



The Water Authority of the Cayman Islands



Valve Monitoring Project



Vehicle Maintenance Crew



**Randyke Gardens Wastewater Plant
Upgrade**

ANNUAL REPORT

For the 2012/13 Financial Year



**OWNERSHIP AGREEMENT
ANNUAL REPORT**

For

The Water Authority of the Cayman Islands

For the 2012/13 Financial Year

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1. Purpose

This annual report details the performance of The Water Authority of the Cayman Islands ("The Authority") for the fiscal year ended 30 June 2013.

It includes information about the actual performance delivered during the year as compared to the planned performance documented in the Ownership Agreement for The Water Authority of the Cayman Islands for 2012/13, or as amended through the supplementary appropriation process.

2. Nature and Scope of Activities

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

Approved Nature and Scope of Activities

The 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 2012/13 fiscal 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 continued the water distribution pipeline to the blue iguana Reserve and miscellaneous small extensions at a combined cost of \$0.24 million.

During the course of the year the Authority sold 3.5 million m³ of water (2012: 3.5 million m³) and processed 856 million gallons of wastewater (2012: 808 million gallons) in Grand Cayman and sold 0.1 million m³ of water in Cayman Brac (2012: 0.1 million m³).

The Water Resources and Quality Control Department carried out the Authority's statutory functions of groundwater protection and management, development control and related permitting throughout the fiscal period. The Authority's accredited water and wastewater laboratory provided ongoing analytical services for the Authority's water supply, wastewater treatment system and groundwater monitoring programmes. A major project during the fiscal period was the department's participation in the Environmental Advisory Board to review the proposal to close the George Town Landfill and to establish a new Waste Management Facility in Bodden Town. The Authority's Onsite Wastewater Management Programme was strengthened by the private sector providers using the online database to record service reports for onsite treatment systems. The Authority addressed substantial wastewater violations at the Randyke Strata Development and rehabilitated the failing onsite treatment systems on behalf of Government at a cost of \$90,000.

The Authority prides itself on its fiscal management and ability to be self-sufficient. Throughout the fiscal period the Authority had a positive net surplus and maintained its fiscal independence. The Authority contributed \$100,000 to the Government of the Cayman Islands (2012: \$100,000) and invested \$0.5 million (2012: \$1.3 million) into the capital infrastructure of the islands.

3. Strategic Goals and Objectives

Approved Strategic Goals and Objectives

The key strategic goals and objectives (from an ownership perspective) for The Authority for the 2012/13 financial year were as follows:

- **Island of Grand Cayman** – Miscellaneous extensions, system connections, new road expansion – to provide water to subserviced areas within the general distribution grid.
- **Red Gate Site** – Replace water storage tank and pumping station refurbishment.
- **Red Gate Site** – Vehicle Maintenance Building – construct a special purpose building for fleet maintenance, relocating the buildings and equipment staff and operations from the WWTP to the Red Gate Site. To be financed from proceeds of Wastewater Asset sale.
- **Cayman Brac Extension** – WAC portion of design costs and preliminary investigations into the extension of piped water to residents living on the north side of Cayman Brac.

Achievement during the Year

- **Island of Grand Cayman** – The Authority extended the distribution pipeline a total of 0.65 miles, miscellaneous small pipeline extensions (0.26 miles) to the Blue Iguana Reserve (0.22 miles) and along Lake Destiny Drive (0.17 miles) at a combined cost of \$240,575. The total distribution pipeline on the island of Grand Cayman is 279.25 miles (2012: 278.60).
- **Red Gate Site – Replace water storage tank and pumping station refurbishment** - Due to limited in-house resources these projects did not commence.
- **Red Gate Site – Vehicle Maintenance Building** – The Authority received approval for the master plan for the Red Gate site, which incorporates both a file storage and vehicle maintenance buildings, to the Central Planning Authority (CPA) on 18 May 2011. The Vehicle Maintenance Building was an urgent necessity should the wastewater assets of the authority be sold, however given that the divestiture has been cancelled for the time being this project has been put on hold.
- **Cayman Brac Extension** - The Engineering department of the Authority began initial design and preliminary investigations into the Cayman Brac Extension with the intention to start this project in early 2013/14. No funds were allocated to the project in 2012/13 as nomobilisation has taken place and no capital works started in the 2012/13 fiscal period.
- **Wastewater** – In April 2013 the Authority awarded a contract (tender amount US\$ \$1,007,438.50) to clean and inspect the wastewater collection system. Under this contract all leaking pipeline sections, identified by the closed-circuit television survey, will be repaired using an internal repair method, and which will reduce the inflow at the wastewater treatment plant by up to 40%, thus significantly reducing the operational cost of both the wastewater collection system and the wastewater treatment works.

