



The Water Authority of the Cayman Islands



Cayman Brae RO Plant February 2003

ANNUAL REPORT

For the first half of 2003 Financial Year



ANNUAL REPORT

For

The Water Authority of the Cayman Islands

For the 2003 Financial Year

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1. Purpose

This annual report details the performance of The Water Authority of the Cayman Islands for the half year period ending 30 June 2003.

It includes information about the actual performance delivered during the year as compared to the planned performance as documented in the internal budget document as prepared by The Water Authority of the Cayman Islands (The Authority) in November 2002.

2. Nature and Scope of Activities

This section outlines the Nature and Scope of Activities within which The Water Authority of the Cayman Islands operated during the year.

Approved Nature and Scope of Activities

The Water Authority's activities are;

To ensure that the entire population of the Cayman Islands have access to a pure, wholesome and affordable supply of potable water; and to regulate other entities who are licensed by the Government to provide public water supplies.

To protect and develop groundwater resources for the benefit of present and future populations of these islands.

To provide for the collection, treatment and disposal of sewage within these islands in a manner that is safe, efficient and affordable.

To operate in such a manner as to be financially self-sufficient, while contributing to the economy of these islands and achieving a reasonable and acceptable return on capital investments.

Compliance during the Year

Throughout the 2003 half year period the Authority complied with the defined mission statement as described above.

To ensure that the population of the Cayman Islands has access to pure, wholesome and affordable drinking water the Authority extended the distribution pipeline throughout to the district of East End at a cost of \$0.2 million. Construction Management and Engineering Company completed, on the Authority's behalf, 3,800 linear feet of 3-inch and 4-inch mains to extend the distribution system into the Frenchman's Drive area in Bodden Town for the contracted amount of \$145,500.

To ensure that the population of the Cayman Islands had access to safe, efficient and affordable sewage treatment the Authority continued work on the new Wastewater Treatment Plant facility, spending 2.7 million (19% of total project cost) in the six month period.

During the course of the period the Authority sold 1.2 million m³ of water (6 months) (2002: 2.3 million m³ in 12 months) and processed 0.95 million m³ of wastewater in 6 months (2002: 1.7 million m³ for 12 months) in Grand Cayman. In Cayman Brae the amount of water sold in the 6 month period was 0.04 million m³.

In compliance with the Water Authority Regulations the Water Resources Department reviewed development applications, submitted through the Planning Department.

The Authority prides itself on its fiscal management and ability to be self sufficient. Throughout the six month fiscal period the Authority had a positive net surplus and maintains its fiscal independence, contributing \$75,000 to the Government of the Cayman Islands and investing over \$3.6 million in capital infrastructure.

As at 30 June 2003, The Authority had a complement of 98 staff members, (30 December 2002: 93 staff members).

3. Strategic Goals and Objectives

Approved Strategic Goals and Objectives

The key strategic goals and objectives as outlined in the Revenue and Expenditure (November 2002) document for the six month period 1 January 2003 - 30 June 2003 were as follows:

- *Successfully convert the fiscal period of the Authority from a calendar year to the fiscal period 1 July to 30 June in compliance with the Public Management and Finance Law (1999 Revision)*
- *Complete Phase 1 of the GCM WWTP (Grand Cayman Wastewater Treatment Plant)*
- *Complete Lower Valley Pipe Storage and Workshop Facility*
- *Expand the Water Production Plant in Cayman Brac*

Achievement during the Year

During the course of the six month fiscal period the Authority successfully met the strategic Goals and Objectives.

Change the fiscal period from a calendar year to 1 July - 30 June - The Authority was able to work with the Accounting Software providers, Great Plains, to ensure a smooth transition from a 12 month reporting period to a six month reporting period, and successfully worked with the Auditors General's office to complete an audit of the six month period.

Complete Phase 1 of the GCM WWTP - by the end of the fiscal period the contractor completed excavation and dewatering for the headworks, the sequencing Batch Reactor (SBR) and aerobic Sludge Digester (ASD) cluster, construction of 90% of the base slab and 65% of the walls of the SBR cluster, ground beams and slab for the headworks, control building and utility building; installation of the 24-inch diameter raw sewage main; and, commenced installation of the 20-inch diameter overflow, 10-inch thickened waste sludge and other smaller diameter pipe work. Total expenditure of this project to 30 June 2003 is \$3.6 million, 23% of current expenditure was spent in 2002 (\$0.8 million), 77% spent in 2003 (\$2.8 million). The entire project is expected to cost \$14.5 million (US\$17.2 million).

Lower Valley Pipe Storage and Workshop Facility - The contractor, Island Builders completed the Lower Valley Pipe Storage and Workshop facility at the Lower Valley Water Works site in May 2003 for the contracted amount of \$200,000. The final cost was 19% below the originally budgeted figure of \$238,500 in 2002, 35% of the project was completed in the prior fiscal period (2002 - \$70,000) with the remaining 65% completed in 2003 (\$130,000).

Extend the Water Production Plant in Cayman Brac - The expansion of the Reverse Osmosis Water Production Plant in Cayman Brac from 230 m³ to 540 m³ per day was completed and became operational in March 2003 at a total cost of \$154,000, 23% higher than the originally budgeted figure of \$125,000 made in 1999. It is reasonable that the cost would have increased over the course of four years from when the plant was originally planned to when it was finished. More recent estimates, as the plant progressed were more in line with the final cost.

