

**THE ISLAND WATER ASSOCIATION, INC.**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2010 AND 2009**

**THE ISLAND WATER ASSOCIATION, INC.  
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## INDEPENDENT AUDITORS' REPORT

Board of Directors and Members  
The Island Water Association, Inc.  
Sanibel, Florida

We have audited the accompanying balance sheets of The Island Water Association, Inc. as of December 31, 2010 and 2009, and the related statements of operations and system investment, changes in system investment, 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 The 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.

*LarsonAllen LLP*  
LarsonAllen LLP

Fort Myers, Florida  
February 14, 2011



(1)  
An independent member of Nexia International

**THE ISLAND WATER ASSOCIATION, INC.**  
**BALANCE SHEETS**  
**DECEMBER 31, 2010 AND 2009**

<b>ASSETS</b>	2010	2009
<b>PLANT PROPERTY</b>		
Utility Plant in Service	\$ 44,194,200	\$ 43,449,100
Less: Accumulated Depreciation	(22,000,300)	(21,296,300)
	22,193,900	22,152,800
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	1,649,500	1,248,600
Accounts Receivable	433,600	400,500
Unbilled Revenue	351,500	303,600
Prepayments and Other	180,700	197,700
	2,615,300	2,150,400
<b>INVESTMENTS</b>		
Participation Certificates	390,200	452,300
<b>BOARD RESTRICTED ASSETS</b>		
Reserve Fund, Marketable Securities	3,858,600	3,871,100
<b>RESTRICTED ASSETS</b>		
Marketable Securities	960,900	960,900
<b>TOTAL ASSETS</b>	<b>\$ 30,018,900</b>	<b>\$ 29,587,500</b>

See accompanying Notes to Financial Statements.

**THE ISLAND WATER ASSOCIATION, INC.  
BALANCE SHEETS (CONTINUED)  
DECEMBER 31, 2010 AND 2009**

	2010	2009
<b>CAPITALIZATION, LIABILITIES AND MEMBERS' CONTRIBUTIONS</b>		
<b>CAPITALIZATION</b>		
Net Revenues Reinvested in the Water System	\$ 10,000,000	\$ 9,442,200
Member's Contribution in Aid of Construction (CIAC)	15,276,400	15,162,500
Other Comprehensive Income	(76,400)	(540,700)
	25,200,000	24,064,000
<b>LONG-TERM LIABILITIES</b>		
Injection Well Liability	111,300	104,000
Postretirement Health Insurance Liability	1,355,200	1,645,300
Long-Term Debt, Less Current Maturities	2,610,000	3,082,700
	4,076,500	4,832,000
<b>CURRENT LIABILITIES</b>		
Current Portion of Long-Term Debt	430,100	365,100
Accounts Payable and Accrued Expenses	312,300	326,400
	742,400	691,500
<b>TOTAL CAPITALIZATION, LIABILITIES AND MEMBERS' CONTRIBUTIONS</b>	<b>\$ 30,018,900</b>	<b>\$ 29,587,500</b>

See accompanying Notes to Financial Statements.

**THE ISLAND WATER ASSOCIATION, INC.**  
**STATEMENTS OF OPERATIONS AND SYSTEM INVESTMENT**  
**YEARS ENDED DECEMBER 31, 2010 AND 2009**

	2010	2009
<b>OPERATING INCOME</b>	\$ 6,522,200	\$ 6,473,500
<b>OPERATING COSTS</b>		
Operations	1,820,800	1,857,700
Maintenance	878,200	877,200
Administration	2,317,000	2,253,400
Depreciation	895,800	943,700
Total Operating Costs	5,911,800	5,932,000
Operating Income	610,400	541,500
<b>OTHER INCOME</b>		
Interest and Earnings from Investments	104,100	14,300
Other Income	89,300	63,200
Total Other Income	193,400	77,500
Income Before Interest Charges	803,800	619,000
<b>INTEREST CHARGES ON LONG-TERM DEBT</b>	270,600	324,300
Less: Interest Capitalized into Capital Projects	(24,600)	(3,800)
Total Interest Charges	246,000	320,500
Net Income	557,800	298,500
<b>NET REVENUES REINVESTED IN THE WATER SYSTEM</b>		
Beginning of Year	9,442,200	9,143,700
End of Year	\$ 10,000,000	\$ 9,442,200

See accompanying Notes to Financial Statements.

