

GREATER PINE ISLAND WATER ASSOCIATION, INC.
FINANCIAL STATEMENTS FOR THE
YEAR ENDED DECEMBER 31, 2017
AND
INDEPENDENT AUDITORS' REPORT

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT	1-2
FINANCIAL STATEMENTS	
Balance Sheet.....	3-4
Statement of Revenues and Expenses.....	5
Statement of Changes in Members' Equity.....	6
Statement of Cash Flows.....	7-8
Notes to the Financial Statements	9-15
SUPPLEMENTARY INFORMATION	
Schedule of Production and Distribution Expenses	16
Schedule of Administrative Expenses	17
Schedule of Employee Benefit, Insurance, and Professional Fee Expenses.....	18
Schedule of Capital Expenditures	19

Independent Auditors' Report

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

We have audited the accompanying financial statements of Greater Pine Island Water Association, Inc., which comprise the balance sheet as of December 31, 2017, and the related statement of revenue and expenses, changes in members' equity, and cash flows for the year 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 audit 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 judgment, 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, 2017, and the changes in its members' equity and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules on pages 16 through 19 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of 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 as a whole.



SUPLEE, SHEA, CRAMER, & ROCKLEIN, P.A.

Sarasota, FL

February 22, 2018

GREATER PINE ISLAND WATER ASSOCIATION, INC.

Balance Sheet

As of December 31, 2017

ASSETS

	<u>2017</u>
Current Assets	
Cash and cash equivalents	
Unrestricted	\$ 3,741,715
Restricted (Note 2)	<u>11,999</u>
Total Cash and cash equivalents	3,753,714
Accounts receivable	191,209
Accrued interest receivable	694
Patronage dividend receivable	21,742
Inventory	97,873
Prepaid expenses and other assets	<u>123,886</u>
Total Current Assets	4,189,118
Property, Plant, and Equipment, net (Note 3)	13,342,937
Other Assets	
CoBank investment	303,620
Restricted certificate of deposit (Note 7)	<u>115,573</u>
Total Other Assets	419,193
Total Assets	<u><u>\$ 17,951,248</u></u>

GREATER PINE ISLAND WATER ASSOCIATION, INC.

Balance Sheet (continued)

As of December 31, 2017

LIABILITIES AND MEMBERS' EQUITY

	<u>2017</u>
Current Liabilities	
Current maturities of long-term debt (Note 6)	\$ 256,761
Accounts payable	34,946
Accrued liabilities (Note 4)	175,682
Deferred liabilities (Note 5)	40,957
Total Current Liabilities	<u>508,346</u>
Long-Term Liabilities	
Long-term debt, less current maturities (Note 6)	1,803,567
Less: unamortized debt issuance costs	<u>(10,181)</u>
Net Long-Term Debt	1,793,386
Injection well liability (Note 7)	<u>22,400</u>
Total Long-Term Liabilities	<u>1,815,786</u>
Total Liabilities	<u>2,324,132</u>
Members' Equity	
Members' fees and capital investments	12,972,223
Retained earnings	2,654,893
Total Members' Equity	<u>15,627,116</u>
Total Liabilities and Members' Equity	<u>\$ 17,951,248</u>

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

GREATER PINE ISLAND WATER ASSOCIATION, INC.

Statement of Revenue and Expenses

For the year ended December 31, 2017

	<u>2017</u>
Operating Revenues	
Metered water sales	\$ 3,609,984
Other	46,759
Total Operating Revenues	<u>3,656,743</u>
Operating Expenses	
Production	1,033,499
Distribution	408,021
Administrative	913,547
Depreciation (Note 3)	829,842
Total Operating Expenses	<u>3,184,909</u>
Operating Income	<u>471,834</u>
Other Revenues (Expenses)	
Amortization	(1,437)
Interest income	28,718
Interest expense (Note 6)	(114,409)
Gain on asset disposal	12,300
Miscellaneous income	24,939
Total Other Revenues (Expenses)	<u>(49,889)</u>
Excess of Revenue over Expenses	<u>\$ 421,945</u>

GREATER PINE ISLAND WATER ASSOCIATION, INC.

