

**GREATER PINE ISLAND  
WATER ASSOCIATION, INC.  
Financial Statements  
December 31, 2012 and 2011**

**GREATER PINE ISLAND WATER ASSOCIATION, INC.**

**Financial Statements**

December 31, 2012 and 2011

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# CPA Associates, LLP

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## Independent Auditor's Report

To the Board of Directors of  
Greater Pine Island Water Association, Inc.:

We have audited the accompanying balance sheets of Greater Pine Island Water Association, Inc. as of December 31, 2012 and 2011, and the related statements of operations, changes in members' 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; 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 of material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, 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.

*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Greater Pine Island Water Association, Inc. as of December 31, 2012 and 2011; and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Other-Matter*

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of the Association's management and was derived from and relates 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 basic 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 the financial statements themselves, and additional procedures in accordance with auditing standards in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*CFA Associates, LLP*

Vero Beach, Florida  
February 4, 2013



<b><u>Liabilities and Members' Equity</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>
Current liabilities:		
Current maturities of long-term debt (Note 5)	\$ 316,829	298,122
Accounts payable	159,225	9,659
Accrued liabilities (Note 4)	253,028	250,722
Total current liabilities	<u>729,082</u>	<u>558,503</u>
Long-term liabilities:		
Long-term debt, less current maturities (Note 5)	3,188,810	3,538,412
Injection well liability (Note 6)	17,201	17,201
Total long-term liabilities	<u>3,206,011</u>	<u>3,555,613</u>
Total liabilities	3,935,093	4,114,116
Members' equity:		
Members' fees and capital investments	11,088,182	10,847,316
Retained earnings	1,624,389	1,693,268
Total members' equity	<u>12,712,571</u>	<u>12,540,584</u>
Total liabilities and members' equity	<u>\$ 16,647,664</u>	<u>16,654,700</u>

See the accompanying notes to financial statements.

GREATER PINE ISLAND WATER ASSOCIATION, INC.

Statements of Operations

For the years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenues:		
Metered water sales	\$ 3,039,461	2,901,759
Other	44,267	49,638
Total operating revenues	<u>3,083,728</u>	<u>2,951,397</u>
Operating expenses:		
Salaries	945,580	966,124
Depreciation (Note 3)	829,008	835,452
Employee benefits	257,979	328,779
Electricity	236,887	247,722
Insurance	125,220	105,021
Repairs and maintenance	156,371	114,657
Professional fees	127,189	120,715
Taxes and permits	97,541	84,823
Office expense and customer billing	80,316	68,420
Chemicals	39,037	65,296
Miscellaneous	46,828	44,798
Auto and truck	38,141	40,223
Operating supplies	3,210	2,936
Total operating expenses	<u>2,983,307</u>	<u>3,024,966</u>
Operating income (loss)	100,421	(73,569)
Other expenses:		
Interest expense	200,385	219,441
Amortization	3,871	3,871
Total other expenses	<u>204,256</u>	<u>223,312</u>
Other income:		
Interest income	2,069	6,914
Gain on disposal of assets	5,500	4,200
Gain from involuntary conversion and grant proceeds (Note 8)	-	10,452
Miscellaneous income	27,387	26,234
Total other income	<u>34,956</u>	<u>47,800</u>
Net (loss)	<u>\$ (68,879)</u>	<u>(249,081)</u>

See the accompanying notes to financial statements.

GREATER PINE ISLAND WATER ASSOCIATION, INC.

**Statements of Changes in Members' Equity**

For the years ended December 31, 2012 and 2011

	<b>Members' Fees and Capital Investments</b>				<b>Total</b>	<b>Retained earnings</b>	<b>Total members' equity</b>
	<b>Membership fees</b>	<b>Meter fees</b>	<b>Capital charges</b>	<b>Aid-In construction</b>			
Balances at December 31, 2010	\$1,746,208	3,217,974	5,353,154	321,940	10,639,276	1,942,349	12,581,625
Net (loss) income	-	-	-	-	-	(249,081)	(249,081)
New member fees	41,580	112,900	55,844	720	211,044	-	211,044
Adjustments and refunds to former members	(1,336)	(1,389)	464	(743)	(3,004)	-	(3,004)
Balances at December 31, 2011	1,786,452	3,329,485	5,409,462	321,917	10,847,316	1,693,268	12,540,584
Net (loss) income	-	-	-	-	-	(68,879)	(68,879)
New member fees	44,928	125,076	69,404	1,862	241,270	-	241,270
Adjustments and refunds to former members	89	(46)	3,234	(3,681)	(404)	-	(404)
Balances at December 31, 2012	<u>\$1,831,469</u>	<u>3,454,515</u>	<u>5,482,100</u>	<u>320,098</u>	<u>11,088,182</u>	<u>1,624,389</u>	<u>12,712,571</u>

See the accompanying notes to financial statements.



