

**GREATER PINE ISLAND
WATER ASSOCIATION, INC.
Financial Statements
December 31, 2011 and 2010**

GREATER PINE ISLAND WATER ASSOCIATION, INC.

Financial Statements

December 31, 2011 and 2010

Table of Contents

Independent Auditor's Report	1
Financial Statements:	
Balance Sheets	2
Statements of Operations	3
Statements of Changes in Members' Equity	4
Statements of Cash Flows	5
Notes to Financial Statements	7
Supplementary Information:	
Schedule 1 - Schedule of Employee Benefit Expense	15
Schedule 2 - Schedule of Insurance Expense	16
Schedule 3 - Schedule of Professional Fees	17
Schedule 4 - Schedule of Miscellaneous Expenses	18
Schedule 5 - Schedule of Capital Expenditures	19

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, 2011 and 2010, 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, 2011 and 2010, 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 financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the Association's 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 audit 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 taken as a whole.

CPA Associates, LLP

January 23, 2012



<u>Liabilities and Members' Equity</u>	<u>2011</u>	<u>2010</u>
Current liabilities:		
Current maturities of long-term debt (Note 5)	\$ 298,122	316,106
Accounts payable	9,659	4,726
Accrued liabilities (Note 4)	250,722	245,061
Total current liabilities	<u>558,503</u>	<u>565,893</u>
Long-term liabilities:		
Long-term debt, less current maturities (Note 5)	3,538,412	3,836,535
Injection well liability (Note 6)	17,201	17,201
Total long-term liabilities	<u>3,555,613</u>	<u>3,853,736</u>
Total liabilities	4,114,116	4,419,629
Members' equity:		
Members' fees and capital investments	10,847,316	10,639,276
Retained earnings	1,693,268	1,942,349
Total members' equity	<u>12,540,584</u>	<u>12,581,625</u>
Total liabilities and members' equity	<u>\$ 16,654,700</u>	<u>17,001,254</u>

See the accompanying notes to financial statements.

GREATER PINE ISLAND WATER ASSOCIATION, INC.

Statements of Operations

For the years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating revenues:		
Metered water sales	\$ 2,901,759	2,809,334
Other	49,638	51,076
Total operating revenues	<u>2,951,397</u>	<u>2,860,410</u>
Operating expenses:		
Salaries	966,124	922,482
Depreciation (Note 3)	835,452	840,698
Employee benefits	328,779	328,113
Electricity	247,722	245,919
Insurance	105,021	115,700
Repairs and maintenance	114,657	110,995
Professional fees	120,715	106,449
Taxes and permits	84,823	78,339
Office expense and customer billing	68,420	73,987
Chemicals	65,296	59,004
Miscellaneous	44,798	47,598
Auto and truck	40,223	25,258
Operating supplies	2,936	2,664
Total operating expenses	<u>3,024,966</u>	<u>2,957,206</u>
Operating (loss) income	(73,569)	(96,796)
Other expenses:		
Interest expense	219,441	238,071
Amortization	3,871	3,871
Total other expenses	<u>223,312</u>	<u>241,942</u>
Other income:		
Interest income	6,914	18,630
Gain on disposal of assets	4,200	-
Gain from involuntary conversion and grant proceeds (Note 8)	10,452	-
Miscellaneous income	26,234	17,880
Total other income	<u>47,800</u>	<u>36,510</u>
Net (loss) income	<u>\$ (249,081)</u>	<u>(302,228)</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, 2011 and 2010

	Members' Fees and Capital Investments				Total	Retained earnings	Total members' equity
	Membership fees	Meter fees	Capital charges	Aid-In construction			
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 (loss) 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	(637)	(546)	(40)	-	(1,223)	-	(1,223)
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	<u>\$1,786,452</u>	<u>3,329,485</u>	<u>5,409,462</u>	<u>321,917</u>	<u>10,847,316</u>	<u>1,693,268</u>	<u>12,540,584</u>

See the accompanying notes to financial statements.

GREATER PINE ISLAND WATER ASSOCIATION, INC.