4. Ownership Performance Targets

Financial Performance

Financial Performance Measure	2012/13 Actual \$	2012/13 Budget (Approved in LA) \$	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	29,686,487	29,869,408	(182,921)
Surplus/deficit from outputs (Gross Operating Surplus)	9,885,442	10,217,534	(332,092)
Other expenses	6,076,831	6,700,502	(623,671)
Net Surplus/Deficit	3,808,611	3,517,032	291,579
Total Assets	82,472,515	79,651,960	2,820,555
Total Liabilities	19,859,318	19,643,235	216,083
Net Worth	62,613,197	60,008,725	2,604,472
Cash flows from operating activities	6,721,380	5,566,414	1,154,966
Cash flows from investing activities	(472,880)	(3,550,750)	3,077,870
Cash flows from financing activities	(2,784,930)	(2,528,500)	(256,430)
Change in cash balances	3,463,570	(512,836)	3,976,406

Financial Performance Ratio	2012/13 Actual	2012/13 Budget (Approved in LA)	Annual Variance
Current Assets: Current Liabilities	2.62	1.19	1.43
Total Assets: Total Liabilities	4.15	4.05	0.10

Explanation of Variances

Financial Performances: Income Statement

On 21 August 2012 the Authority met with members of Cabinet regarding the original budgeted figures, provided in January 2012, for 2012/13 of \$710k and were instructed to re-visit the projections. The Authority made it clear that without a rate adjustment (stagnant since 1995, with only a small adjustment in 2006) it is impossible to continue to show a strong net income with rising costs of doing business. In response, the Cayman Islands Government granted the Authority permission to adjust the rates which are reflected in the revised Regulations that came in to effect on 01 November 2012. This was essential in order for the Authority to meet the strong projection of \$3.5 million in the fiscal period, a copy of which is attached to this document.

Revenue - The Authority was able to meet the budgeted figures, showing a minor decrease of less than 1% (0.6%)

Gross Operating Surplus – the minor decrease of 3% is reasonable given the slightly lower revenue figures.

Other Expenses – The Authority maintained austere measures and were able to reduce the administrative expenses against budgeted figures and show a slight increase (3%) over that of prior year. The slight decrease from budgeted figures was a direct result of the Authority prudently budgeting for an annual hurricane expense of \$255k and conservative litigation costs that were not required.

Net Surplus – an 8% increase in Net Surplus over budgeted figures is a representation of the strong fiscal management of the Authority given lower than expected sales figures. Evidence of a solid revenue stream, strong cash management, prioritisation of projects to complete, and significant, conscious maintenance of administrative expenses, is demonstrated through a higher net income than originally forecasted. Should also note that delayed project (WW) helped, we had expected the Closed Circuit Television (CCTV) survey to be awarded in late 2012/13, but only commence in 13/14. Our budgeted net income for 13/14 is 2.4 million, which is taking into account the \$1.2 million for the CCTV survey.

Assets - The assets of the Authority increased by \$2.8 million, primarily because of the strong cash intake offset by the capital projects that were not completed during the fiscal period.

Liabilities – the Authority has been under the Governmental moratorium on borrowing and hence it is reasonable the Authority's actual liabilities compared to that of the budget are within 1% as the Authority is not taking on any new debt and concentrating on paying off existing debt while still proceeding with required capital projects and remediation works paid from retained earnings.

Cash Flow - It is reasonable that cash flow from operating activities would be higher than budgeted as the net income is slightly higher than expected and administrative expenses are lower than expected.

Ten Year Development Plan - As part of the annual budget process, the Authority continues to update the Ten Year Capital Development plan. This plan is an integral part of the Authority's ability to ensure that supply meets the expected demand, taking into consideration growth rates as well as lead-time to complete major projects. As part of this budget process the Authority conservatively estimates revenue and stringently manages expenses in order to maintain a key component of the Mission Statement, "To operate in such a manner as to be financial self-sufficient while contribution to the economy of these islands and achieving a reasonable and acceptable return on capital investments".

In summary, despite relatively stagnant sales, the Authority ended the fiscal period in a strong financial position, primarily because of conservative estimates and prudent fiscal management, which translated to the Authority's ability to complete projects within the fiscal period without cash injection from outside credit facilities.

Financial Performance Ratios:

It is reasonable that the current assets / current liabilities ratio is higher than expected as the cash position went from an estimate of decreasing by \$513k to increasing \$3.5 million, a jump of \$4 million.

The Financial Performance Ratios are within expectation given the discussion above.

Directive for sale of the Wastewater Assets:

Although the Authority was presented with a directive from the Cayman Islands Government to value the wastewater assets and prepare for their sale (October 2009), it was made clear early in the 2012/13 fiscal period that until further notice this project was put on hold. As a result, the Authority's financial projections and actual performance included the wastewater division and will until a directive is received that instructs otherwise.

Maintenance of Capability

Human Capital Measures	2012/13 Actual \$	2012/13 Budget (Approved in LA) \$	Annual Variance \$
Total full time equivalent staff	118	123	(5)
Staff turnover (%)	5%	14%	(9%)
Average length of service (In Years)			
Senior Management	14 years	14 Years	Nil
Professional Staff	12 years	12 Years	Nil
Administrative / Field Staff	9 years	10 Years	(1)

Significant changes to personnel management system	No actual software upgrades	No projected software upgrades	N/A
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Physical Capital Measures	2012/13 Actual \$	2012/13 Budget (Approved in LA) \$	Annual Variance \$
Value of total assets (NBV of Fixed Assets, inclusive of CIP)	67,932,161	73,480,248	(5,548,087)
Asset replacements: total assets (Fixed Assets Purchased during the year / Total value of Assets)	0.6%	4.0%	3.4%
Book value of depreciated assets: initial cost of those assets (NBV of Depreciated assets / initial cost of those assets)	62.8%	64.0%	(1.2%)
Depreciation: Cash flow on asset purchases (Annual Depreciation / Cost of Fixed Assets Purchased)	803.4%	95.0%	708.4%
Changes to asset management policies	None	None	N/A

