

**GREATER PINE ISLAND
WATER ASSOCIATION, INC.
Financial Statements
December 31, 2010 and 2009**

GREATER PINE ISLAND WATER ASSOCIATION, INC.

Financial Statements

December 31, 2010 and 2009

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SMITH, TODD, McENTEE & COMPANY, 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, 2010 and 2009, and the related statements of operations, changes in members' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2010 and 2009, 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.

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 has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Smith, Todd, McEntee & Company, LLP

February 3, 2011

GREATER PINE ISLAND WATER ASSOCIATION, INC.

Balance Sheets

December 31, 2010 and 2009

<u>Assets</u>	<u>2010</u>	<u>2009</u>
Current assets:		
Cash and cash equivalents:		
Unrestricted	\$ 1,049,962	1,569,623
Restricted (Note 2)	3,899	39,114
Total cash and cash equivalents	1,053,861	1,608,737
Certificates of deposit:	1,058,465	356,807
Accounts receivable:		
Customers	155,645	153,334
Other	-	3,983
Accrued interest receivable	4,464	-
Patronage dividend receivable	27,945	29,861
Inventory, parts, and materials	115,910	104,979
Prepaid expenses and other	68,124	69,830
Total current assets	2,484,414	2,327,531
Property, plant, and equipment, net (Note 3)	14,097,573	14,705,297
Other assets:		
Investment in CoBank	275,712	260,665
Restricted certificate of deposit (Note 6)	115,000	139,503
Loan costs, net	28,555	32,425
Total other assets	419,267	432,593
Total assets	<u>\$ 17,001,254</u>	<u>17,465,421</u>

<u>Liabilities and Members' Equity</u>	<u>2010</u>	<u>2009</u>
Current liabilities:		
Current maturities of long-term debt (Note 5)	\$ 316,106	272,557
Accounts payable	4,726	12,894
Accrued liabilities (Note 4)	245,061	277,803
Total current liabilities	<u>565,893</u>	<u>563,254</u>
Long-term liabilities:		
Long-term debt, less current maturities (Note 5)	3,836,535	4,182,078
Injection well liability (Note 6)	17,201	16,294
Total long-term liabilities	<u>3,853,736</u>	<u>4,198,372</u>
Total liabilities	4,419,629	4,761,626
Members' equity:		
Members' fees and capital investments	10,639,276	10,459,218
Retained earnings	1,942,349	2,244,577
Total members' equity	<u>12,581,625</u>	<u>12,703,795</u>
Total liabilities and members' equity	<u>\$ 17,001,254</u>	<u>17,465,421</u>

See the accompanying notes to financial statements.

GREATER PINE ISLAND WATER ASSOCIATION, INC.

Statements of Operations

For the years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating revenues:		
Metered water sales	\$ 2,809,334	2,988,916
Other	51,076	54,569
Total operating revenues	<u>2,860,410</u>	<u>3,043,485</u>
Operating expenses:		
Salaries	922,482	920,416
Depreciation (Note 3)	840,698	837,900
Employee benefits	328,113	278,179
Electricity	245,919	263,468
Insurance	115,700	117,992
Repairs and maintenance	110,995	157,843
Professional fees	106,449	98,962
Taxes and permits	78,339	75,439
Office expense and customer billing	73,987	78,377
Chemicals	59,004	44,194
Miscellaneous	47,598	62,712
Auto and truck	25,258	21,947
Operating supplies	2,664	2,990
Total operating expenses	<u>2,957,206</u>	<u>2,960,419</u>
Operating (loss) income	(96,796)	83,066
Other expenses:		
Interest expense	238,071	206,137
Loss on disposal of assets	-	4,036
Amortization	3,871	3,871
Total other expenses	<u>241,942</u>	<u>214,044</u>
Other income:		
Interest income	18,630	20,084
Gain from involuntary conversion and grant proceeds (Note 8)	-	375,881
Miscellaneous income	17,880	15,338
Total other income	<u>36,510</u>	<u>411,303</u>
Net (loss) income	<u>\$ (302,228)</u>	<u>280,325</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, 2010 and 2009