4. Ownership Performance Targets performance targets Financial Performance

Financial Performance Measure	2003 Actual \$	2003 Budget (Nov. 2002) \$	Annual Variance \$
Revenue from Cabinet	Nil	Nil	Nil
Revenue from ministries, portfolios, statutory authorities and government companies	Nil	Nil	Nil
Revenue from other persons or organisations	8,291,779	8,166,214	125,565
Surplus/deficit from outputs (Gross Operating Surplus)	3,434,183	3,010,996	423,187
Other expenses	5,956,115	6,663,670	(707,555)
Net Surplus/Deficit (Net Income for the Year)	2,427,296	1,502,544	924,752
Total Assets	46,695,798	51,999,358	(5,303,560)
Total Liabilities	19,121,964	23,169,420	(4,047,456)
Net Worth	27,573,834	28,829,938	(1,256,104)
Cash flows from operating activities	4,347,467	2,048,271	2,299,196
Cash flows from investing activities	(3,604,090)	(7,358,564)	3,754,474
Cash flows from financing activities	(79,200)	3,497,848	(3,577,048)
Change in cash balances	664,177	(1,812,444)	2,476,622

Financial Performance Ratio	2003 Actual \$	2003 Budget (Nov. 2002) \$	Annual Variance
Current Assets: Current Liabilities	0.54	0.94	(0.4)
Total Assets: Total Liabilities	2.44	2.24	0.2

Explanation of Variances

Financial Performances: Income Statement

Revenue figures as presented were prepared in November 2002 were a fairly accurate reflection of actual figures, with a moderate increase of only 1.5%.

The Authority's surplus from outputs was 14% higher than budgeted, primarily due to decreased expenses, most notably the delay of the sliplining project which was originally planned at a cost of \$278,000.

An increased Net Surplus is within expectation given the stronger than expected sales figures, combined with the prudent financial management of the Authority.

Financial Performances: Balance Sheet

During the course of the 2003 budget process the Authority had planned to borrow over \$5.4 million in Long Term Debt, however only 22% of this planned borrowing took place, with Proceeds of Long Term Debt reduced to \$1.2 million. Reduced external debt supports a decrease in Long Term Liabilities and the associated Assets. Total assets did not increase as much as originally expected; with several large budgeted projects (i.e., only 50% of expenditure for WWTP incurred in 2003, \$2.7 million spent in fiscal period compared to \$5.4 million budgeted) which did not take place. The Authority's original plan to complete these projects was ambitious considering the limited available resources (both internal and external).

With a moderately increased revenue stream, strong cash management, prioritization of projects to complete, offset by reduced proceeds from long term debt it is reasonable that the cash position of the Authority is stronger than originally anticipated. The strong cash position allows the Authority flexibility in the future to complete required projects with minimal injection of traditional debt financing.

In Summary - The original projections for the 2003 fiscal period, as presented in the 2003 document entitled "2003 first 6 months Estimates of Revenue and Expenditure" were consistent with that of the final performance of the Authority for the same period. The Authority is in a stronger financial position than originally budgeted, primarily as a result of moderate estimates and prudent fiscal management which translated to the Authority's ability to complete many of the projects without the injection of outside credit facilities.

Financial Performance Ratios:

Ratios are consistent with the explanations as noted above.

5. Other Financial Information

Detailed below is information about specific financial transaction required to be included in the Ownership Agreement by the Public Management and Finance Law (2005 Revision).

Transaction	2003 Actual \$	2003 Budget (Nov. 2002) \$	Annual Variance \$
Equity Investments into Water Authority - Cayman	Nil	Nil	N/A
Capital Withdrawals from Water Authority - Cayman	Nil	Nil	N/A
Dividend or Profit Distributions to be made by Water Authority - Cayman	75,000	-	\$75,000
Government Loans to be made to Water Authority - Cayman	Nil	Nil	N/A
Government Guarantees to be issued in relation to Water Authority - Cayman	Nil	Nil	N/A
Related Party Payments (Non Remuneration) made to Key Management Personnel ¹	Nil	Nil	N/A
Remuneration ² Payments made to Key Management Personnel	\$338,300	N/A	N/A
Remuneration Payments made to Senior Management	See above	See Above	See Above

¹ Key Management Personnel as defined by International Public Accounting Standards No 20, eg Minister, Board Member and Senior Management Team

² Remuneration as defined by International Public Accounting Standards No 20 Par 34(a)

	2003 Actual (@ 30 June 2003)	2003 Budget
No of Key Management Personnel	9	9
No of Senior Management	9	9

Explanation of Variances

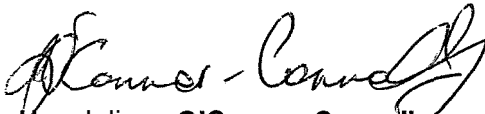
Transaction:

As part of the budgeting process that the Authority undertakes, the original plan was not to re-invest equity back into the Authority; however a further decision by the board translated to a contribution of \$75,000 to be made to the Government.

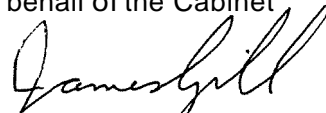
The optimal number of Key Management Personnel for the Authority for the six month period is nine (9); The Director, Deputy Director, Engineering Manager, Operations Manager - Water, Operations Manager - Wastewater, Financial Controller, Customer Service Manager, Water Resources Engineer, Information Technology Manager and Operations Manager - CYB.

Agreement

We jointly agree that this Ownership Agreement accurately documents the performance that The Water Authority of the Cayman Islands achieved for the 2003 financial year.

