

**GREATER PINE ISLAND
WATER ASSOCIATION, INC.
Financial Statements
December 31, 2013 and 2012**

GREATER PINE ISLAND WATER ASSOCIATION, INC.

Financial Statements

December 31, 2013 and 2012

Table of Contents

Independent Auditor's Report.....	1
Financial Statements:	
Balance Sheets.....	3
Statements of Operations.....	4
Statements of Changes in Members' Equity.....	5
Statements of Cash Flows.....	6
Notes to Financial Statements.....	8
Supplementary Information:	
Schedule 1 - Schedule of Employee Benefit Expense.....	16
Schedule 2 - Schedule of Insurance Expense.....	17
Schedule 3 - Schedule of Professional Fees.....	18
Schedule 4 - Schedule of Miscellaneous Expenses.....	19
Schedule 5 - Schedule of Capital Expenditures.....	20

CPA Associates, LLP

CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

FLORIDA INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

80 ROYAL PALM POINTE
SUITE 203
VERO BEACH, FLORIDA 32960

TELEPHONE 772-778-4666
FACSIMILE 772-778-2150

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying balance sheets of Greater Pine Island Water Association, Inc. as of December 31, 2013 and 2012, 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 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 audit. 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 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 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, 2013 and 2012, 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 Matters

Our audit was conducted 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 directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit 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 generally accepted 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.

CPA Associate, LLP

Vero Beach, Florida

February 6, 2014

GREATER PINE ISLAND WATER ASSOCIATION, INC.

Balance Sheets

December 31, 2013 and 2012

<u>Assets</u>	<u>2013</u>	<u>2012</u>
Current assets:		
Cash and cash equivalents:		
Unrestricted	\$ 1,571,834	1,691,485
Restricted (Note 2)	7,766	25,954
Total cash and cash equivalents	1,579,600	1,717,439
Certificates of deposit:	-	460,000
Accounts receivable:		
Customers	162,720	157,495
Accrued interest receivable	1,209	1,622
Patronage dividend receivable	24,950	23,963
Inventory, parts, and materials	99,702	100,942
Prepaid expenses and other	79,406	68,739
Total current assets	1,947,587	2,530,200
Property, plant, and equipment, net (Note 3)	14,120,589	13,679,068
Other assets:		
Investment in CoBank	307,165	302,582
Restricted certificate of deposit (Note 6)	115,000	115,000
Loan costs, net	16,943	20,814
Total other assets	439,108	438,396
Total assets	\$ 16,507,284	16,647,664

<u>Liabilities and Members' Equity</u>	<u>2013</u>	<u>2012</u>
Current liabilities:		
Current maturities of long-term debt (Note 5)	\$ 340,579	316,829
Accounts payable	149,002	159,225
Accrued liabilities (Note 4)	240,865	253,028
Total current liabilities	<u>730,446</u>	<u>729,082</u>
Long-term liabilities:		
Long-term debt, less current maturities (Note 5)	2,818,664	3,188,810
Injection well liability (Note 6)	17,201	17,201
Total long-term liabilities	<u>2,835,865</u>	<u>3,206,011</u>
Total liabilities	3,566,311	3,935,093
Members' equity:		
Members' fees and capital investments	11,394,456	11,088,182
Retained earnings	1,546,517	1,624,389
Total members' equity	<u>12,940,973</u>	<u>12,712,571</u>
Total liabilities and members' equity	<u>\$ 16,507,284</u>	<u>16,647,664</u>

See the accompanying notes to financial statements.

GREATER PINE ISLAND WATER ASSOCIATION, INC.

Statements of Operations

For the years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating revenues:		
Metered water sales	\$ 3,073,235	3,039,461
Other	42,716	44,267
Total operating revenues	<u>3,115,951</u>	<u>3,083,728</u>
Operating expenses:		
Salaries	961,585	945,580
Depreciation (Note 3)	794,945	829,008
Employee benefits	292,990	257,979
Electricity	247,437	236,887
Insurance	132,760	125,220
Repairs and maintenance	204,562	156,371
Professional fees	120,881	127,189
Taxes and permits	83,170	97,541
Office expense and customer billing	77,669	80,316
Chemicals	54,032	39,037
Miscellaneous	49,491	46,828
Auto and truck	34,757	38,141
Operating supplies	3,961	3,210
Total operating expenses	<u>3,058,240</u>	<u>2,983,307</u>
Operating income	57,711	100,421
Other expenses:		
Interest expense (Note 5)	179,493	200,385
Amortization	3,871	3,871
Total other expenses	<u>183,364</u>	<u>204,256</u>
Other income:		
Interest income	1,445	2,069
Gain on disposal of assets	2,500	5,500
Miscellaneous income	43,836	27,387
Total other income	<u>47,781</u>	<u>34,956</u>
Net loss	<u>\$ (77,872)</u>	<u>(68,879)</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, 2013 and 2012