GREATER PINE ISLAND WATER ASSOCIATION, INC.

**Statements of Cash Flows**

For the years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Cash received from customers	\$ 3,096,800	2,990,097
Cash paid to suppliers/employees	(2,003,553)	(2,159,572)
Interest income	3,353	8,472
Interest paid	(198,410)	(221,305)
Grant and disaster proceeds	-	10,452
Cash flows provided by operating activities	<u>898,190</u>	<u>628,144</u>
Cash flows from investing activities:		
Funds used for plant expansion and other capital expenditures	(655,259)	(590,696)
Proceeds from sale of assets	5,500	4,200
Certificates of deposit, net	(120,000)	718,465
Investment in CoBank	(12,903)	(13,967)
Increase in injection well liability	-	-
Cash flows provided (used) by investing activities	<u>(782,662)</u>	<u>118,002</u>
Cash flows from financing activities:		
Funds received for plant expansion-members (net of refunds)	240,866	208,040
Repayment of long-term debt	(330,895)	(316,107)
Cash flows used by financing activities	<u>(90,029)</u>	<u>(108,067)</u>
Net increase (decrease) in cash and cash equivalents	25,499	638,079
Cash and cash equivalents - beginning of year	<u>1,691,940</u>	<u>1,053,861</u>
Cash and cash equivalents - end of year	<u>\$ 1,717,439</u>	<u>1,691,940</u>

See the accompanying notes to financial statements.

GREATER PINE ISLAND WATER ASSOCIATION, INC.

Statements of Cash Flows, Continued

For the years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Reconciliation of net income (loss) to net cash provided by operating activities:		
Net income (loss)	\$ (68,879)	(249,081)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	829,008	835,452
Amortization	3,871	3,871
(Gain) on disposal of assets	(5,500)	(4,200)
Cash provided by (used for) changes in:		
Accounts receivable - customers	(14,315)	12,465
Accounts receivable - other	10,700	(10,700)
Accrued interest receivable	1,284	1,558
Patronage dividend receivable	1,975	2,007
Inventory, parts, and materials	(10,815)	25,783
Prepaid expenses and other	(1,010)	395
Accounts payable	149,566	4,933
Accrued liabilities	2,305	5,661
Cash flows provided by operating activities	<u>\$ 898,190</u>	<u>628,144</u>

See the accompanying notes to financial statements.

GREATER PINE ISLAND WATER ASSOCIATION, INC.

**Notes to Financial Statements**

December 31, 2012 and 2011

**(1) Summary of Significant Accounting Policies**

**(a) Organization**

The Greater Pine Island Water Association, Inc. (the "Association") is a private organization incorporated under Florida law in 1964 as a cooperative, for the purpose of supplying drinking water to its members residing on Pine Island and adjacent land in Lee County, Florida. Members may be individuals or business entities and are entitled to one vote, regardless of water usage, at the Association's annual meeting. The Association is classified as a non-profit membership association under Section 501(c) (12) of the Internal Revenue Code and, as such, is not subject to federal and state income taxes.

**(b) Statement of Cash Flows**

For the purpose of the statement of cash flows, the Association considers all liquid debt instruments with an original maturity of three months or less when purchased to be cash equivalents.

**(c) Revenue Recognition**

Fees for water consumption consists of three parts: a base fee, which is a standard monthly rate per connection; a ready to serve charge, which is a standard monthly charge based upon size of water meter; and a water usage rate, which is computed based on water consumption. The Association reads water meters on a monthly basis and records the resulting revenue as earned.

**(d) Fair Value of Financial Instruments**

The carrying values of the Association's financial instruments, which consists of accounts receivable, accounts payable, accrued liabilities and long-term debt, approximates fair value.

**(e) Use of 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 certain reported amounts and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

**(f) Certificates of Deposit**

Certificates of deposit are stated at cost, which approximates market.

GREATER PINE ISLAND WATER ASSOCIATION, INC.

**Notes to Financial Statements**

**(1) Summary of Significant Accounting Policies, Continued**

**(g) *Accounts Receivable***

Accounts receivable are stated at net realizable value and, in the opinion of management, are considered fully collectible; consequently, no allowance for bad debts was deemed necessary in the accompanying balance sheets as of December 31, 2012 and 2011.

**(h) *Inventory, Parts, and Materials***

Inventory, parts, and materials are stated at the lower of cost or market, utilizing the first-in, first-out method.