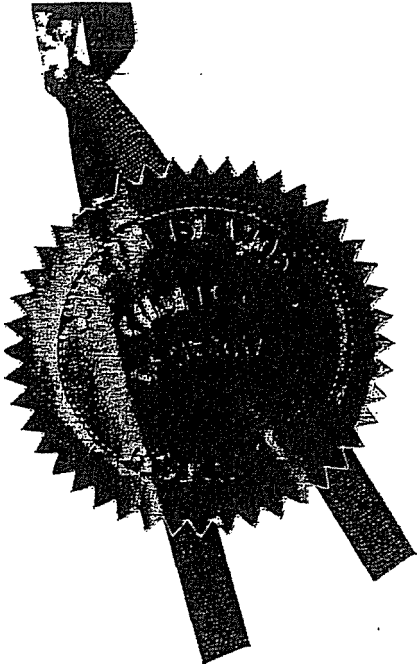


Hon Juliana O'Connor-Connolly
on behalf of the Cabinet



Chairman of the Board
Mr James Gill

Date: 17 August 2009



THE WATER AUTHORITY
OF THE CAYMAN ISLANDS

FINANCIAL STATEMENTS
For the 6 Months Ended 30 June 2003

The Ministry o/Community Services, Youth, Sports and Gender Affairs

**THE WATER AUTHORITY
OF THE CAYMAN ISLANDS**

**FINANCIAL STATEMENTS
For the 6 Months Ended 30 June 2003**

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Cayman Islands

Water Authority of the Cayman Islands

CERTIFICATE OF THE AUDITOR GENERAL

To the Members of the Water Authority of the Cayman Islands
And the Financial Secretary of the Cayman Islands

I have audited the financial statements of the Water Authority of the Cayman Islands for the six-month period ended 30 June 2003 as set out on pages 3 to 17 in accordance with the provisions of Section 17(1) of the Water Authority Law (1996 Revision), and Section 45(1) of the Public Finance and Audit Law (1997 Revision).

Respective Responsibilities of Management and the Auditor General

These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on the financial statements based on my audit.

Basis of Opinion

My examination was made in accordance with International Standards on Auditing which require that I plan and perform my 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. I believe that my audit provides a reasonable basis for my opinion.

Opinion

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Water Authority of the Cayman Islands as at 30 June 2003, and the results of its operations and its cash flows for the six-month period then ended in accordance with International Financial Reporting Standards.

In rendering my certificate on the financial statements of the Water Authority of the Cayman Islands, I have relied on the work carried out on my behalf by Ernst & Young who performed their work in accordance with International Standards on Auditing.

A handwritten signature in black ink, appearing to read "T. Outar".

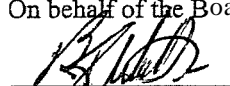
Terrence Outar
Acting Auditor General

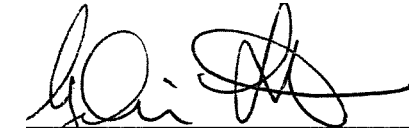
21 January 2004

Water Authority of the Cayman Islands
Balance Sheets
As at 30th June 2003 and 31st December 2002
(Stated in Cayman Islands Dollars)

CURRENT ASSETS	NOTES	2003	2002
Cash on Hand		1,950	1,700
Cash at Bank		1,929,821	1,265,894
Total Cash and Cash Equivalents		1,931,771	1,267,594
Accounts Receivable	4	1,715,589	1,859,009
Inventory	5	360,441	378,850
Prepaid Expenses		79,096	57,731
Total Current Assets		<u>4,086,897</u>	<u>3,563,184</u>
CURRENT LIABILITIES			
Accounts Payable		1,274,401	573,537
Government Contribution Payable	11	225,000	150,000
Loans Payable		239,136	231,309
Contract Retention Payable		374,114	98,460
Interest Payable	6	61,954	35,168
Customer Deposits		739,100	725,611
Customer Deposits on Construction Contract		23,327	23,327
Customer Project Loans	7	36,632	36,944
Current Maturities on Long Term Liabilities	9	4,546,897	4,071,647
Total Current Liabilities		<u>7,520,561</u>	<u>5,946,003</u>
NET CURRENT LIABILITIES		<u>(3,433,664)</u>	<u>(2,382,819)</u>
FIXED ASSETS			
Land - Freehold		3,139,599	3,139,599
Buildings		2,519,119	2,317,395
Water Supply System		23,606,565	23,717,983
Sewerage System		7,187,873	7,407,420
Other Assets		1,070,362	1,153,191
Construction in Progress		5,085,383	2,124,080
Total Fixed Assets	8	<u>42,608,901</u>	<u>39,859,668</u>
TOTAL NET ASSETS		39,175,237	37,476,849
LONG TERM LIABILITIES	9	(11,601,403)	(12,255,311)
NET ASSETS		<u>\$ 27,573,834</u>	<u>\$ 25,221,538</u>
EQUITY REPRESENTED BY:			
Contributed Capital	10	1,085,223	1,085,223
Retained Earnings		26,488,611	24,136,315
Total Equity		<u>\$ 27,573,834</u>	<u>\$ 25,221,538</u>

On behalf of the Board on the 21st of Jan. 2004


Mr. Brinard Walter
Chairman


Dr. ia Frederick van Genderen
Director

The accompanying notes form an integral part of these financial statements

Water Authority of the Cayman Islands
Statement of Net Income and Retained Earnings
For the 6 Month Period Ended 30th June 2003 and the 12 Month Period Ended 31st December 2002
(Stated in Cayman Islands Dollars)

INCOME	<u>Notes</u>	<u>2003</u>	<u>2002</u>
Gross Operating Revenue		7,881,238	14,975,559
Less: Operating Expenses		(4,447,055)	(8,450,568)
Gross Operating Surplus for the Period		<u>3,434,183</u>	<u>6,524,991</u>
Sundry Income		410,541	703,787
Operating Surplus for Period		<u>3,844,724</u>	<u>7,228,778</u>
OTHER EXPENSES			
Administrative Expenses		(1,509,060)	(2,736,702)
Net Income for Period before Medical Expense and Pension Adjntment		<u>2,335,664</u>	<u>4,492,076</u>
Medical Expense Adjustment	9ciii	91,632	
Pension Adjustment	12		<u>148,463</u>
Net Income for the Period after Medical Expense and Pension Adjustment		2,427,296	4,640,539
Retained Earnings at the Beginning of the Period		24,136,315	19,645,776
Retained Earnings Before Contribution to Government		26,563,611	24,286,315
Contribution to Government	11	(75,000)	(150,000)
Retained Earnings at End of Period		<u>\$ 26,488,611</u>	<u>\$ 24,136,315</u>