Major Capital Expenditure Projects	2012/13 Actual \$	2012/13 Budget (Approved in LA) \$	Annual Variance \$
Island of Grand Cayman – Misc. Extensions, system connections, new road expansion	472,880	1,200,000	(\$727,120)
Red Gate Site – Replace Water Storage Tank - Pump Station Refurbishment	Nil Nil	956,000 275,000	(\$956,000) (\$275,000)
Red Gate Site – Maintenance Building	Nil	830,000	(\$830,000)
Cayman Brac Extension (WAC and Managed Contract)	Nil	800,000	(\$800,000)

Risk Management

Key risks	Status of Risk	Actions taken during 2011/12 to Manage risk	Financial Value of risk
Property / Employee / Public Liability / Motor Vehicle	No Identified Change in risk Status	Adequate insurance maintained to mitigate the risk	Value of deductible

Explanation of Variances

Human Capital Measures:

Total Full Time Staff Equivalent - The Authority has made a conscious decision to clearly evaluate each open position and ascertain whether it was an essential position. The Authority started the year with 121 employees (not the budgeted 123), saw seven employees leave and only filled 4 of those positions. There are no new positions added within the Authority over the course of the fiscal period.

Staff Turnover / Average Length of Service – The Authority is committed to providing a positive working environment for staff and strives to minimise / reduce turnover by encouraging staff training, internal promotions, scholarships and equitable market compensation, with the ultimate objective to retain valuable staff.

Major Capital Expenditure Projects:

Island of Grand Cayman – Misc. Extensions, system Connections, New Road expansion - To continue to provide the high level of water reliability and quality to the residents of Grand Cayman the Authority installed 312 new meters

(2012: 407) at a cost of \$143,497 (2012: \$225,352) and extended the pipeline 0.65 miles at a cost of \$240,575 and made several purchases of equipment (\$88,808). The Authority's crew concentrated primarily on upgrades, which are expensed, rather than extensions that are capitalised, therefore it is reasonable that the Authority is under budget on capital works.

Red Gate Site – Water Storage Tank – this project did not commence in the fiscal period and will be carried forward to 2013/14.

Red Gate Site – New File Storage and Maintenance Building – no progress was made on the file storage building due to lack of available financial resources and the Maintenance Building was dependent on the divestment of the wastewater assets. As the divestment is currently on hold indefinitely the vehicle maintenance building is on hold as well and there are no current plans to continue with this project at this time although it may be considered in the future whether or not the wastewater assets are divested.

Cayman Brac - Water Distribution Extension and Expansion of the RO Plant – Consistent with the responses received in prior years, the Authority seeks to fulfill its mission statement and provide the convenience of "city water" to residents living on the North Side of Cayman Brac. In December 2009, the Authority secured the vesting of 12.58 acres next to the Ashton Rutty Civic Center on the Bluff to construct a Water Production, Storage and Pumping Facility to better service the residents on the Brac. The project did not officially commence in the 2012/13 fiscal period, however the Engineering Department has completed the formal plan with capital work expecting to start in early 2013/14.

Risk Management – The Authority recognises the risk associated with normal operations and mitigates this risk by maintaining four comprehensive insurance policies with British Caymanian Insurance, a company associated with Colonial Group International with an A- rating (as published by AM Best).

- Commercial Combined Policy – to protect the physical assets (exclusive of vehicles) of the Authority.
- Comprehensive Vehicle Policy – to protect the fleet assets of the Authority.
- Public / Products Liability Policy – to indemnify the Authority in respect of their legal liability to third parties for Bodily Injury and / or Property Damage arising out of and / or in connection with their activities and / or operations.
- Employer Liability Policy – to protect the Authority in the event that an employee becomes sick or is injured as a result of their employment.

5. Summarised Financial Statements

A full set of financial statements for Water Authority – Cayman is provided in the Appendix to this Ownership Agreement.

A summary of those is as follows.

Operating Statement	2012/13 Actual \$	2012/13 Budget (Approved in LA) \$	Annual Variance \$
Revenue	29,686,487	29,869,408	(182,921)
Operating / Administrative Expenses	25,877,876	26,352,376	(474,500)
Net Surplus/Deficit	3,808,611	3,517,032	291,579

Balance Sheet	2012/13 Actual \$	2012/13 Budget (Approved in LA) \$	Annual Variance \$
Assets	82,472,515	79,651,960	2,820,555
Liabilities	19,859,318	19,643,235	216,083
Net Worth	62,613,197	60,008,725	2,604,472

Statement of Cash Flows	2012/13 Actual \$	2012/13 Budget (Approved in LA) \$	Annual Variance \$
Net cash flows from operating activities	6,721,380	5,566,414	1,154,966
Net cash flows from investing activities	(472,880)	(3,550,750)	3,077,870
Net cash flows from financing activities	(2,784,930)	(2,528,500)	(256,430)

Explanation of Variances

Explanations for variances are found in section 4 on page 5.

6. 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 (2010 Revision)*.