**(i) *Property, Plant, and Equipment***

Property, plant, and equipment are stated at cost less accumulated depreciation. Additions and improvements that significantly add to the productive capacity or extend the useful life of an asset are capitalized. Other expenditures for repairs and maintenance are charged to operations in the period incurred. Depreciation is calculated using the straight-line method over the estimated useful lives of the individual assets, which range from three to forty years.

**(j) *Investments in CoBank***

The Association's investments in CoBank are accounted for at cost and are increased for any qualified or allocated equities and are reduced for any distributions received.

**(k) *Intangible Assets***

Costs incurred in the course of obtaining mortgage financing are capitalized and amortized over the term of the respective loans using the straight-line method, which approximates the effective interest method.

**(l) *Impairment of Long-Lived Assets***

Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell.

GREATER PINE ISLAND WATER ASSOCIATION, INC.

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

(m) *Compensated Absences*

Employees accrue sick leave at the rate of 1 day per month and are allowed to accumulate unused sick leave. The Association has adopted the policy of reimbursing a maximum accumulation of 260 hours to employees leaving the Association's service after 20 years of service, at the employee's most recent hourly wage rate.

(n) *Income Taxes*

While the Association is recognized as an organization exempt from income taxes under the Internal Revenue Code, it is required to file information returns with the Internal Revenue Service. Such information returns are subject to examination by the Service and if it was determined, that the Association was not operating in accordance with its exemption, its status would be revoked and income taxes would be assessed.

(o) *Members' Equity*

To become members of the Association, new members are required to pay certain fees. Among these fees are: basic membership fees, meter fees, impact fees and in some instances, aid-in construction fees. In addition, current earnings and losses are allocated to members based upon their proportionate share of consumption.

(2) Restricted Cash and Cash Equivalents

Restrictions on cash and cash equivalents consist of restrictions designated by the Board of Directors and consist of the following:

<u>Purpose</u>	<u>2012</u>	<u>2011</u>
Employee medical reimbursements	<u>\$ 25,954</u>	<u>16,070</u>

GREATER PINE ISLAND WATER ASSOCIATION, INC.

**Notes to Financial Statements**

**(3) Property, Plant, and Equipment**

Property, plant, and equipment are comprised of the following at December 31, 2012 and 2011:

	<b>2012</b>	<b>2011</b>
Land and land improvements	\$ 1,403,797	1,403,797
Well systems	4,302,817	4,302,817
Treatment plant	5,036,785	4,925,028
Distribution system	10,095,347	9,506,263
Pumping stations	2,080,446	2,060,495
Administrative office	309,155	309,155
Field equipment	408,323	408,323
Vehicles	183,737	204,978
Miscellaneous system assets	448,134	448,134
Construction in progress	194,165	277,577
	24,462,706	23,846,567
Less accumulated depreciation	(10,783,638)	(9,993,750)
	\$ 13,679,068	13,852,817

Depreciation expense for the years ended December 31, 2012 and 2011 amounted to \$829,008 and \$835,452, respectively.

**(4) Accrued Liabilities**

Accrued liabilities are comprised of the following at December 31, 2012 and 2011:

	<b>2012</b>	<b>2011</b>
Accrued sick leave	\$ 185,616	190,335
Customer payments in advance	33,238	31,095
Accrued interest payable	19,185	21,168
Accrued wages and payroll taxes	14,234	6,956
Interest payable to Lee County	594	1,133
Other liabilities	161	35
	\$ 253,028	250,722

GREATER PINE ISLAND WATER ASSOCIATION, INC.

**Notes to Financial Statements**

**(5) Long-Term Debt**

Long-term debt at December 31, 2012 and 2011 consists of the following:

	<b>2012</b>	<b>2011</b>
Mortgage payable to CoBank, payable in monthly installments, including interest at a fixed rate of 8.19% and maturing February 2015. Revenues and substantially all of the real and tangible personal property of the Association collateralize the mortgage payable.	\$ 304,632	433,471
Mortgage payable to CoBank, payable in monthly installments, including interest at a fixed rate of 6.18% on a portion of the mortgage payable balance (\$2,087,613) and a fixed rate of 6.12% on the remainder (\$1,113,394), maturing February 2025. Revenues and substantially all of the real and tangible personal property of the Association collateralize the mortgage payable.	3,201,007	3,403,063
	3,505,639	3,836,534
Less: current maturities	(316,829)	(298,122)
	\$ 3,188,810	3,538,412

The aggregate principal maturities of long-term debt are as follows:

<b>Year ending December 31,</b>	
2013	\$ 316,829
2014	339,732
2015	232,049
2016	219,664
2017	233,491
Thereafter	2,163,874
	\$ 3,505,639

GREATER PINE ISLAND WATER ASSOCIATION, INC.