The accompanying notes form an integral part of these financial statements

Water Authority of the Cayman Islands
Statement of Income

For the 6 Month Period Ended 30th June 2003 and 12 Month Period Ended 31st December 2002
(Stated in Cayman Islands Dollars)

OPERATING REVENUE	<u>2003</u>	<u>2002</u>
Water Sales	6,412,686	12,020,056
Sewerage Fees	1,315,373	2,660,179
Connection and Miscellaneous Fees	116,945	222,334
Septage Disposal	31,066	62,404
Agency Work	5,168	10,586
Total Gross Operating Revenue	<u>7,881,238</u>	<u>14,975,559</u>
SUNDRY INCOME		
Royalties	359,927	647,436
Other	34,498	32,513
Statutory Licencing Fees	14,489	15,324
Interest Earned	1,627	8,514
Total Sundry Income	<u>410,541</u>	<u>703,787</u>
TOTAL REVENUE	<u>\$ 8,291,779</u>	<u>\$ 15,679,346</u>

The accompanying notes form an integral part of these financial statements

Water Authority of the Cayman Islands
Statement of Expenses
For the 6 Month Period Ended 30th June 2003 and 12 Month Period Ended 31st December 2002
(Stated in Cayman Islands Dollars)

OPERATING EXPENSES	NOTES	2003	2002
Water Purchases		1,861,418	3,422,901
Depreciation Expense	8	777,680	1,379,153
Salaries		629,581	1,235,357
Wages		419,846	1,026,419
Supplies		260,480	204,974
Loan Interest		166,576	457,441
Electricity		161,792	258,653
Repairs and Maintenance		135,244	419,260
Miscellaneous		28,271	42,918
Land Lease Expense	13	6,167	12,335
Obsolete Inventory Expense			(8,843)
Total Operating Expenses		4,447,055	8,450,568
ADMINISTRATIVE EXPENSES			
Salaries		623,366	1,066,011
Staff Training and Benefits		336,081	717,151
Telephone and Utilities		95,592	162,811
Miscellaneous		86,669	147,710
Depreciation Expense	8	78,804	142,720
Insurance		67,857	152,640
Office and Lab Supplies		65,314	119,546
Bad Debt Expense		64,883	47,393
Licenses and Dues		27,441	45,271
Audit Fees		27,163	29,253
Loan Interest		19,532	52,972
Repairs and Maintenance		13,310	38,770
Legal Fees		1,248	10,854
Office Rental		1,800	3,600
Total Administrative Expenses		1,509,060	2,736,702
TOTAL OPERATING AND ADMINISTRATIVE EXPENSES		\$ 5,956,115	\$ 11,187,270

The accompanying notes form an integral part of these financial statements

Water Authority of the Cayman Islands
Statement of Cash Flows

For the 6 Month Period Ended 30th June 2003 and 12 Month Period Ended 31st December 2002

(Stated in Cayman Islands Dollars)

	<u>2003</u>	<u>2002</u>
CASH FLOW FROM OPERATING ACTIVITIES		
Net Income for Period	2,335,664	4,492,076
Adjustments to Reconcile Net Income to Net Cash		
Provided by: Operating Activities		
Depreciation	856,484	1,521,873
Interest Earned	(1,627)	(8,514)
Interest Expense	186,108	510,413
	<u>3,376,629</u>	6,515,848
 Net Change in Working Capital		
Interest Paid	(159,321)	(508,308)
Accounts Receivable	143,420	(252,723)
Inventory	18,409	46,187
Prepaid Expense	(21,365)	(16,394)
Accounts Payable	700,864	6,927
Contract Retention Payable	275,654	98,460
Customer Deposits	13,489	11,630
Customer Project Loans	(312)	(492)
Net Cash Provided by Operating Activities	<u>4,347,467</u>	5,901,135
 CASH FLOW FROM INVESTING ACTIVITIES		
Interest Received	1,627	8,514
Cost of Fixed Assets Purchased	(644,414)	(1,630,086)
Construction in Progress	<u>(2,961,303)</u>	<u>(851,413)</u>
Net Cash Used by Investing Activities	<u>(3,604,090)</u>	<u>(2,472,985)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds of Long Term Liabilities	1,937,189	753,270
Repayment of Long Term Liabilities	(2,024,216)	(3,671,951)
Loans Payable	7,827	1,464
Contribution to Government		<u>(150,000)</u>
Net Cash Used by Financing Activities	<u>(79,200)</u>	<u>(3,067,217)</u>
 Net Increase in Cash and Cash Equivalents During the Period	664,177	360,933
Cash and Cash Equivalents at the Beginning of the Period	<u>1,267,594</u>	906,661
Cash and Cash Equivalents at End of Period	<u>\$ 1,931,771</u>	<u>\$ 1,267,594</u>

The accompanying notes form an integral part of these financial statements

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the 6 Month Period Ended 30th June 2003
(Stated in Cayman Island Dollars)

1. Change of fiscal period

The fiscal period for the Water Authority of the Cayman Islands ("the Water Authority") has been changed so that the fiscal year ends on 30 June each year to match a similar change in the fiscal period of the Government of the Cayman Islands. Thus, the period presented is for the six months ended 30 June 2003. The prior years figures are for the year ended 31 December 2002, which are not comparable as they are for a 12 month period end.