**THE ISLAND WATER ASSOCIATION, INC.**  
**STATEMENTS OF CHANGES IN SYSTEM INVESTMENT,**  
**MEMBER'S CONTRIBUTION IN AID OF CONSTRUCTION AND**  
**ACCUMULATED OTHER COMPREHENSIVE INCOME**  
**YEARS ENDED DECEMBER 31, 2010 AND 2009**

	System Investment	Member's Contribution in Aid of Construction	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2008	\$ 9,143,700	\$ 15,001,900	\$ (657,600)	\$ 23,488,000
Net Income for 2009	298,500	-	-	298,500
New Members	-	93,285	-	93,285
Meter Upgrades	-	64,375	-	64,375
Reconnections	-	2,940	-	2,940
Comprehensive Income:				
Reduction Due to Employee Turnover	-	-	52,400	52,400
Amortization of Transition Obligation	-	-	64,500	64,500
Total	298,500	160,600	116,900	576,000
Balance, December 31, 2009	9,442,200	15,162,500	(540,700)	24,064,000
Net Income for 2010	557,800	-	-	557,800
New Members	-	76,720	-	76,720
Meter Upgrades	-	35,000	-	35,000
Reconnections	-	2,180	-	2,180
Comprehensive Income:				
Actuarial Gain, including Effect of Change in Discount Rate	-	-	424,000	424,000
Amortization of Actuarial Gain	-	-	(24,200)	(24,200)
Amortization of Transition Obligation	-	-	64,500	64,500
Total	557,800	113,900	464,300	1,136,000
Balance, December 31, 2010	<u>\$ 10,000,000</u>	<u>\$ 15,276,400</u>	<u>\$ (76,400)</u>	<u>\$ 25,200,000</u>

See accompanying Notes to Financial Statements.

**THE ISLAND WATER ASSOCIATION, INC.  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2010 AND 2009**

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received - Customers and Operating Activities	\$ 6,592,600	\$ 6,459,400
Cash Paid to Suppliers and Employees	(4,838,900)	(4,830,900)
Earnings from Investments	137,200	153,500
Interest Paid (Net of Amount Capitalized)	(238,700)	(313,700)
	1,652,200	1,468,300
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital Expenditures (Including Capitalized Interest of \$24,600 and \$3,800 for 2010 and 2009, respectively)	(936,900)	(514,700)
Purchases of Marketable Securities	(1,300,600)	(1,551,500)
Redemption of Marketable Securities	1,280,000	1,280,000
	(957,500)	(786,200)
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment of Debt	(407,700)	(422,100)
Increase in Members' Contributions In Aid of Construction	113,900	160,600
	(293,800)	(261,500)
 <b>INCREASE IN CASH AND EQUIVALENTS</b>	400,900	420,600
Cash and Equivalents at Beginning of Year	1,248,600	828,000
 <b>CASH AND EQUIVALENTS AT END OF YEAR</b>	\$ 1,649,500	\$ 1,248,600

See accompanying Notes to Financial Statements.

**THE ISLAND WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

**NOTE 1    SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations**

The Island Water Association, Inc. (the "Association") is a not-for-profit organization exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(4). The Association provides water to commercial and residential structures on Sanibel and Captiva Islands, two barrier islands located in Southwest Florida.

On July 16, 1996, the Association was granted a 20-year franchise by the Board of County Commissioners of Lee County, Florida (the "County") and the City of Sanibel (the "City"). This franchise agreement requires that the Sanibel City Council approve any rate changes requested by the Association.