Transaction	2012/13 Actual \$	2012/13 Budget (Approved in LA) \$	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	100,000	100,000	\$ nil
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	1,053,960	1,250,000	(196,040)
Remuneration Payments made to Senior Management	Same as Above	Same as Above	Same as Above

	2012/13 Actual	2012/13 Budget (Approved in LA)
No of Key Management Personnel	8	8
No of Senior Management	8	8

Explanation of Variances

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)

Transaction:

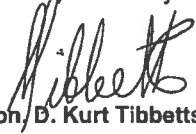
As part of the budgeting process, the Authority highlights the annual contribution to Government, which is approved by the Board. It is reasonable that there is no variance.

The original optimal number of Key Management Personnel for the Authority has been established at eight (8) as the Authority continues to streamline operations and reporting structures. At 30 June 2013, the Key Management Personnel are; The Director, Deputy Director, Financial Controller, Customer Service Manager, Chief Human Resource manager, Water Resources Engineer, Information Technology Manager and Operations Manager – CYB.

Remuneration for Key Management Personnel is inclusive of base salary, pension and health insurance benefits. No salary adjustments were given and the Authority was able to keep health insurance premiums stable so it is reasonable that actual are slightly lower than budgeted.

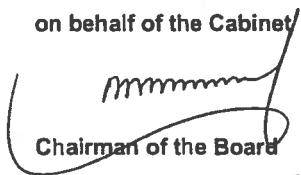
Agreement

We jointly agree that this Ownership Agreement accurately documents the ownership performance that The Water Authority of the Cayman Islands achieved for the 2012/13 financial year.



Hon. D. Kurt Tibbetts, OBE, JP

on behalf of the Cabinet



Chairman of the Board

Date: 8 May 2014

**THE WATER AUTHORITY
OF THE CAYMAN ISLANDS**

**FINANCIAL STATEMENTS
30 June 2013**

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Water Authority of the Cayman Islands
STATEMENT OF RESPONSIBILITY FOR FINANCIAL STATEMENTS
30 June 2013

These financial statements have been prepared by the Water Authority of the Cayman Islands in accordance with the provisions of the *Public Management and Finance Law, (2012 Revision)* and reference to *Section 17(1)* of the *Water Authority Law (1996 Revision)*. The financial statements comply with generally accepted accounting practice as defined in International Public Sector Accounting Standards and International Financial Reporting Standards.

We accept responsibility for the accuracy and integrity of the financial information in these financial statements and their compliance with the *Public Management and Finance Law, (2012 Revision)*.

As Chairman, Director and Financial Controller, we are responsible for establishing; and have established and maintained a system of internal controls designed to provide reasonable assurance that the transactions recorded in the financial statements are authorised by law, and properly record the financial transactions of the Water Authority of the Cayman Islands.

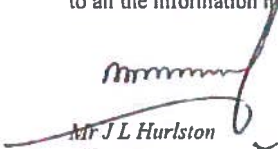
As Chairman, Director and Financial Controller, we are responsible for the preparation of the Water Authority of the Cayman Islands financial statements and for the judgements made in them.

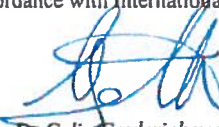
The financial statements fairly present the statement of financial position, statement of comprehensive income, statement of cash flows and statement of changes in equity as at and for the financial year ended 30 June 2013.

To the best of our knowledge we represent that these financial statements are:

- (a) complete and reliably reflect the financial transactions of the Water Authority of the Cayman Islands as at and for the year ended 30 June 2013;
- (b) fairly reflect the financial position as at 30 June 2013 and comprehensive income as at and for the year ended 30 June 2013; and
- (c) comply with International Financial Reporting Standards adopted by International Accounting Standards Board.

The Office of the Auditor General conducts an independent audit and jointly expresses an opinion on the accompanying financial statements. The Office of the Auditor General and its agent have been provided access to all the information necessary to conduct an audit in accordance with International Standards on Auditing.


Mr J L Hurlston
Chairman
Water Authority of the Cayman Islands


Dr Gelia Frederick van Genderen
Director
Water Authority of the Cayman Islands

Date:

Date:


Ms Lori Bergman
Financial Controller
Water Authority of the Cayman Islands

Date: 30 Oct 13

Independent Auditors' Report to the Shareholder and Directors

In accordance with section 60(1)(a)(ii) of the Public Management and Finance Law (2012 Revision), we have audited the accompanying financial statements of The Water Authority of the Cayman Islands (the "Water Authority"), which comprise the statement of financial position as at 30 June 2013 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

This report is prepared for and only for the Shareholder and Directors of the Water Authority in accordance with the terms of an engagement letter dated 26 April 2013 and for no other purpose. We do not accept or assume any liability or duty of care for any other purpose or to any other person to whom this report is shown or into whose hands it may come.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and 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 our 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, we consider 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of 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 qualified audit opinion.

Basis for Qualified Opinion

The statement of financial position as at 30 June 2013 includes a past service pension liability of CI\$1,520,000. The information used to record this pension liability at 30 June 2013 was based on an actuarial valuation as at 30 June 2012. As a result, we were unable to obtain sufficient appropriate audit evidence to form an opinion on the pension liability in the statement of financial position as at 30 June 2013, nor the related changes recognised in the statement of comprehensive income and the related information disclosed in note 9.