Statements of Cash Flows

For the years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Cash received from customers	\$ 2,990,097	2,876,284
Cash paid to suppliers/employees	(2,159,572)	(2,161,154)
Interest income	8,472	14,166
Interest paid	(221,305)	(237,967)
Grant and disaster proceeds	10,452	-
Cash flows provided by operating activities	<u>628,144</u>	<u>491,329</u>
Cash flows from investing activities:		
Funds used for plant expansion and other capital expenditures	(590,696)	(232,974)
Proceeds from sale of assets	4,200	-
Certificates of deposit, net	718,465	(677,155)
Investment in CoBank	(13,967)	(15,047)
Increase in injection well liability	-	907
Cash flows used in investing activities	<u>118,002</u>	<u>(924,269)</u>
Cash flows from financing activities:		
Funds received for plant expansion-members (net of refunds)	208,040	180,058
Repayment of long-term debt	(316,107)	(301,994)
Cash flows used by financing activities	<u>(108,067)</u>	<u>(121,936)</u>
Net increase (decrease) in cash and cash equivalents	638,079	(554,876)
Cash and cash equivalents - beginning of year	<u>1,053,861</u>	<u>1,608,737</u>
Cash and cash equivalents - end of year	<u>\$ 1,691,940</u>	<u>1,053,861</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, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Reconciliation of net income (loss) to net cash provided by operating activities:		
Net income (loss)	\$ (249,081)	(302,228)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	835,452	840,698
Amortization	3,871	3,871
(Gain) on disposal of assets	(4,200)	-
Cash provided by (used for) changes in:		
Accounts receivable - customers	12,465	(2,311)
Accounts receivable - other	(10,700)	3,982
Accrued interest receivable	1,558	(4,464)
Patronage dividend receivable	2,007	1,916
Inventory, parts, and materials	25,783	(10,931)
Prepaid expenses and other	395	1,706
Accounts payable	4,933	(8,168)
Accrued liabilities	5,661	(32,742)
Cash flows provided by operating activities	<u>\$ 628,144</u>	<u>491,329</u>

See the accompanying notes to financial statements.

GREATER PINE ISLAND WATER ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2011 and 2010

(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, 2011 and 2010.

(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) 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	2011	2010
Employee medical reimbursements	\$ 16,070	3,989

(3) Property, Plant, and Equipment

Property, plant, and equipment are comprised of the following at December 31, 2011 and 2010:

	2011	2010
Land and land improvements	\$ 1,403,797	1,403,797
Well systems	4,302,817	4,293,217
Treatment plant	4,925,028	4,892,259
Distribution system	9,506,263	9,024,219
Pumping stations	2,060,495	2,060,495
Administrative office	309,155	303,658
Field equipment	408,323	404,523
Vehicles	204,978	200,981
Miscellaneous system assets	448,134	448,134
Construction in progress	277,577	236,340
	23,846,567	23,267,623
Less accumulated depreciation	(9,993,750)	(9,170,050)
	\$ 13,852,817	14,097,573

Depreciation expense for the years ended December 31, 2011 and 2010 amounted to \$835,452 and \$840,698 respectively.

GREATER PINE ISLAND WATER ASSOCIATION, INC.

Notes to Financial Statements

(4) Accrued Liabilities

Accrued liabilities are comprised of the following at December 31, 2011 and 2010:

	2011	2010
Accrued sick leave	\$ 190,335	180,290
Customer payments in advance	31,095	26,036
Accrued interest payable	21,168	23,026
Accrued wages and payroll taxes	6,956	13,904
Interest payable to Lee County	1,133	1,805
Other liabilities	35	-
	\$ 250,722	245,061

(5) Long-Term Debt

Long-term debt at December 31, 2011 and 2010 consists of the following:

	2011	2010
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.	\$ 433,471	555,431
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 (\$2,219,389) and a fixed rate of 6.12% on the remainder (\$1,183,674), maturing February 2025. Revenues and substantially all of the real and tangible personal property of the Association collateralize the mortgage payable.	3,403,063	3,597,210
	3,836,534	4,152,641
Less: current maturities	(298,122)	(316,106)
	\$ 3,538,412	3,836,535

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>	
2012	\$ 298,122
2013	319,722
2014	342,920
2015	233,886
2016	221,362
Thereafter	<u>2,420,522</u>
	<u>\$ 3,836,534</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, (2.6% at December 31, 2011). 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, 2011 and 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, 2011 and 2010, accumulated interest payable to Lee County amounted to \$1,133 and \$1,805, 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, 2011 and 2010.

The Association is recognizing a yearly charge to recognize the estimated liability of approximately \$96,860 for its anticipated future cost of plugging the well at the end of its useful life.

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, 2011 and 2010, the Association contributed a total of \$151,027 and \$151,133, respectively, to the Plan in the form of matching contributions of \$26,445 and \$27,470 and discretionary profit sharing contributions of \$124,582 and \$123,663, respectively. The Association also incurred administration costs related to the plan in the amount of \$4,357 and \$3,536 for 2011 and 2010, 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, 2011, the Association is not aware of any further outstanding reimbursements due from FEMA.

(9) Subsequent Events

Management has evaluated subsequent events through January 23, 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