As a requirement for qualification for exemption from real estate taxes, the Articles of Incorporation provides that "Upon retirement of all outstanding indebtedness of the corporation, ownership of the corporation shall revert to Lee County." Further, and subject to the foregoing, the franchise gives the City of Sanibel and Lee County the first right of refusal and an option to purchase the corporation for fair market value.

Each connection for the services rendered by the Association entitles the subscriber to one membership certificate. At any meeting of the members of the Association, each member is entitled to only one vote, regardless of the number of certificates of membership held.

The Association is subject to various commitments, contingencies and restrictions due to obtaining permits from the State of Florida and from the South Florida Water Management District.

**Income Taxes**

The Island Water Association is a not-for-profit organization and as such is not subject to income tax. As of the date of this report, the Association has not undertaken any activities that would potentially jeopardize its status as a not-for-profit organization.

The Association adopted the income tax standard for uncertain tax positions on January 1, 2009. As a result of the implementation, the Association did not have to recognize a liability for any unrecognized tax positions. The Association has never been examined by the Internal Revenue Service, but the Association's tax returns for 2008, 2009, and 2010 are open for examination by the Internal Revenue Service.

**Utility Plant in Service**

Utility plant in service is recorded at cost or at fair value if the assets are contributed to the Association from a developer. Depreciation is provided by depreciating a group of assets over their estimated useful lives of each group, using the straight-line method. The cost of depreciable plant assets retired, plus the cost of removal, less any sale proceeds, is charged against accumulated depreciation.

**THE ISLAND WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Cash and Cash Equivalents**

For the purpose of the statement of cash flows, the Association considers all highly liquid debt instruments with an initial maturity of less than three months to be cash equivalents. The balances are insured by the Federal Deposit Insurance Corporation up to certain limits. At times the amounts in the bank accounts may exceed FDIC insurable limits.

**Marketable Securities**

Marketable securities consist entirely of U.S. Treasury Securities and are carried at fair market value. These securities are not considered to be cash equivalents.

**Accounts Receivable**

The Association recognizes uncollectible accounts on an individual basis. In management's opinion, the amount of uncollectible accounts at any point in time is negligible and a reserve for uncollectible accounts is not necessary.

**Unbilled Revenues**

Unbilled revenues represent estimated revenues between the last dates of the cycle billings and year-end.

**Investments**

The Association is required to invest in participation certificates in the National Bank for Cooperatives (Co-Bank) as a requirement of its debt agreement. The Association recognizes income from this investment on the accrual basis. This method records income and increases the Association's invested amount, based on the patronage dividends declared by the bank. Refer to Note 5 for a more complete explanation of these participation certificates.

**Allowance for Funds Used During Construction**

Interest is capitalized on funds used during construction at the weighted average rate paid by the Association on its long-term debt. Interest capitalized for the years ending December 31, 2010 and 2009 was \$24,600 and \$3,800, respectively.

**Members' Contributions in Aid of Construction**

Members' contributions in aid of construction amounts consist of connection fees received from members and distribution lines contributed to the Association by real estate developers since the inception of the Association. These distribution lines are valued at an estimate of the developers' costs and are added to the Association's transmission and distribution plant.

**Accumulated Other Comprehensive Income**

Accumulated Other Comprehensive Income is required to be presented for each year a statement of operations is presented. At December 31, 2010, accumulated other comprehensive income consists of the unamortized prior service costs and the unamortized actuarial gain associated with its post-retirement health insurance benefit plan. See Note 7 for further details on the post-retirement health insurance obligation.

**THE ISLAND WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fair Value Measurements**

The Association measures fair value using a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The objective of a fair value measurement is to determine the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Accordingly, the fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The Association may use valuation techniques consistent with the market, income and cost approaches to measure fair value.

The inputs used to measure fair value are categorized into the following three categories:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Association has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

**Estimates**

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States. Those estimates and assumptions affect the reported amounts of assets and liabilities, and the reported revenues and expenses. Actual results could vary from these estimates.

**THE ISLAND WATER ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONTINUED)**

**Subsequent Events**

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through February 14, 2011, the date the financial statements were available to be issued.