Opinion


In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinion paragraph above, the financial statements present fairly, in all material respects, the financial position of the Water Authority as at June 30, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG

October 30, 2013

Alastair Swarbrick

Alastair Swarbrick, MA (Hons), CPFA
Auditor General
October 30, 2013


KPMG
PO Box 493
Century Yard
Grand Cayman KY1-1106
CAYMAN ISLANDS

Telephone: +1 345 949-4800
Fax: +1 345 949-7164
Internet: www.kpmg.ky


Office of the
Auditor
General
CAYMAN ISLANDS

Office of the Auditor General
3rd Floor, Anderson Square
64 Shedden Road, George Town
PO Box 2583
Grand Cayman KY1-1103

Tel: 345-244-3211
Fax: 345-945-7738

E-mail: auditorgeneral@oag.gov.ky
Internet: www.auditorgeneral.gov.ky

Water Authority of the Cayman Islands
Statements of Financial Position
As at 30 June 2013
(Stated in Cayman Islands dollars)

	Note	2013	2012
Assets			
<i>Non-current assets</i>			
Property, plan and equipment	5	67,932,161	71,258,281
Total non-current assets		67,932,161	71,258,281
<i>Current assets</i>			
Cash and cash equivalents		8,459,689	4,996,119
Accounts receivable	3	4,507,345	3,947,831
Inventory	4	1,406,839	1,278,186
Prepaid expenses		166,481	289,645
Total current assets		14,540,354	10,511,781
Total Assets		82,472,515	81,770,062
Liabilities and Shareholder's Equity			
Liabilities			
<i>Non-current liabilities</i>			
Loans payable	6,8	12,804,492	15,446,234
Employee benefits	9	1,520,000	1,391,000
Total non-current liabilities		14,324,492	16,837,234
<i>Current liabilities</i>			
Accounts payable		1,721,692	2,051,158
Contract retention payable		-	118,686
Interest payable		9,820	9,549
Customers deposits		1,162,522	1,164,869
Loans payable	6,8	2,640,792	2,683,980
Total current liabilities		5,534,826	6,028,242
Total liabilities		19,859,318	22,865,476
Shareholder's Equity			
Contributed capital	7	236,000	236,000
Retained earnings		62,377,197	58,668,586
Total liabilities and Shareholder's Equity		82,472,515	81,770,062

On behalf of the Board on the 30th of October, 2013

Mr Lemuel Hurlston
Chairman

Dr Geia Frederick van Genderen
Director

Ms Lori Bergman
Financial Controller

The accompanying notes form an integral part of these financial statements

Water Authority of the Cayman Islands
Statement of Comprehensive Income
For the Year Ended 30 June 2013
(Stated in Cayman Islands dollars)

	Note	2013	2012
Operating Revenue			
Water sales		24,044,582	22,016,510
Sewerage fees		4,037,430	3,719,349
Connection and miscellaneous fees		15,045	285,948
Septage disposal		119,183	112,694
Agency work		36,699	49,035
Total operating revenue		28,252,939	26,183,536
Operating Expenses			
Water purchases / production		7,940,024	7,539,350
Depreciation expense	5	3,663,367	3,922,514
Salaries		2,601,876	2,309,915
Wages		1,443,365	1,666,747
Repairs and maintenance		1,216,819	1,325,055
Electricity		1,170,587	1,426,583
Supplies		884,489	911,590
Miscellaneous		157,732	150,032
Land lease expense		12,335	12,335
Obsolete Inventory		-	7,200
Total operating expenses		19,090,594	19,271,321
Finance Costs			
Loan interest		710,451	821,577
Gross operating profit		8,451,894	6,090,638
Other Income			
Royalties		1,237,433	1,168,144
Other		181,774	51,741
Statutory licencing fees		13,713	11,707
Interest income		628	1,338
Total other income		1,433,548	1,232,930
Operating Profit		9,885,442	7,323,568

Water Authority of the Cayman Islands
Statement of Comprehensive Income (continued)
For the Year Ended 30 June 2013
(Stated in Cayman Islands dollars)

	Note	2013	2012
Administration Expenses			
Salaries	8	1,993,035	1,814,353
Staff training and benefits		1,249,636	1,207,872
Insurance		824,099	785,539
Miscellaneous		382,117	215,262
Telephone and utilities		347,255	364,973
Legal and professional fees		266,148	539,267
Information systems		264,646	307,445
Bad debt expense		186,261	104
Depreciation expense	5	135,633	153,094
Past service pension expense	9	129,000	219,000
Repairs and maintenance		119,320	121,289
Licenses and dues		118,494	82,362
Office and lab supplies		57,587	85,483
Office rental		3,600	3,600
Total administration expenses		6,076,831	5,899,643
Profit for the year and total comprehensive income for the year		3,808,611	1,423,925

The accompanying notes form an integral part of these financial statements

Water Authority of the Cayman Islands
Statement of Changes in Equity
For the Year Ended 30 June 2013
(Stated in Cayman Islands dollars)

	Notes	2013	2012
CONTRIBUTED CAPITAL			
	7		
Balance at beginning of year		236,000	236,000
Balance at end of year		236,000	236,000
RETAINED EARNINGS			
Balance at beginning of year		58,668,586	57,344,661
Total comprehensive income for the year		3,808,611	1,423,925
Contribution to Government	8	(100,000)	(100,000)
Balance at end of year		62,377,197	58,668,586
TOTAL EQUITY		62,613,197	58,904,586