2. Establishment and Principal Activity

The Water Authority is a statutory body established on 1st January 1990 under the Water Authority Law (Law 18 of 1982), as amended.

The Water Authority is principally engaged in the management of water supply and sanitation affairs of the Cayman Islands including the provision of public water supplies, sewerage systems and the management, development and protection of water resources.

As at 30 June 2003, the Water Authority had 98 employees (31 December 2002: 93 employees). The Water Authority is located at 13 G Red Gate Road, P.O. Box 1104 George Town, Grand Cayman, Cayman Islands.

3. Significant Accounting Policies

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Committee (IASB), and interpretations issued by the Standing Interpretations Committee of the IASB. The significant accounting policies adopted by the Water Authority in these financial statements are as follows:

(a) Basis of preparation

The financial statements of the Water Authority are presented in Cayman Island dollars and are prepared on the accrual basis under the historical cost convention.

(b) Fixed Assets

(i) Property plant and equipment are stated at acquisition cost less accumulated depreciation. Construction work in progress is stated at cost, which includes all expenditures related directly to specific projects and an allocation of fixed and variable overheads incurred in the contract activities. The Water Authority does not capitalize interest as part of the construction cost of fixed assets.

(ii) Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment, and other assets that are accounted for separately.

Freehold Land is not depreciated. The estimated useful lives of the other fixed assets are as follows:

Buildings	50 Years
Water and Sewerage Systems	15 - 50 Years
Other Assets	5 - 10 Years

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the 6 Month Period Ended 30th June 2003
(Stated in Cayman Island Dollars)

3. Significant Accounting Policies (continued)

(c) *Foreign currency translation*

Assets and liabilities denominated in currencies other than Cayman Islands Dollars are translated at exchange rates in effect at the balance sheet date. Revenue and expense transactions denominated in currencies other than Cayman Islands Dollars are translated at exchange rates ruling at the date of those transactions. Gains and losses arising on translation are included in the Statement of Net Income and Retained Earnings.

(d) *Allowance for bad debts*

Management of the Authority establishes an allowance for bad debts based on estimates of accounts receivable balances that are uncollectible. The allowance is expensed and an equal amount is set-up as a provision for bad debts, which is netted off against gross accounts receivable balances.

Management determines the extent of the allowance based on its knowledge of individual debtors' past performance.

(e) *Inventory and Allowance for Obsolete Inventory*

Inventory, which consist of consumable spares is accounted for on the first-in, first-out basis, and is stated at the lower of cost and net realizable value. Management of the Authority establishes an allowance for obsolescence of inventory items when it determines that those items are no longer usable in the Authority's operations. The allowance is expensed and an equal amount is set-up as a provision for obsolete inventory, which is netted-off against gross inventory balances. The allowance is equal to the book value of inventory that management considers no longer usable.

(f) *Interest Expense*

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of Loan Interest. The interest expense of loan payments is recognised in the income statement using the effective interest rate and or straight line method as appropriate.

(g) *Cash & cash equivalents*

For the purpose of the Statement of Cash Flows, cash and cash equivalents are considered as cash held on demand and fixed deposits with an original maturity of three months or less.

(h) *Revenue recognition*

The Authority bills its customers monthly for water consumed, sewerage and other services. Revenue derived from such sources is taken to income on a bill rendered basis. As in previous years no account has been taken of unread water consumption, sewerage and other services at the end of the financial year.

(i) *Employees benefits*

(i) The Authority has an actuarial valuation conducted every three years, and any gains or losses arising are adjusted against the Income Statement.

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the 6 Month Period Ended 30th June 2003
(Stated in Cayman Island Dollars)

3. Significant Accounting Policies (continued)

- (ii) Members emolled in the Public Service Pensions Plan prior to 01 January 2000 are governed by Section 28 to 45 (Defined Benefits) of the Public Service Pensions Law, 1999. Those members emolled in the Plan after 01 January 2000 are governed by Section 46 to 66 (Defined Contributions) of the Public Service Pensions Law, 1999. A board decision was made in July 1998 that all new employees of the Authority at that date would be emolled in a local approved pension plan (British Caymanian Pension).

(j) *Financial Instruments*

(i) *Classification*

A financial asset is classified as any asset that is cash, a contractual right to receive cash or another financial asset, exchange financial instruments under conditions that are potentially favourable or an equity instrument of another enterprise. Financial assets comprise of cash and cash equivalents and accounts receivables.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial instrument or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable. Financial liabilities comprise long and short term debt.

(ii) *Recognition*

The Authority recognises financial assets and financial liabilities on the date it becomes party to the contractual provisions of the instrument. From this date, any gains and losses arising from changes in fair value of the assets or liabilities are recognised in the statements of income.

(iii) *Derecognition*

A financial asset is derecognised when the Water Authority realises the rights to the benefits specified in the contract or loses control over any right that comprise that asset. A financial liability is derecognised when it is extinguished, that is when the obligation is discharged, cancelled, or expires.

(iv) *Measurement*

Financial instruments are measured initially at cost which is the fair value of the consideration given or received. Subsequent to initial recognition all financial assets are measured at their estimated fair value.

Financial liabilities are subsequently measured at amortised cost, being the amount at which the liability was initially recognised less any principal repayments plus any amortisation (accrued interest) of the difference between that initial amount and the maturity amount.

