credit Risk

TIFA receives all of its revenue from the City through sale of bulk water pumped from the wells.

Financial instruments, which potentially subject TIFA to concentrations of credit risk, consist of cash deposits, which, at times, may exceed federal deposit insurance limits.

Wellfield Operations and Maintenance Agreement

On May 24, 2010, TIFA entered into a Wellfield Operations and Maintenance Agreement with the City under which the City shall operate and maintain the wellfield pursuant to the fees and obligations specified in the agreement. Fees incurred pursuant to this agreement totaled \$36,505 and \$42,084, respectively, for the years ended December 31, 2019 and 2018, and are included in the Operations and Maintenance line item on the Statement of Operations and Changes in Members' Capital.