The accompanying notes form an integral part of these financial statements

Water Authority of the Cayman Islands
Statement of Cash Flows
For the Year Ended 30 June 2013
(Stated in Cayman Islands dollars)

	2013	2012
Cash flows from operating activities		
Profit for the year	3,808,611	1,423,925
Adjustments to reconcile net income for the year to net cash provided by operating activities:		
Depreciation expense	3,799,000	4,075,608
Loss on disposal of fixed assets	-	4,795
Add/(deduct) net changes in non-cash operating balances:		
Accounts receivable	(559,514)	(299,453)
Inventory	(128,653)	(54,225)
Prepaid expense	123,164	(56,204)
Accounts payable	(329,466)	537,994
Contract retention payable	(118,686)	26,065
Interest payable	271	5,228
Past service pension liability	129,000	219,000
Customer deposits	(2,347)	(13,346)
Net cash generated by operating activities	6,721,380	5,869,387
Cash flows from investing activities		
Property, plant and equipment purchased	(472,880)	(1,294,968)
Net cash used in investing activities	(472,880)	(1,294,968)
Cash flows from financing activities		
Repayment of loans payable	(2,684,930)	(4,887,816)
Contribution to Government	(100,000)	(100,000)
Net cash used in by financing activities	(2,784,930)	(4,987,816)
Net increase (decrease) in cash and cash equivalents during year	3,463,570	(413,397)
Cash and cash equivalents at beginning of year	4,996,119	5,409,516
Cash and cash equivalents at end of year	8,459,689	4,996,119
Supplemental disclosure for cash flow information:		
Cash paid during the year for interest	(710,451)	(821,577)
Cash received during the year for interest	628	1,338

The accompanying notes form an integral part of these financial statements

Water Authority of the Cayman Islands
Notes to the Financial Statements
30 June 2013

1. Establishment and Principal Activities

The Water Authority of the Cayman Islands is a statutory body, wholly owned by the Cayman Islands Government (the "Government"), 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 2013, the Water Authority had 118 employees (2012: 121 employees). The Water Authority is located at 13G Red Gate Road, P.O. Box 1104, KY1-1102, George Town, Grand Cayman, Cayman Islands.

2. Significant Accounting Policies

(a) Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board (IASB).

(b) Basis of preparation

The financial statements of the Water Authority are prepared on the accrual basis under the historical cost convention.

(c) Functional and presentation currency

These financials are presented in Cayman Islands dollars (CI\$), which is the Water Authority's functional currency. All information has been rounded to the nearest dollar.

(d) Property, plant and equipment

(i) Recognition and Measurement:

Items of property, plant & equipment are stated at cost less accumulated depreciation and any net accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the assets. The cost of self-constructed assets includes the cost of materials, direct labour, related costs to put the assets into service and capitalised borrowing costs.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment, and is recognized net within other income/other expenses in the statement of comprehensive income.

Water Authority of the Cayman Islands
Notes to the Financial Statements
30 June 2013

2. Significant Accounting Policies (continued)

(d) Property, plant and equipment (continued)

(ii) Subsequent costs:

The cost of replacing part of an item of property, plant & equipment is recognised in the carrying amount of an item if it is probable that the future economic benefits embodied within the part will flow to the Water Authority and its cost can be measured reliably. The costs of day-to-day servicing of property, plant & equipment such as maintaining underground piping are recognised in the statement of comprehensive income as incurred.

(iii) Depreciation:

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of the asset, that component is depreciated separately.

Depreciation is charged to the statement of contributed income on a straight-line basis over the useful lives of each part of an item of property, plant and equipment unless the asset is used in the construction of an internally constructed asset in which case the depreciation is capitalised to the internally constructed asset. Land is not depreciated.

The estimated useful lives are as follows:

Buildings	50 years
Water and sewerage systems	10 to 50 years
Other assets	3 to 10 years

Construction in progress represents property, plant and equipment projects which are not yet completed at the year end date. Upon completion, the construction in progress is transferred to the relevant category of property, plant and equipment and depreciation commences when the asset is available for use.

(e) Foreign currency translation

Assets and liabilities denominated in currencies other than Cayman Islands dollars are translated at exchange rates in effect at the fiscal year end date. Revenue and expense transactions denominated in currencies other than Cayman Islands dollars are translated at exchange rates at the date of those transactions. Gains and losses arising on translation are included in the statement of comprehensive Income.

(f) Use of estimates and judgement

The preparation of the financial statements to conform to IFRS requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Actual amounts may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year of the revision and future years, where applicable.

Judgments made by management in the application of IFRS that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next financial year are discussed below:

Water Authority of the Cayman Islands
Notes to the Financial Statements
30 June 2013

2. Significant Accounting Policies (continued)

(f) Use of estimates and adjustments (continued)

(i) Allowance for impairment losses on receivables

In determining amounts recorded for impairment losses in the financial statements, management makes judgments regarding indicators of impairment, that is, whether there are indicators that suggest there may be a measurable decrease in the estimated future cash flows from receivables, for example, default and adverse economic conditions. Management also makes estimates of the likely estimated future cash flows from impaired receivables as well as the timing of such cash flows. Historical loss experience is applied where indicators of impairment are not observable on individual significant receivables with similar characteristics, such as credit risks.