	Members' Fees and Capital Investments				Total	Retained earnings	Total members' equity
	Membership fees	Meter fees	Capital charges	Aid-In construction			
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	-	-	-	-	-	(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	1,831,469	3,454,515	5,482,100	320,098	11,088,182	1,624,389	12,712,571
Net loss	-	-	-	-	-	(77,872)	(77,872)
New member fees	49,572	135,602	121,055	1,840	308,069	-	308,069
Adjustments and refunds to former members	(1,402)	(393)	10,224	(10,224)	(1,795)	-	(1,795)
Balances at December 31, 2013	<u>\$1,879,639</u>	<u>3,589,724</u>	<u>5,613,379</u>	<u>311,714</u>	<u>11,394,456</u>	<u>1,546,517</u>	<u>12,940,973</u>

See the accompanying notes to financial statements.

GREATER PINE ISLAND WATER ASSOCIATION, INC.

Statements of Cash Flows

For the years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Cash received from customers	\$ 3,154,562	3,096,800
Cash paid to suppliers/employees	(2,295,110)	(2,003,553)
Interest income	1,858	3,353
Interest paid	<u>(180,480)</u>	<u>(198,410)</u>
Cash flows provided by operating activities	680,830	898,190
Cash flows from investing activities:		
Funds used for plant expansion and other capital expenditures	(1,236,466)	(655,259)
Proceeds from sale of assets	2,500	5,500
Certificates of deposit, net	460,000	(120,000)
Investment in CoBank	<u>(4,583)</u>	<u>(12,903)</u>
Cash flows (used) provided in investing activities	(778,549)	(782,662)
Cash flows from financing activities:		
Funds received for plant expansion-members (net of refunds)	306,276	240,866
Repayment of long-term debt	<u>(346,396)</u>	<u>(330,895)</u>
Cash flows used by financing activities	<u>(40,120)</u>	<u>(90,029)</u>
Net increase (decrease) in cash and cash equivalents	(137,839)	25,499
Cash and cash equivalents - beginning of year	<u>1,717,439</u>	<u>1,691,940</u>
Cash and cash equivalents - end of year	<u><u>\$ 1,579,600</u></u>	<u><u>1,717,439</u></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, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Reconciliation of net income (loss) to net cash provided by operating activities:		
Net loss	\$ (77,872)	(68,879)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	794,945	829,008
Amortization	3,871	3,871
(Gain) on disposal of assets	(2,500)	(5,500)
Cash provided by (used for) changes in:		
Accounts receivable - customers	(5,225)	(14,315)
Accounts receivable - other	-	10,700
Accrued interest receivable	413	1,284
Patronage dividend receivable	(987)	1,975
Inventory, parts, and materials	1,240	(10,815)
Prepaid expenses and other	(10,669)	(1,010)
Accounts payable	(10,223)	149,566
Accrued liabilities	(12,163)	2,305
Cash flows provided by operating activities	<u>\$ 680,830</u>	<u>898,190</u>

See the accompanying notes to financial statements.

GREATER PINE ISLAND WATER ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2013 and 2012

(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, 2013 and 2012.

(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

(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, 2013 and 2012, 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.

(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>2013</u>	<u>2012</u>
Employee medical reimbursements	<u>\$ 7,766</u>	<u>25,954</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, 2013 and 2012:

	2013	2012
Land and land improvements	\$ 1,403,797	1,403,797
Well systems	4,302,817	4,302,817
Treatment plant	5,025,599	5,036,785
Distribution system	9,681,694	10,095,347
Pumping stations	2,511,067	2,080,446
Administrative office	309,155	309,155
Field equipment	408,323	408,323
Vehicles	186,487	183,737
Miscellaneous system assets	448,134	448,134
Construction in progress	904,356	194,165
	25,181,429	24,462,706
Less accumulated depreciation	(11,060,840)	(10,783,638)
	\$ 14,120,589	13,679,068

Depreciation expense for the years ended December 31, 2013 and 2012 amounted to \$794,945 and \$829,008, respectively.