Statement of Changes in Members' Equity

For the year ended December 31, 2017

	Members' Fees and Capital Investments						
	Membership Fees	Meter Fees	Capital Charges	Aid-In Construction	Total	Retained Earnings	Total Members' Equity
Balances as of December 31, 2016	\$ 2,042,380	\$ 4,024,904	\$ 6,162,272	\$ 301,421	\$ 12,530,977	\$ 2,232,948	\$ 14,763,925
Excess of Revenue over Expenses	-	-	-	-	-	421,945	421,945
New member fees	55,296	147,144	234,841	5,126	442,407	-	442,407
Adjustments and refunds to prior members	(1,504)	(173)	7,097	(6,581)	(1,161)	-	(1,161)
Balances as of December 31, 2017	<u>\$ 2,096,172</u>	<u>\$ 4,171,875</u>	<u>\$ 6,404,210</u>	<u>\$ 299,966</u>	<u>\$ 12,972,223</u>	<u>\$ 2,654,893</u>	<u>\$ 15,627,116</u>

GREATER PINE ISLAND WATER ASSOCIATION, INC.

Statement of Cash Flows

For the year ended December 31, 2017

	<u>2017</u>
Cash flows from operating activities:	
Excess of revenue over expenses	<u>\$ 421,945</u>
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:	
Depreciation	829,842
Amortization	1,437
Gain on disposal of assets	(12,300)
Change in restricted certificate of deposit	(573)
Change in deep well injection liability	2,476
Changes in assets and liabilities	
Decrease in all accounts receivable	20,520
Increase in inventory	(19,118)
Increase in prepaid expenses and other assets	(29,021)
Increase in accounts payable, trade	3,731
Increase in accrued liabilities	20,220
Increase in deferred revenue	1,773
Total adjustments	<u>818,987</u>
Net cash provided by operating activities	<u>1,240,932</u>
Cash flows from investing activities:	
Change in CoBank investment	23,657
Proceeds from asset dispositions	12,300
Proceeds from insurance reimbursement	36,014
Capital expenditures	<u>(1,425,089)</u>
Net cash used by investing activities	<u>(1,353,118)</u>

GREATER PINE ISLAND WATER ASSOCIATION, INC.

Statement of Cash Flows (continued)

For the year ended December 31, 2017

	<u>2017</u>
Cash flows from financing activities:	
Repayment of long-term debt	(246,710)
Members' fees and capital investments	<u>441,246</u>
Net cash provided by financing activities	<u>194,536</u>
Increase in cash and cash equivalents	82,350
Cash and cash equivalents at beginning of year	<u>3,671,364</u>
Cash and cash equivalents at end of year	<u><u>\$ 3,753,714</u></u>

GREATER PINE ISLAND WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017

Note 1 - Organization and Significant Accounting Policies

Organization

The Greater Pine Island Water Association, Inc., (the "Association"), is a private organization incorporated under the laws of the State of Florida on July 2, 1964, as a not-for-profit cooperative corporation. The purpose of the Association is to supply 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.

Significant Accounting Policies

Basis of Accounting

The financial statements of the Association have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Cash and Cash Equivalents

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.

Unrestricted Certificates of Deposit

Unrestricted certificates of deposit are stated at cost, which are approximates of market, and are included in cash and cash equivalents.

Fair Value of Financial Instruments

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

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 sheet as of December 31, 2017.

Inventory

Inventory is recorded at the lower of cost (first-in, first-out) or net realizable value. Inventory consists of supplies, parts, and materials to maintain the Association's equipment.

Property, Plant, and Equipment

Property, plant, and equipment is 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 ranges from three to forty years.

GREATER PINE ISLAND WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017

Note 1 - Organization and Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

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.

CoBank Investment

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

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.

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 maximum accumulation of 260 hours to employees leaving the Association's employ after 20 years of service, at the employee's most recent hourly wage rate.

Members' Equity

To become a member of the Association a membership fee must be paid. The membership fee consists of the following: basic membership fee, meter fee, impact fee, and in some instances an aid-in construction fee. In addition, current earnings and losses are allocated to members based upon their proportionate share of consumption.

Revenue Recognition

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

Income Taxes

No provision has been made for income taxes. The Association is a tax-exempt organization under IRC Section 501(c)(12), whereby only unrelated business income is subject to income tax. For the fiscal years ended December 31, 2017, the Association's entire gross income has come under Section 115(a) and, therefore, includes no unrelated business income.