(ii) Net realisable value of inventories

Estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realise. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the period, to the extent that such events confirm conditions existing at the end of the period.

Estimates of net realisable value also take into consideration the purpose for which the inventory is held.

(iii) Valuation of long lived assets

The Water Authority performs impairment testing when circumstances indicate that there may be impairment for long-lived assets. Management judgment is involved in determining if there are circumstances indicating that testing for impairment is required and in determining the grouping of asset to identify their Cash Generating Units ("CGU") for purposes of impairment testing.

The Water Authority assesses impairment by comparing the recoverable amount of a long-lived asset, CGU or CGU group to its carrying value. The recoverable amount is defined as the higher of: (i) value in use; or (ii) fair value less cost to sell. The determination of the recoverable amount involves Management judgment and estimation.

(iv) Valuation of employee benefit plans

The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected unit credit method prorated on service and Management's best estimate of expected plan investment performance, salary escalation, rate of inflation, retirement ages of employees and mortality rates. Discount rates used in actuarial calculations are based on long-term interest rates and can have a material effect on the amount of plan liabilities. Management employs external experts to advise the Water Authority when deciding upon the appropriate estimates to use to value employee benefit plan obligations and expenses. To the extent that these estimates differ from those realized, employee benefit plan assets and liabilities and comprehensive income will be affected.

Water Authority of the Cayman Islands
Notes to the Financial Statements
30 June 2013

2. Significant Accounting Policies (continued)

(f) Use of estimates and adjustments (continued)

(v) Depreciation and Amortization

The Water Authority's property and equipment is depreciated and amortized on a straightline basis, taking into account the expected useful lives of the assets and residual values. Changes to these estimates may affect the carrying value of these assets, inventories, net profit and comprehensive income.

(g) Interest expense

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of loan interest, except where interest incurred on a qualifying asset is capitalized. The interest expense of loan payments is recognised in the statement of comprehensive income using the effective interest rate and or straight line method as appropriate.

(h) Revenue recognition

The Water Authority bills its customers monthly for water consumed, sewerage and other services. Revenue derived from such sources is recorded as income when accrued.

(i) Operating lease

Operating lease payments are recognized as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

(j) Financial instruments

(i) Financial assets

The Water Authority initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Water Authority becomes a party to the contractual provisions of the instrument.

The Water Authority derecognises a financial asset when the Water Authority's contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Water Authority is recognised as a separate allocated asset or liability.

The Water Authority classifies financial assets into the following categories: financial assets at fair value through profit or loss and loans and receivables. The Water Authority currently has no investments.

Water Authority of the Cayman Islands
Notes to the Financial Statements
30 June 2013

2. Significant Accounting Policies (continued)

(j) Financial instruments(continued)

(i) Financial assets (continued)

Loans and receivables:

Loans and receivables comprising accounts receivable are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Cash and cash equivalents:

Cash and cash equivalents comprise cash, bank balances and short term deposits with original maturities of three months or less.

(ii) Financial liabilities

All financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Water Authority becomes a party to the contractual provisions of the instrument.

The Water Authority derecognises financial liabilities when the Water Authority's contractual obligations are discharged, cancelled or expire.

The Water Authority classifies financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

Other financial liabilities comprise loans payable and accounts payable and other payables.

(iii) Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount presented in the Water Authority's statements of financial position when, and only when, the Water Authority has a legal right to offset the amounts and intends either to settle on a basis or to realise the asset and settle the liability simultaneously.

(iv) Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Water Authority measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, then the Water Authority establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cashflow analyses and option pricing models.

Water Authority of the Cayman Islands
Notes to the Financial Statements
30 June 2013

2. Significant Accounting Policies (continued)

(j) Financial instruments(continued)

(iv) Fair value measurement (continued)

Fair value hierarchy

The Water Authority measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. The Water Authority only holds Level 1 financial assets at fair value.

(k) Inventory

Inventory consists of consumable spares and water. Consumable spares are accounted for on the first-in, first-out basis. Water inventory is calculated at the cost of water plus chemicals multiplied by the volume of water. Inventories are valued at the lower of cost and net realisable value.

(l) Employee Benefit Plans

The Water Authority provides post-employment benefits through defined benefit and defined contribution plans.

Defined Benefit Plans:

The Water Authority accrues obligations and costs in respect of employee defined benefit plans. The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected unit credit method prorated on service and Management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees, mortality rates, and expected health care costs. Changes in these assumptions could affect future pension expense. The fair value of plan assets is used as the basis of calculating the expected return on plan assets.

Water Authority of the Cayman Islands
Notes to the Financial Statements
30 June 2013

2. Significant Accounting Policies (continued)

(l) Employee Benefit Plans(continued)

Defined Benefit Plans:

The discount rate used to value the defined benefit obligation is based on a combination of high quality corporate bonds, in the same currency in which the benefits are expected to be paid and with terms to maturity that, on average, match the terms of the defined benefit obligations; and the long-term rate of return of plan assets. Past service costs arising from plan amendments are amortized on a straightline basis over the expected remaining vesting period. To the extent that the benefits vest immediately, the expense is recognized in the statement of comprehensive income.