**NOTE 2 UTILITY PLANT IN SERVICE**

Utility plant in service consists of the following:

	2010	2009
Source of Supply Plant	\$ 7,904,800	\$ 7,601,400
Pumping Plant	980,500	967,700
Water Treatment Plant	9,896,600	9,837,000
Transmission and Distribution Plant	21,367,300	21,140,900
General Plant	3,948,600	3,902,000
Construction WIP	96,400	-
	\$ 44,194,200	\$ 43,449,100

**NOTE 3 FAIR VALUE MEASUREMENTS**

The Association's balance sheet at December 31, 2010 and 2009 include securities which are recorded at fair value on a recurring basis:

Year	Description	Quoted Prices in Active Markets for Identical Assets (Level 1)
2010	United States Treasury Securities	\$ 4,819,500
2009	United States Treasury Securities	\$ 4,832,000

Fair value measurement is based on quoted market prices. The unrealized gain (loss) on these securities as of December 31, 2010 and 2009 was (\$33,100) and \$139,000, respectively.

**THE ISLAND WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

**NOTE 4 DEPARTMENT OF ENVIRONMENTAL PROTECTION**

The Association operates a deep injection well as a disposal site for its brine waste water. The Department of Environmental Protection (DEP) requires operators of deep injection wells to meet certain financial tests to demonstrate that the operators can plug the well when it is necessary. The Association has set aside \$461,000 in treasury notes in a holding account approved by the DEP, in order to be in compliance with the DEP regulations. These funds are presented as restricted funds on the Association's balance sheet at December 31, 2010. In addition, the obligation is backed up by a Standby Letter of Credit issued by Bank of America for \$461,000.

The Association is recognizing a yearly charge to recognize the \$461,000 liability for the anticipated cost of plugging this well in 2031.

As of December 31, 2009, the Association had accrued \$104,000 in disposal charges. During the year ending December 31, 2010, the Association recognized \$7,300 in expenses associated with the accrual of this obligation. At December 31, 2010, disposal charges accrued totaled \$111,300.

**NOTE 5 LONG-TERM DEBT**

Long-term debt, all of which is payable to Co-Bank, consists of the following:

	<u>2010</u>	<u>2009</u>
11.22% Mortgage Note Payable in quarterly installments of \$62,825, including interest; final payment due April 2014	\$ 668,900	\$ 832,600
9.90% Mortgage Note Payable, monthly payment of principal and interest in the amount of \$3,824; final payment due April 2014	123,400	154,100
6.75% Mortgage Note Payable which financed the drilling of a deep injection well, monthly principal payment of \$10,000 plus interest; final payment due December 2024	1,680,000	1,800,000
7.03% Mortgage Note Payable which financed the repair of the deep injection well, monthly payment of \$7,778, plus interest; final payment due December 2016	<u>567,800</u>	<u>661,100</u>
	3,040,100	3,447,800
Less: Current Maturities	<u>(430,100)</u>	<u>(365,100)</u>
	<u>\$ 2,610,000</u>	<u>\$ 3,082,700</u>

**THE ISLAND WATER ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009**

**NOTE 5 LONG-TERM DEBT (CONTINUED)**

Maturities of long-term debt as of December 31, 2010 are as follows:

<u>Year Ended December 31,</u>	
2011	\$ 430,100
2012	454,900
2013	482,700
2014	277,800
2015	213,300
Thereafter	<u>1,181,300</u>
	<u><u>\$ 3,040,100</u></u>

Substantially all assets are pledged as collateral for long-term debt.

The agreements with Co-Bank calls for the Association to maintain a cash or marketable securities balance of \$500,000 to be used for repair or replacement of plant assets, payments of principal and interest, and for expansion of plant assets with prior lender approval. This amount is presented in the restricted assets amount noted on the balance sheet. The agreement precludes the Association from entering into other indebtedness and requires certain working capital and tangible net worth ratios be maintained.