GREATER PINE ISLAND WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017

Note 1 - Organization and Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

Income Taxes (continued)

ASC Topic 740 requires the Organization to recognize in the financial statements the impact of a tax position, if that position is more likely than not of being sustained on audit, based on technical merits of the position. The Organization has determined that it does not have any material unrecognized tax benefits or obligations as of December 31, 2017.

The Association files a U.S. Federal information return of an organization exempt from income tax (Form 990). The Federal returns for the tax years 2014 through 2016 remain subject to examination by the Internal Revenue Service.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the certain reported amounts and disclosures of 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.

Initial Adoption of Accounting Policies

The Association adopted the Accounting Standards Updated 2015-03, Simplifying the Presentation of Debt Issuance Cost (ASU 2015-03). The FASB issued this update to simplify the presentation of debt issuance costs related to a recognized debt liability to present the debt issuance costs as a direct deduction from the carrying value of the debt liability, rather than showing the debt issuance cost as an asset. As the adoption of this new guidance only amended presentation and disclosure requirements and did not impact its recognition and measurement, the adoption did not materially affect the Association's financial position, results of operations or cash flows.

Note 2 – Cash and Cash Equivalents

Cash and cash equivalents consist of both unrestricted and restricted funds. Restrictions on cash and cash equivalents are board of director designated funds. The designations consist of the following:

	<u>2017</u>
Employee medical reimbursements	\$ <u>11,999</u>

GREATER PINE ISLAND WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017

Note 3 – Property, Plant, and Equipment

Details of property, plant, and equipment as of December 31, 2017 is as follows:

	<u>2017</u>
Land and land improvements	\$ 1,587,653
Well systems	4,314,263
Water treatment plant	5,492,852
Distribution system	11,636,135
Pumping stations	2,537,034
Administrative office	295,893
Field equipment	479,041
Vehicles	201,638
Miscellaneous system assets	<u>466,299</u>
	27,010,808
Less accumulated depreciation	<u>(13,667,871)</u>
	<u>\$ 13,342,937</u>

Depreciation for the year ended December 31, 2017 was \$829,842.

Note 4 – Accrued Liabilities

Details of accrued liabilities as of December 31, 2017 are as follows:

	<u>2017</u>
Accrued sick leave	\$ 130,627
Accrued interest payable	10,970
Accrued wages and payroll taxes	33,739
Interest payable to Lee County	<u>346</u>
	<u>\$ 175,682</u>

Note 5 – Deferred Revenue

Details of deferred revenue as of December 31, 2017 are as follows:

	<u>2017</u>
Customer payments received in advance of billing	\$ <u>40,957</u>

GREATER PINE ISLAND WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017

Note 6 - Long-Term Debt

Following is a summary of long-term debt as of December 31, 2017:

	<u>2017</u>
Mortgage note payable to CoBank. Payable in monthly installments, including interest at a fixed rate of 6.18% on a fixed amount of the note payable (\$1,504,590) and a fixed rate of 6.12% on the remainder of the note payable balance. The note payable is secured by revenues and the real and tangible personal property of the Association. The note payable matures in February 2025.	\$ <u>2,060,328</u>
Total Long-term debt	2,060,328
Less:	
Current maturities	<u>(256,761)</u>
Unamortized debt issuance costs	<u>(10,181)</u>
	\$ <u><u>1,793,386</u></u>

Following are maturities of long-term debt for each of the next five years:

2018	\$ 256,761
2019	267,222
2020	278,109
2021	289,440
2022	301,232
Thereafter	<u>667,564</u>
	\$ <u><u>2,060,328</u></u>

Loan restrictions and covenants

The mortgage note payable between the Association and CoBank noted above contains restrictions and covenants that prevent or restrict the Association from engaging in certain transactions without the consent of Cobank. There are additional financial ratio requirements that were met during the reporting period.

Note 7 – Letter of Credit and Injection Well Liability

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, FL jointly maintain a letter of credit with a commercial bank for the deep well injection system, which was a jointly funded project. The Association and Lee County, FL jointly funded a certificate of deposit in the amount of \$230,000, which serves as security for the letter of credit.