**Notes to Financial Statements**

**(5) Long-Term Debt, Continued**

The mortgage payable agreements contain conditions and covenants that prevent or restrict the Association from engaging in certain transactions without the consent of CoBank and requires the Association to maintain certain financial ratios, including working capital, depreciation and amortization.

The Association also maintains a line of credit with maximum borrowing capacity of \$500,000 with CoBank. The line of credit bears interest at a variable rate, (2.5% at December 31, 2012). The note is due on demand and is collateralized by revenues and substantially all of the real and tangible personal property of the Association. There was no balance on the line of credit at December 31, 2012 and 2011.

**(6) Letter of Credit**

The Association operates a deep injection well as a disposal site for the brine water produced by its reverse osmosis process. The Florida Department of Environmental Protection (DEP) requires operators of deep injection wells to demonstrate that its operators can plug the well when it is no longer of any use. To be in compliance with DEP regulations, the Association and Lee County, Florida jointly maintain a letter of credit with a commercial bank for the deep well injection system, which was a jointly funded project with Lee County, Florida. The Association and Lee County, Florida jointly funded a certificate of deposit in the amount of \$230,000, which serves as security for the letter of credit. Interest earned is allocable to both parties and may accumulate in the account. As of December 31, 2012 and 2011, accumulated interest payable to Lee County amounted to \$594 and \$1,133, respectively. The Association's portion of the certificate of deposit is reported as a restricted certificate of deposit in the accompanying balance sheets at December 31, 2012 and 2011.

The Association is recognizing a yearly charge to recognize the estimated liability of approximately \$97,000 for its anticipated future cost of plugging the well at the end of its useful life.

**(7) Defined Contribution 401(k) Plan**

The Association has adopted a defined contribution 401(k) plan (the "Plan") covering substantially all full-time employees who have attained the age of 18 and completed six months of service within a plan year. Under the terms of the Plan, employees may defer a portion of eligible compensation subject to maximum allowable dollar limitations. The Association may also make discretionary contributions to the Plan, such as matching contributions and discretionary profit sharing contributions. During the years ended December 31, 2012 and 2011, the Association contributed a total of \$140,987 and \$151,027, respectively,



GREATER PINE ISLAND WATER ASSOCIATION, INC.

**Notes to Financial Statements**

**(7) Defined Contribution 401(k) Plan, Continued**

to the Plan in the form of matching contributions of \$25,114 and \$26,445 and discretionary profit sharing contributions of \$115,873 and \$124,582, respectively. The Association also incurred administration costs related to the plan in the amount of \$7,118 and \$4,357 for 2012 and 2011, respectively.

**(8) Gain from Involuntary Conversion and Grant Proceeds**

**Gain from Involuntary Conversion**

During 2004 and 2005, the Association sustained physical damage to its plant and office facilities from Hurricanes Charley and Wilma. Repair and replacement of the damaged facilities occurred during years ended December 31, 2006 and 2007 with funding provided through Federal Emergency Management Agency (FEMA) grants relating to federally declared disaster areas covering those years. During the year ended December 31, 2011, the Association received additional federal disaster payments from FEMA totaling \$10,452, which represented reimbursements for cost overruns experienced by the Association associated with expenditures for the repair and relocation of its primary water service main at Matlacha Bridge Pass. As of December 31, 2012, the Association is aware of no further outstanding reimbursements due from FEMA.

**(9) Subsequent Events**

Management has evaluated subsequent events through February 4, 2013, the date of which the financial statements were available to be issued. No significant subsequent events have been identified that would require adjustment of or disclosure in the accompanying financial statements

**SUPPLEMENTARY INFORMATION**

**Schedule of Employee Benefit Expense**

For the years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Group health insurance	\$ 104,280	169,171
Pension costs	148,105	155,384
Uniforms and shoes	5,594	4,224
Total employee benefit expense	<u>\$ 257,979</u>	<u>328,779</u>

See accompanying independent auditor's report.

**Schedule of Insurance Expense**

For the years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
General insurance	\$ 69,453	69,471
Workers' compensation insurance	40,754	19,996
Vehicle insurance	<u>15,013</u>	<u>15,554</u>
Total insurance expense	<u>\$ 125,220</u>	<u>105,021</u>

See accompanying independent auditor's report.

**Schedule of Professional Fees**

For the years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Contract services	\$ 58,351	79,357
Accounting fees	19,577	19,436
Legal fees	22,833	13,162
Engineering fees	<u>26,428</u>	<u>8,760</u>
Total professional fees	<u>\$ 127,189</u>	<u>120,715</u>

See accompanying independent auditor's report.