4. Accounts Receivable

	<u>30 June 2003</u>	<u>31 December 2002</u>
Trade Receivables	2,039,619	2,119,363
Non Trade Receivables	99,693	100,667
Provision for Bad Debts	(423,723)	(361,021)
	<u>\$ 1,715,589</u>	<u>\$ 1,859,009</u>

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5. Inventory

	<u>30 June 2003</u>	<u>31 December 2002</u>
Water Supply and Sewerage Materials	369,022	387,431
Provision for Obsolete Inventory	(8,581)	(8,581)
	\$ 360,441	\$ 378,850

6. Interest Payable

	<u>30 June 2003</u>	<u>31 December 2002</u>
On Customer Deposits	32,912	32,912
Loan Interest Payable	29,042	2,256
	\$ 61,954	\$ 35,168

Section 9 of the Water Authority Regulations, 1988 specified that interest be calculated on customers' deposits at the rate of 5% per annum from the date of payment of the deposits, and the interest earned shall be added to the customers' deposits. This section of the Regulations was revoked on the 8th of February 1994. Interest payable on customer deposits has been calculated only on deposits which were taken before the 8th of February 1994 and which the Authority held on the date of these financial statements. Interest has been accrued up until the date on which the Regulation was revoked.

7. Customer Project Loans

Customer project loans represent balances outstanding at the period-end of \$ 36,632 (2002: \$ 36,944) in respect of funds collected from private individuals to carry out capital works in the South Sound area of George Town in 1989. These funds are interest free and are repayable by way of a 10% rebate on the individual's annual water consumption charges.

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8. Fixed Assets

Cost	Freehold Land	Buildings	Water Supply	Sewerage	Other Assets	Construction In Progress	Total
At 31 December 2002	3,139,599	2,485,340	29,615,856	11,411,779	3,226,283	2,124,080	52,002,937
Additions			3,082		108,949	3,511,510	3,623,541
Disposals							
Transfers between fixed assets		226,373	323,834			(550,207)	
At 30 June 2003	3,139,599	2,711,713	29,942,772	11,411,779	3,335,232	5,085,383	55,626,478
Accumulated Depreciation							
At 31 December 2002		167,945	5,897,873	4,004,359	2,073,092		12,143,269
Charge for Year		24,649	438,334	219,547	173,954		856,484
Disposals							
Capitalized during construction					17,824		17,824
At 30 June 2003		192,594	6,336,207	4,223,906	2,264,870		13,017,577
Net Book Value							
At 31 December 2002	\$ 3,139,599	\$ 2,317,395	\$ 23,717,983	\$ 7,407,420	\$ 1,153,191	\$ 2,124,080	\$ 39,859,668
At 30 June 2003	\$ 3,139,599	\$ 2,519,119	\$ 23,606,565	\$ 7,187,873	\$ 1,070,362	\$ 5,085,383	\$ 42,608,901

a) Sewerage Treatment Works Upgrade

In August 1998 the Authority invited bids for the provision of general, mechanical and electrical engineering services in connection with a planned upgrade to the West Bay Beach Sewerage Treatment Works. The consultant engineers originally estimated the cost of the upgrade at CI\$ 10.6 million, however after reviewing tenders submitted, the estimate was increased to CI\$ 14.3 million. The Authority successfully negotiated with FirstCaribbean International Bank (Cayman) Limited for CI\$ 3.7 million in additional financing. A part of the existing works would be decommissioned in the fourth quarter of 2003. Government gave approval for the Authority to enter into a US\$ 12.8 million loan agreement with FirstCaribbean in September 2000 and an additional US\$ 4.4 million in September 2002 to finance the project. The original loan agreement was signed with FirstCaribbean in December 2000, with the amendment signed in June 2002. Prior to getting the loan, the Authority had financed the cost of the wastewater treatment works project from revenue. See Note 9 (a) for the terms of the loan.

b) Accelerated Depreciation - Sewage Treatment

In 2000 there was an assessment of the extent of accelerated depreciation required in future years, to write-down part of the capitalized cost of the existing sewerage system by the prospective 2003 decommissioning date. The total amount of accelerated depreciation to be recognized over the three and half years is to be \$ 844,709. Accelerated depreciation recognised in the first six months of 2003 was \$ 120,673 (2002: \$ 241,345).

The water supply system and sewerage system includes the cost of mechanical and electrical equipment, and machinery. Other assets include the costs of tools and equipment, office furniture and equipment, and vehicles.

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8. Fixed Assets (continued)

c) Construction in Progress

Construction-in-Progress relates to expenses incurred in connection with the following:

1.	Contractor services relating to the 2.5 MGD upgrade of the West Bay Sewerage Treatment Works. See also Note 9	3,569,654
2.	Engineering services, subsoil investigations and site preparation for subsoil investigations relating to the 2.5 Millions of US Gallons per day (MGD) upgrade of the West Bay Beach Sewerage Treatment Works.	969,057
3.	East End water supply extension	220,479
4.	Cayman Brac Plant Upgrade	153,759
5.	Construction of Frenchman's Drive	149,317
6.	Construction of the Crewe Road By-Pass	10,523
7.	Site investigation for possible Eastern Site	7,719
8.	Construction of Booster Station at Shamrock Road	4,875
		<u>\$ 5,085,383</u>