The agreements with Co-Bank also call for certain financial covenants to be met. The first of these is a debt-service coverage ratio of not less than 1.50 to 1, defined as the ratio of net income plus depreciation expense, amortization expense and interest expense, over all principal payments plus all interest expense. The second financial covenant is a debt to operating cash flow ratio of not greater than 6.0 to 1, defined as total debt over the sum of net income plus depreciation expense, amortization expense, and interest expense. The third financial covenant is a debt to capitalization ratio of not more than 0.60 to 1, defined as total debt over total capitalization. Management believes the Association is in compliance with all financial covenants.

The loan agreements provide for a penalty if the loans are paid off prior to maturity. The penalty approximates the net present value of the difference between current market interest rates and the debt's stated rate. At the end of 2010 and 2009, the approximate amount of the penalty was \$477,000 and \$507,500, respectively.

The Association is required to purchase Participation Certificates in Co-Bank. These certificates are required by the Farm Credit Act of 1971 and the bank's capital plan, as adopted by its Board of Directors, and represent capital ownership by the Association in the bank. Additionally, the Association is allocated income from these participation certificates based on the bank's profitability.

**THE ISLAND WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

**NOTE 6 PENSION PLANS**

The Association maintains one “safe harbor 401(k) plan.” This plan allows for two types of retirement funding. One type is a fixed-rate contributory plan, covering substantially all employees. This plan requires the Association to contribute annually an amount equal to 10% of each employee's salary, plus an additional 5.7% of any salary in excess of the social security taxable wage base. The Association's contributions for 2010 and 2009 were approximately \$204,900 and \$208,300, respectively, for this portion of the plan.

The second type of retirement funding is a salary deferral savings plan with limited company match. This portion of the plan allows employees to defer salary up to the maximum allowed by the limitations imposed by the Internal Revenue Code through payroll deductions. In accordance with the provisions of the plan, the Association will match 100% of employee contributions up to a maximum amount of 5% of gross pay and the Association will also match 50% of any deferral amount over 5%, but not more than 10% of gross pay. For the years ended December 31, 2010 and 2009, the Association recorded expense for the matching contributions of \$129,400 and \$134,300, respectively.

**NOTE 7 POST-RETIREMENT BENEFIT PLAN**

In 2005, the Association instituted a retirement health insurance benefit plan covering all employees and their spouses. Under the plan, retiree benefits are refunded by the associated at the rate of 100% for the retiree and 75% for the retiree's spouse. The plan provides for the reimbursement of so called “Medi-Gap” insurance premiums for retired employees and their spouses over the age of 65 for the remainder of their lifetime.

For the year ended December 31, 2007, the Association adopted the accounting guidance for the recording of its post-retirement health insurance obligation. The accounting guidance requires the cost of the post-retirement benefit to be recognized over the term of the employee's period of employment. In addition, the initial implementation of the accounting principle created a transition obligation element for the cost of the program incurred before the actual implementation of the plan. This transition obligation has been recorded into other comprehensive income and is being amortized into health insurance expense ratably over a period of 12 years, consistent with existing accounting standards.

From December 31, 2007 through December 31, 2009, the Association was accruing an amount annually that was calculated to ultimately equal the present value of the anticipated liability for each employee upon retirement. The calculation of this anticipated liability was based on a detailed list of employees, their anticipated retirement dates, their life expectancies based on actuarial tables provided by the government, and the estimated discount and health care cost trend rates disclosed below.

For the year ending December 31, 2010, the Association's post-retirement health insurance obligation, and the additions and reductions to that obligation disclosed below, have been calculated by an actuary. Key estimates used in the actuary's calculation, and estimated future benefit costs, are disclosed below.