GREATER PINE ISLAND WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017

Note 7 – Letter of Credit and Injection Well Liability (continued)

Interest earned is allocable to both parties and may accumulate in the account. As of December 31, 2017 accumulated payable interest to Lee County, FL amounted to \$346. The Association's portion of the certificate of deposit is reported in the accompanying balance sheet as of December 31, 2017 as a restricted certificate of deposit amounting to \$115,573.

The Association is recognizing a yearly charge to recognize the estimated liability of approximately \$103,255 for its anticipated future cost of plugging the well at the end of its useful life. The current present value liability amounts to \$22,400 as of December 31, 2017.

Note 8 – Members' Equity

Members' equity consists of the following as of December 31, 2017:

	<u>2017</u>
Membership fees	\$ 2,096,172
Meter fees	4,171,874
Impact fees	6,404,210
Unallocated impact fees	52,215
Aid-in construction contributions	<u>247,752</u>
	<u>\$ 12,972,223</u>

Note 9 – 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 year ended December 31, 2017 the Association contributed a total of \$103,437 to the Plan in the form of matching contributions of \$27,077 and discretionary profit sharing contributions of \$76,360. The Association also incurred administrative costs related to the plan in the amount of \$7,877 for the reporting period.

Note 10 - Concentrations of Credit Risk

The Association maintains its cash accounts at commercial banks. Such amounts on deposit are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. The Association had \$188,064 on deposit at commercial banks exceeding the portion insured by the FDIC as of December 31, 2017.

GREATER PINE ISLAND WATER ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017

Note 11 – Subsequent Events

Subsequent events were evaluated through February 22, 2018, which is the date 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.

GREATER PINE ISLAND WATER ASSOCIATION, INC.

Schedule of Production and Distribution Expenses

For the year ended December 31, 2017

	<u>2017</u>
Production Expenses	
Salaries	\$ 407,858
Employee benefits	111,315
Chemicals	58,827
Electricity	207,340
Office expense	24,050
Professional fees	23,768
Repairs and maintenance	175,536
Miscellaneous expense	24,805
Total Production Expenses	<u>\$ 1,033,499</u>
Distribution Expenses	
Salaries	\$ 271,161
Employee benefits	73,278
Professional fees	1,676
Repairs and maintenance	60,256
Miscellaneous expense	1,650
Total Distribution Expenses	<u>\$ 408,021</u>

GREATER PINE ISLAND WATER ASSOCIATION, INC.

Schedule of Administrative Expenses

For the year ended December 31, 2017

	<u>2017</u>
Administrative Expenses	
Salaries	\$ 352,504
Employee benefits	67,828
Electricity	5,688
Insurance	152,919
Office expense	67,538
Operating supplies	4,105
Professional fees	114,686
Repairs and maintenance	3,892
Taxes and permits	90,416
Vehicle expense	33,872
Miscellaneous expense	20,099
Total Administrative Expenses	<u>\$ 913,547</u>

GREATER PINE ISLAND WATER ASSOCIATION, INC.

Schedule of Employee Benefit, Insurance, and Professional Fee Expenses

For the year ended December 31, 2017

	<u>2017</u>
Employee Benefit Expense	
Group health insurance	\$ 135,895
Pension expense	111,314
Uniforms	5,212
Total Employee Benefit Expense	<u>\$ 252,421</u>
Insurance Expense	
General insurance	\$ 113,882
Workers' compensation insurance	21,981
Vehicle insurance	17,056
Total Insurance Expense	<u>\$ 152,919</u>
Professional Fees	
Contract services	\$ 104,369
Auditing	19,800
Legal	14,487
Engineering	1,474
Total Professional fees	<u>\$ 140,130</u>

GREATER PINE ISLAND WATER ASSOCIATION, INC.

Schedule of Capital Expenditures

For the year ended December 31, 2017

	<u>2017</u>
Capital Expenditures	
Land and land improvements	\$ 80,549
Water treatment plant	262,969
Water meters	38,300
Center pump station	25,967
Field equipment	114,533
Vehicles	61,151
Miscellaneous	6,678
CIP-primary mains (over 6")	<u>834,942</u>
Total Capital Expenditures	<u><u>\$ 1,425,089</u></u>