9. Long Term Liabilities

		2003					
LONG TERM LIABILITIES (Interest Rate)		Current	1-2 yrs	2-5 yrs	5+yrs	2003	2002
a)	First Caribbean International Bank (Cayman) Limited						
(i)	Water Supply and Sewerage (2.3%)	2,692,681	1,310,919			4,003,600	5,300,331
(ii)	Administration Building Loan (2.2%)	126,178	252,356	378,534	354,158	1,111,226	1,166,239
(iii)	Waste Water Treatment Works Loan						
	LIBOR note # 107762 (2.4%)		500,000			500,000	500,000
	LIBOR note # 107763 (2.1%)	524,701	1,598,803	566,955		2,690,459	753,270
b)	Caribbean Development Bank Water Supply (6.0%)	154,167	308,333	151,716		614,216	691,454
c)	Cayman Islands Government						
(i)	Grand Cayman (0%)	210,894	421,788	632,682	2,277,386	3,542,750	3,729,197
(ii)	Cayman Brac (8.0%)	70,200	140,400	210,600	35,100	456,300	491,400
(iii)	Medical Expense (0%)						91,632
d)	Capital Contribution Loan (0%)	6,400	6,400			12,800	12,800
e)	Ocean Conversion (Cayman) Ltd.						
(i)	Red Gate (5.0%)	388,533	465,171			853,704	1,165,143
(ii)	North Sound (0%)	373,144	746,288	1,119,432	124,381	2,363,245	2,425,492
	Total Long Term Liabilities:					<u>16,148,300</u>	<u>16,326,958</u>
	Less Current Maturities:					<u>(4,546,897)</u>	<u>(4,071,647)</u>
						<u>\$ 11,601,403</u>	<u>\$ 12,255,311</u>

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9. Long Term Liabilities (continued)

- a) (i) The FirstCaribbean loan represents a financing package of US\$ 22,350,000, which includes a US\$ 500,000 overdraft facility. The total package refinanced previous Barclays Bank and Caribbean Development Bank loans, and provided funding for the Bodden Town Water Supply project and Lower Valley Reservoir and Pumping Station project. The loan is provided at an interest rate of 1% over London Interbank Offered Rate (LIBOR) and is repayable, on a monthly basis, over a ten year period, which commenced on the 1st of March 1995. Monthly payments are due as follows:

1995 - November 1997	US\$ 200,000
November 1997 - 2004	US\$ 275,000

The FirstCaribbean loan is held in the name of the Water Authority and is secured by a guarantee by the Cayman Islands Government.

- (ii) On 17th August 1998 FirstCaribbean approved a credit facility of CIS 1,600,000 for the new Water Authority Administration Building at 13G Red Gate Road. The loan is provided at an interest rate of 1% over London Interbank Offered Rate (LIBOR) repayable on a monthly basis of US\$ 14,875 over a fifteen-year period that commenced on 14th October 1999. FirstCaribbean presently holds a Registered First Charge over the property.
- (iii) In September 2000, Government gave approval for the Authority to enter into the US\$ 12.8 million loan agreement with FirstCaribbean for the financing of the Grand Cayman Wastewater Treatment Works Project. The loan agreement was approved by FirstCaribbean under the terms and conditions of the facility letter dated 15th September 1999 and was signed on 29th December 2000. In September 2002 this loan agreement was increased by US\$ 4.4 million to a total of US\$ 17.2 million. In addition to the terms and conditions defined in the facility letter dated 15th September 1999, FirstCaribbean required a written confirmation from the Cayman Islands Government that they will not guarantee any future obligations of the Water Authority without their written consent.

The loan is provided at an interest rate of 1% over London Interbank Offered Rate (LIBOR) and has a Capital Repayment Holiday Period (CRHP) that represents the period beginning on the date of the drawdown of the first advance and expiring on either the date of completion of construction of the Grand Cayman Wastewater Treatment Works or 24 months after the date of the drawdown of the first advance whichever is earlier. Loan repayments will commence in January 2004 and on the first business day of each succeeding 36 months at an aggregate monthly amount of US\$ 110,000 including principal and interest, thereafter, on the first business day of each of the immediately succeeding 71 months, an aggregate of US\$ 250,000 per month including principal and interest. On the first business day of the immediately succeeding month (being December 2012), an amount equal to the balance of the Loan then outstanding together with all interest accrued thereon and all other sums due by the Borrower will be paid to the Bank.

- b) The Caribbean Development Bank (CDB) water supply loan is to be repaid over 15 years at variable interest rates of 5.5% to 7.5%. Repayment commenced on the water supply loan in quarterly instalments in March 1992. The principal repayments currently being made on this loan are approximately US\$ 46,250 each quarter, plus interest.

The CDB loan is in the name of the Cayman Islands Government and is on lent to the Water Authority. The Water Authority is responsible for all interest and principal repayments on this loan.

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9. Long Term Liabilities (continued)

- c) (i) The Cayman Islands Government loaned the Authority CI\$ 4,822,349 for the development of the facilities in Grand Cayman. The loan is interest free and is being repaid in quarterly instalments of CI\$ 48,223 over a period of twenty-five years which commenced on the 1st of April 1995. This loan was increased in February 1997 by CI\$ 450,000 in exchange for a 1.3-acre parcel of land at Red Gate that was sold to the Authority by the Cayman Islands Government for the purpose of constructing the Administration Building. The increased portion of the loan was formalised on 27th December 2001. It is interest free and is being repaid by an initial instalment of CI\$ 90,000 and annual instalments of CI\$ 18,000 over a period of 20 years.
- (ii) The Cayman Islands Government loaned the Authority CI\$ 1,053,000 for the development of the facilities in Cayman Brac. The loan attracts interest at a fixed rate of 8% per annum and is repayable in quarterly instalments of CI\$ 17,550 over a period of 15 years which commenced on the 1st of April 1995.
- (iii) The loan payable to the Cayman Islands Government for medical expenses is in respect of injuries incurred by a cyclist in 1991 for which the Water Authority has assumed liability. This loan has subsequently been forgiven by the Cayman Islands Government and removed from the accounting records of both the Government and the Water Authority.
- d) The capital contribution loan represents the cost of certain capital work carried out in 1991 and funded by a customer to facilitate the Water Authority to construct a pipeline through a third party's property to provide the water connection to the customer concerned. The cost of this work was CI\$ 64,000. In 1995 management agreed to repay the loan in ten annual instalments of CI\$ 6,400 each. This loan is interest free and the first instalment was made on the 1st of June 1995.
- e) The Water Authority contracted with Ocean Conversion (Cayman) Ltd. ("OCL") on the 17th of June 1997 to provide and operate a reverse osmosis seawater desalination plant at Lower Valley, Grand Cayman under a lease purchase and operating agreement. The plant was completed in March 1998 and is financed at a fixed interest rate of 5% per annum. Under the terms of the agreement, the Authority commenced payments to OCL in April 1998, making monthly payments of US\$ 17,325 and CI\$ 6,998 for a duration of seven years.