	<u>Members' Fees and Capital Investments</u>				<u>Total</u>	<u>Retained earnings</u>	<u>Total members' equity</u>
	<u>Membership fees</u>	<u>Meter fees</u>	<u>Capital charges</u>	<u>Aid-In construction</u>			
Balances at December 31, 2008	\$1,674,241	3,018,106	5,270,289	321,140	10,283,776	1,964,252	12,248,028
Net income	-	-	-	-	-	280,325	280,325
New member fees	36,504	98,135	43,091	400	178,130	-	178,130
Adjustments and refunds to former members	<u>(1,808)</u>	<u>(1,085)</u>	<u>205</u>	<u>-</u>	<u>(2,688)</u>	<u>-</u>	<u>(2,688)</u>
Balances at December 31, 2009	1,708,937	3,115,156	5,313,585	321,540	10,459,218	2,244,577	12,703,795
Net income	-	-	-	-	-	(302,228)	(302,228)
New member fees	37,908	103,364	39,609	400	181,281	-	181,281
Adjustments and refunds to former members	<u>(637)</u>	<u>(546)</u>	<u>(40)</u>	<u>-</u>	<u>(1,223)</u>	<u>-</u>	<u>(1,223)</u>
Balances at December 31, 2010	<u>\$1,746,208</u>	<u>3,217,974</u>	<u>5,353,154</u>	<u>321,940</u>	<u>10,639,276</u>	<u>1,942,349</u>	<u>12,581,625</u>

See the accompanying notes to financial statements.

GREATER PINE ISLAND WATER ASSOCIATION, INC.

Statements of Cash Flows

For the years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Cash received from customers	\$ 2,876,284	3,063,983
Cash paid to suppliers/employees	(2,161,154)	(2,185,177)
Interest income	14,166	20,084
Interest paid	(237,967)	(204,294)
Grant and disaster proceeds	-	375,881
Cash flows provided by operating activities	<u>491,329</u>	<u>1,070,477</u>
Cash flows from investing activities:		
Funds used for plant expansion and other capital expenditures	(232,974)	(1,087,828)
Certificates of deposit, net	(677,155)	(15,712)
Investment in CoBank	(15,047)	(16,079)
Increase in injection well liability	907	896
Cash flows used in investing activities	<u>(924,269)</u>	<u>(1,118,723)</u>
Cash flows from financing activities:		
Funds received for plant expansion-members (net of refunds)	180,058	175,442
Repayment of long-term debt	(301,994)	(288,527)
Cash flows used by financing activities	<u>(121,936)</u>	<u>(113,085)</u>
Net increase (decrease) in cash and cash equivalents	(554,876)	(161,331)
Cash and cash equivalents - beginning of year	<u>1,608,737</u>	<u>1,770,068</u>
Cash and cash equivalents - end of year	<u>\$ 1,053,861</u>	<u>1,608,737</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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Reconciliation of net income (loss) to net cash provided by operating activities:		
Net income (loss)	\$ (302,228)	280,325
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	840,698	837,900
Amortization	3,871	3,871
Loss on disposal of assets	-	4,036
Cash provided by (used for) changes in:		
Accounts receivable - customers	(2,311)	5,160
Accounts receivable - other	3,982	6,960
Accrued interest receivable	(4,464)	-
Patronage dividend receivable	1,916	1,843
Inventory, parts, and materials	(10,931)	21,209
Prepaid expenses and other	1,706	(4,119)
Accounts payable	(8,168)	(111,343)
Accrued liabilities	(32,742)	24,635
Cash flows provided by operating activities	<u>\$ 491,329</u>	<u>1,070,477</u>

See the accompanying notes to financial statements.

GREATER PINE ISLAND WATER ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2010 and 2009

(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 highly 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.

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, 2010 and 2009.

(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.

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. During year ended December 31, 2010, two of its three most recent information returns, tax year 2007 and 2008, were examined and the Service determined the Association was operating within the requirements for continued exemption. The information return for 2009 was not examined.

(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.

(p) Concentrations of Credit Risk

Financial instruments which potentially subject the Association to concentrations of credit risk consist principally of cash. The Association places its cash with high credit quality financial institutions. At various times throughout the years and at December 31, 2010 and 2009, cash balances held at financial institutions were in excess of federally insured limits. However, the Association has not experienced any losses in such accounts and management believes the Association is not exposed to any significant credit risk on these accounts.

(q) Reclassifications

Certain prior year balances have been reclassified to conform with the current year financial statement presentation. These reclassifications had no impact on previously reported results of operations or members' equity.

GREATER PINE ISLAND WATER ASSOCIATION, INC.

Notes to Financial Statements

(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:

Purpose	2010	2009
Employee medical reimbursements	\$ 3,899	39,114

(3) Property, Plant, and Equipment

Property, plant, and equipment are comprised of the following at December 31, 2010 and 2009:

	2010	2009
Land and land improvements	\$ 1,403,797	1,403,797
Well systems	4,293,217	4,293,217
Treatment plant	4,892,259	4,847,789
Distribution system	9,024,219	8,920,135
Pumping stations	2,060,495	2,036,659
Administrative office	303,658	293,493
Field equipment	404,523	398,343
Vehicles	200,981	200,981
Miscellaneous system assets	448,134	448,135
Construction in progress	236,340	219,017
	23,267,623	23,061,566
Less accumulated depreciation	(9,170,050)	(8,356,269)
	\$ 14,097,573	14,705,297

Depreciation expense for the years ended December 31, 2010 and 2009 amounted to \$840,698 and \$837,900 respectively.