(4) Accrued Liabilities

Accrued liabilities are comprised of the following at December 31, 2013 and 2012:

	2013	2012
Accrued sick leave	\$ 175,430	185,616
Customer payments in advance	33,436	33,238
Accrued interest payable	17,102	19,185
Accrued wages and payroll taxes	14,251	14,234
Interest payable to Lee County	604	594
Other liabilities	42	161
	\$ 240,865	253,028

GREATER PINE ISLAND WATER ASSOCIATION, INC.

Notes to Financial Statements

(5) Long-Term Debt

Long-term debt at December 31, 2013 and 2012 consists of the following:

	2013	2012
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.	\$ 168,525	304,632
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 (\$1,950,468) and a fixed rate of 6.12% on the remainder (\$1,040,250), maturing February 2025. Revenues and substantially all of the real and tangible personal property of the Association collateralize the mortgage payable.	2,990,718	3,201,007
	3,159,243	3,505,639
Less: current maturities	(340,579)	(316,829)
	\$ 2,818,664	3,188,810

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

Year ending December 31,	
2014	\$ 340,579
2015	228,700
2016	219,616
2017	233,530
2018	248,328
Thereafter	1,888,490
	\$ 3,159,243

GREATER PINE ISLAND WATER ASSOCIATION, INC.

Notes to Financial Statements

(5) Long-Term Debt, Continued

Interest expense amounted to \$179,493 and \$200,385 as of December 31, 2013 and 2012, respectively. Patronage Dividends from CoBank of \$33,077 and \$36,676 were applied as a reduction of interest expense for the years ended December 31, 2013 and 2012.

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, (2.48% at December 31, 2013). 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, 2013 and 2012.

(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, 2013 and 2012, accumulated interest payable to Lee County amounted to \$604 and \$594, 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, 2013 and 2012.

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. No adjustment of the present value of the estimated future liability was required in December 31, 2013 and 2012.

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, 2013 and 2012, the Association contributed a total of \$146,848 and \$140,987, respectively, to the Plan in the form of matching contributions of \$26,622 and \$25,114 and discretionary profit sharing contributions of \$120,226 and \$115,873, respectively. The Association also incurred administration costs related to the plan in the amount of \$5,140, and \$7,118 for 2013 and 2012, respectively.

(8) Subsequent Events

Management has evaluated subsequent events through February 6, 2014, 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, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Pension costs	\$ 151,989	148,105
Group health insurance	133,100	104,280
Uniforms	<u>7,901</u>	<u>5,594</u>
Total employee benefit expense	<u>\$ 292,990</u>	<u>257,979</u>

See accompanying independent auditor's report.

Schedule of Insurance Expense

For the years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
General insurance	\$ 77,301	69,453
Workers' compensation insurance	39,119	40,754
Vehicle insurance	<u>16,340</u>	<u>15,013</u>
Total insurance expense	<u>\$ 132,760</u>	<u>125,220</u>

See accompanying independent auditor's report.

Schedule of Professional Fees

For the years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Contract services	\$ 59,220	58,351
Engineering fees	30,688	26,428
Accounting fees	20,392	19,577
Legal fees	10,581	22,833
Total professional fees	<u>\$ 120,881</u>	<u>127,189</u>

See accompanying independent auditor's report.

Schedule of Miscellaneous Expenses

For the years ended December 31, 2013 and 2012

	2013	2012
Communications	\$ 17,446	18,244
Water samples	14,863	14,504
Security system	3,707	2,307
Disposal service	3,124	3,178
Continuing education	1,204	1,301
Miscellaneous	9,147	7,294
	<u> </u>	<u> </u>
Total miscellaneous expenses	<u>\$ 49,491</u>	<u>46,828</u>

See accompanying independent auditor's report.

Schedule of Capital Expenditures

For the years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Distribution system	\$ 1,218,567	521,903
Treatment plant	-	111,757
Other equipment	<u>17,899</u>	<u>21,599</u>
Total capital expenditures to property, plant, and equipment	<u>\$ 1,236,466</u>	<u>655,259</u>

See accompanying independent auditor's report.