In 1999 the Lower Valley Reverse Osmosis Plant was expanded to a production capacity of 3,000 cubic meters per day under contract with OCL. The cost of the expansion to the Water Authority was CI\$ 973,833, plus additional monthly operating fees. The expansion of the plant was completed in March 1999 and is financed at a fixed interest rate of 5% per annum. Under the terms of the agreement, the Authority commenced payments to OCL in March 1999, making monthly payments of US\$ 33,028 and CI\$ 7,676 for a duration of seven years.

On 26th October 2001 the Authority signed a contract with OCL to expand the Red Gate Reverse Osmosis Plant to a production capacity of 3,000 cubic meters per day. The cost of the expansion to the Authority was CI\$ 2,612,006, plus additional monthly operating fees. There was no movement in cash in respect of this transaction and consequently the Statement of Cash Flows does not reflect the increase in Plant and Loans, which arise there from. The plant expansion was completed in November of 2002. Under the terms of the agreement, the Authority commenced payments to OCL in November of 2002, making monthly payments of US\$ 21,750 and CI\$ 12,917 for a duration of seven years.

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10. Contributed Capital

Contributed capital of \$ 1,085,223 (2002: \$ 1,085,223) represents funds received from private individuals to fund capital work that was completed by the Water Authority. The relevant costs have been capitalised as water and sewerage works (see Note 8).

11. Related Party Transactions

The Cayman Islands Government appoints the Chairman and Members to the Water Authority Board of Directors. The following transactions occurred during the year between the Water Authority and Cayman Islands Government.

1. The Authority made loan repayments to Government during the six month period of \$ 298,785 (2002: \$ 418,031)
2. The Authority recognized contributions to Government relating to the first six months of 2003 of \$ 75,000 (2002: \$ 150,000).
3. Government Contribution Payable \$ 225,000 (2002: \$ 150,000)

During the year, the Water Authority provided at no charge to the Cayman Islands Government the availability and use of water for fire fighting, free sewerage service to a number of indigent persons in the Water's Road area, supervision of water resources, administration of Plumbers Examination Board, consultative services for development control, and water at a reduced Public Authority rate. The Authority also engages the services of other government departments of the Cayman Islands Government. Such services are provided at current prevailing market prices on an arm's length basis.

As detailed in Note 12 the Authority and its eligible employees paid contributions to the Public Service Pensions Fund during the year.

12. Pensions

a) Public Service Pensions Plan

In April 2003, the Pensions Fund management advised that it was agreed that the unfunded past service liability would remain a central liability of the entire public sector. Accordingly, as of that date, there is no requirement for the Authority to recognise any unfunded past service liability in its financial statements. An adjustment of \$148,463 was made to the financial statements in 2002 to recognise the past service liability now being the responsibility of Government and not the Water Authority. Pensions management confirmed that the contribution rate is 12.26%.

b) Other Pension Plan

In accordance with the National Pensions Law of June 1998, all new employees who are not participants in the Public Service Pensions Fund are enrolled in an approved local pension plan (British Caymanian Pension). During 2002 the Authority and its employees paid 5% and 5% respectively of salary contributions.

The total amount recognised as a pension expense in the first six months of 2003, inclusive of both the Public Service Pensions Fund and British Caymanian, was \$ 105,538 (2002: \$ 235,750).

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13. Leases

The Authority leases a parcel of land in Cayman Brac under an operating lease. Lease payments are currently \$1,027 per month and are subject to a review in January 2004 to reflect open market rental values. The lease was signed in January 2000 and runs for a period of thirty years.

14. Commitment

Commitment at June 30, 2003 is as follows:

Authorised and Contracted	Cost Incurred to 30 June 2003	Estimated Cost to Completion	Total Cost
Grand Cayman Waste Water Treatment Plant	3,569,654	10,806,106	14,375,760
	<u>\$ 3,569,654</u>	<u>\$ 10,806,106</u>	<u>\$14,375,760</u>

In November 2002 the Water Authority started construction on the Sewerage Treatment Plant, see note 9 a) iii), and is anticipated to be operational by August 2004.

15. Financial Instruments

Credit risk. Credit risk is the risk that one party to a transaction will fail to discharge an obligation and cause the other party to incur a financial loss. Concentrations of credit risk relate to groups of customers or counterparties that have similar economic or industry characteristics that cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions

Financial assets that potentially subject the Authority to credit risk consist principally of, trade receivables, and other receivables. Credit risk with respect to these receivables is limited because the Authority has a policy in place that is monitored by management on a consistent basis to ensure the timely collection of receivables. Accordingly, the Authority has no significant concentrations of credit risk.

Interest rate price risk. The Authority has loans with Government and a counterpart with fixed interest rates ranging from 5% to 8%. Details of rates and maturities are presented in Note 9.

Interest rate cash flow risk. The Authority also has loans with a local financial institution with a floating interest rate that coincides with the market rate.

Fair values. The carrying amount of cash deposits, accounts receivable, other receivables and accounts payables approximate their fair value due to their short-term maturities. Fair values are made at specific points in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions, economic conditions and other factors could cause significant changes in fair value estimates.