**THE ISLAND WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

**NOTE 7 POST-RETIREMENT BENEFIT PLAN (CONTINUED)**

The changes in the accrued post-retirement health insurance obligation for the years ended December 31, were as follows:

	<u>2010</u>	<u>2009</u>
Beginning of the year	\$ 1,645,300	\$ 1,577,200
Increase for annual cost of benefit	78,700	167,800
Reduction due to employee turnover	-	(82,000)
Interest cost	67,800	-
Actuarial gain, including effect of change in discount rate	(424,000)	-
Benefit payments made in 2010	<u>(12,600)</u>	<u>(17,500)</u>
End of the year	<u>\$ 1,355,200</u>	<u>\$ 1,645,500</u>

The following changes in the post-retirement health insurance obligation were recognized in accumulated other comprehensive income:

	<u>2010</u>	<u>2009</u>
Beginning of the year	\$ 540,700	\$ 657,600
Actuarial gain, including effect of change in discount rate	(424,000)	-
Reduction due to employee turnover	-	(52,400)
Amortization of actuarial gain	24,200	-
Amortization of transition obligation	<u>(64,500)</u>	<u>(64,500)</u>
End of the year	<u>\$ 76,400</u>	<u>\$ 540,700</u>

The actuarial gain recorded in the table above is primarily to result of an increase in the discount rate used in the 2010 calculation performed by an actuary. The discount rate used in 2010 increased to 5.76% from the rate of 2.85% used in the 2009 calculation.

The following table presents the components of the net post-retirement benefit cost included in administrative expenses in the Statements of Operations and System Investment for the years ended December 31:

	<u>2010</u>	<u>2009</u>
Current Year Charges	\$ 146,500	\$ 167,800
Amortization of transition obligation	64,500	64,500
Amortization of actuarial gain	<u>(24,200)</u>	<u>-</u>
Net postretirement benefit costs	<u>\$ 186,800</u>	<u>\$ 232,300</u>

**THE ISLAND WATER ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

**NOTE 7 POST-RETIREMENT BENEFIT PLAN (CONTINUED)**

The following items included in accumulated other comprehensive income have not yet been recognized in net post-retirement benefit cost:

	<u>2010</u>	<u>2009</u>
Actuarial gain	\$ (399,800)	\$ -
Net transition obligation	<u>476,200</u>	<u>540,700</u>
Total amounts not yet recognized	<u>\$ 76,400</u>	<u>\$ 540,700</u>

The following amounts will be amortized into net post-retirement benefit cost during the year ending December 31, 2011:

Amortization of actuarial gain	\$ (24,200)
Amortization of transition obligation	<u>64,500</u>
Total	<u>\$ 40,300</u>

The plan is unfunded and will be paid for out of current operations as payments are required.

Assumptions used to determine postretirement health insurance benefit costs:

	<u>2010</u>	<u>2009</u>
Discount rate for obligation	5.76%	2.85%
Health care cost trend rate	10.00%	6.00%
* Ultimate trend rate	5.00%	0%

\* The ultimate trend rate is the rate at which the health care cost trend rate is assumed to decline. No ultimate trend rate was used in the client prepared calculation for 2009. The ultimate trend rate used by the actuary for the calculation of the liability at December 31, 2010 is expected to be achieved in 2020.

The following estimated future benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the following years:

Actual payments under this plan, based on expected retirement dates, are projected to be paid as follows (benefit payments are in future year dollars):

<u>Year ended December 31,</u>	
2011	\$ 9,000
2012	10,800
2013	13,900
2014	19,000
2015	19,000
2016-2020	\$ 333,100

**THE ISLAND WATER ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009**

**NOTE 8 STATEMENTS OF CASH FLOWS**

Presented below is the reconciliation of net income to net cash provided by operating activities.

	<u>2010</u>	<u>2009</u>
Net Income	\$ 557,800	\$ 298,500
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	895,800	943,700
Amortization of Accumulated OCI	40,300	116,900
Unrealized Security Gain (Loss)	33,100	139,200
(Increase) Decrease in:		
Accounts Receivable	(81,000)	(79,800)
Prepayments and Other	79,100	30,200
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	(6,900)	(48,500)
Other Post-Employment Benefits	134,000	68,100
Net Cash Provided by Operating Activities	<u>\$ 1,652,200</u>	<u>\$ 1,468,300</u>