GREATER PINE ISLAND WATER ASSOCIATION, INC.

Notes to Financial Statements

(4) Accrued Liabilities

Accrued liabilities are comprised of the following at December 31, 2010 and 2009:

	2010	2009
Accrued sick leave	\$ 180,290	210,646
Customer payments in advance	26,036	26,379
Accrued interest payable	23,026	24,837
Accrued wages and payroll taxes	13,904	3,628
Interest payable to Lee County	1,805	12,313
	\$ 245,061	277,803

(5) Long-Term Debt

Long-term debt at December 31, 2010 and 2009 consists of the following:

	2010	2009
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.	\$ 555,431	670,879
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 (\$2,346,006) and a fixed rate of 6.12% on the remainder (\$1,251,204), maturing February 2025. Revenues and substantially all of the real and tangible personal property of the Association collateralize the mortgage payable.	3,597,210	3,783,756
	4,152,641	4,454,635
Less: current maturities	(316,106)	(272,557)
	\$ 3,836,535	4,182,078

GREATER PINE ISLAND WATER ASSOCIATION, INC.

Notes to Financial Statements

(5) Long-Term Debt, Continued

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

<u>Year ending December 31,</u>	
2011	\$ 316,106
2012	299,731
2013	321,432
2014	344,739
2015	235,820
Thereafter	<u>2,634,813</u>
	<u>\$ 4,152,641</u>

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, (2.57% at December 31, 2010). 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, 2010.

(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, 2010 and 2009, accumulated interest payable to Lee County amounted to \$1,805 and \$12,313, 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, 2010 and 2009.

The Association is recognizing a yearly charge to recognize the estimated liability of approximately \$123,520 for its anticipated future cost of plugging the well at the end of its useful life.

GREATER PINE ISLAND WATER ASSOCIATION, INC.

Notes to Financial Statements

(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, 2010 and 2009, the Association contributed a total of \$151,133 and \$127,009, respectively, to the Plan in the form of matching contributions of \$27,470 and \$26,270 and discretionary profit sharing contributions of \$123,663 and \$100,739, respectively. The Association also incurred administration costs related to the plan in the amount of \$3,536 and \$5,243 for 2010 and 2009, 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, 2009, the Association received additional federal disaster payments from FEMA totaling \$32,681, 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, 2010, the Association is not aware of any further outstanding reimbursements due from FEMA.

Grant Proceeds

During the years ended December 31, 2009, the Association received a cost-sharing grant from the South Florida Water Management District in the amount of \$343,200 in conjunction with Association projects to add an additional water supply well and to expand its reverse osmosis treatment capacity. Total cost of each project was approximately \$877,000 and \$298,000, respectively.

(9) Subsequent Events

Management has evaluated subsequent events through February 3, 2011, 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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Group health insurance	\$ 168,685	141,009
Pension costs	154,669	132,252
Uniforms and shoes	4,759	4,918
Total employee benefit expense	<u>\$ 328,113</u>	<u>278,179</u>

See accompanying independent auditor's report.

Schedule of Insurance Expense

For the years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
General insurance	\$ 70,439	74,002
Workers' compensation insurance	30,269	28,561
Vehicle insurance	<u>14,992</u>	<u>15,429</u>
Total insurance expense	<u>\$ 115,700</u>	<u>117,992</u>

See accompanying independent auditor's report.

Schedule of Professional Fees

For the years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Contract services	\$ 57,629	56,667
Accounting fees	23,391	17,511
Legal fees	16,363	22,674
Engineering fees	9,066	2,110
Total professional fees	<u>\$ 106,449</u>	<u>98,962</u>

See accompanying independent auditor's report.

Schedule of Miscellaneous Expenses

For the years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Water samples	\$ 16,035	24,869
Communications	15,082	16,541
Disposal service	3,778	3,825
Security system	2,875	3,205
Continuing education	1,992	2,612
Miscellaneous	<u>7,836</u>	<u>11,660</u>
Total miscellaneous expenses	<u>\$ 47,598</u>	<u>62,712</u>

See accompanying independent auditor's report.

Schedule of Capital Expenditures

For the years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Distribution system	\$ 165,520	943,107
Treatment plant	44,470	110,172
Other equipment	<u>22,984</u>	<u>34,549</u>
Total capital expenditures to property, plant, and equipment	<u>\$ 232,974</u>	<u>1,087,828</u>

See accompanying independent auditor's report.