Actuarial gains and losses due to changes in defined benefit plan assets and obligations are recognized immediately in the statement of comprehensive income.

Defined Contribution Plans:

The Water Authority's obligations for contributions to employee defined contribution pension plans are recognized in the statement of comprehensive income in the periods during which services are rendered by employees.

(m) Accounting standards adopted during the year

Amendments to IAS 1 Presentation of Items or Other Comprehensive Income was effective for annual periods beginning on or after July 1, 2012. Given that no other comprehensive income is earned by the Water Authority, there was no affect in the implementation of this amendment.

(n) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 30 June 2013, and have not been applied in preparing these financial statements. None of these will have an effect on the financial statements of the Water Authority, with the exception of:

- IFRS 9, Financial Instruments, published on 12 November 2009 as part of phase I of the IASB's comprehensive project to replace IAS 39, deals with classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value.

A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value.

Water Authority of the Cayman Islands
Notes to the Financial Statements
30 June 2013

2. Significant Accounting Policies (continued)

(n) *New standards and interpretations not yet adopted* (continued)

The standard is effective for annual periods beginning on or after 1 January 2015. Earlier application is permitted. The Water Authority is currently in the process of evaluating the potential effect of this standard. Given the nature of the Water Authority's operations, this standard is not expected to have a pervasive impact on the Water Authority's financial statements.

- IFRS 13, *Fair Value Measurement*, which is effective for annual periods beginning on or after 1 January 2013, establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances.
- In June 2011, the IASB published an amended version of IAS 19 *Employee Benefits*. Adoption of the amendment is required for annual periods beginning on or after 1 January 2013, with early adoption permitted. The amendment is generally applied retrospectively with certain exceptions. The amendment will require the calculation of expected return on plan assets to be based on the rate used to discount the defined benefit obligation. The amendment also requires other changes and additional disclosures. The Water Authority intends to adopt the amendment in its financial statements for the annual period beginning on 1 July 2013. Management is in the process of assessing the full impact of the amendments to this standard.
- In December 2011 the IASB published amendments to International Accounting Standard ("IAS") 32 *Financial Instruments: Presentation* and issued new disclosure requirements in IFRS 7 *Financial Instruments: Disclosures*. The effective date for the amendments to IAS 32 is annual periods beginning on or after 1 January 2014. The effective date for the amendments to IFRS 7 is annual periods beginning on or after 1 January 2013. These amendments are to be applied retrospectively.
- The amendments to IAS 32 clarify when an entity has a legally enforceable right to off-set as well as clarify, when a settlement mechanism provides for net settlement, or gross settlement that is equivalent to net settlement. The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar arrangements. The Water Authority intends to adopt the amendments to IFRS 7 in its financial statements for the annual period beginning on 1 July 2013, and the amendments to IAS 32 in its financial statements for the annual period beginning 1 July 2014. The Water Authority will include the additional disclosures required by the amendments to IFRS 7 in its 2014 financial statements. The extent of the impact of adoption of amendments to IAS 32 has not yet been determined.

Water Authority of the Cayman Islands
Notes to the Financial Statements
30 June 2013

3. Accounts Receivable

	<u>2013</u>	<u>2012</u>
Trade Receivables	5,013,949	4,665,650
Non-Trade Receivables	914,410	506,989
Allowance for Doubtful Accounts	(1,421,014)	(1,224,808)
	<u>CIS 4,507,345</u>	<u>3,947,831</u>

4. Inventory

	<u>2013</u>	<u>2012</u>
Water Supply and Sewerage Materials	1,353,429	1,208,542
Water Inventory	69,271	85,955
Provision for Obsolete Inventory	(15,861)	(16,311)
	<u>CIS 1,406,839</u>	<u>1,278,186</u>

5. Property, Plant and Equipment

The following projects classified as construction in progress are included in property, plant and equipment.

	<u>2013</u>	<u>2012</u>
1. District Metering Vaults	6,465	6,465
2. Pump Station # 1 Control Panel	6,479	-
3. CCTC Survey	640	-
	<u>CIS 13,584</u>	<u>6,465</u>

At 30 June 2013, buildings with a carrying amount of CI\$4,511,610 (2012: CI\$4,621,608) were used as security for loans and borrowings amounting to CI\$1,144,801 (2012: CI\$1,246,276) (note 6).

The Water Authority's desalination plants operate under a number of finance lease agreements. At 30 June 2013, the carrying amount of leased plant, included in Water Supply assets, was CI\$11,194,367 (2012: CI\$12,499,800). During the years ended 30 June 2013 and 2012, the Water Authority did not acquire any desalination plants. The finance lease agreement between the Water Authority and Ocean Conversion Cayman (Ltd) relating to the Lower Valley expired during the year.

Water Authority of the Cayman Islands
Notes to the Financial Statements
30 June 2013

5. Property, Plant and Equipment (continued)

		<u>2013</u>						
		<u>Freehold Land</u>	<u>Buildings</u>	<u>Water Supply</u>	<u>Sewage</u>	<u>Other Assets</u>	<u>Construction in Progress</u>	<u>Total</u>
Cost								
	Balance at beginning of year	3,555,599	5,499,883	64,020,105	28,340,151	6,359,291	6,465	107,781,494
	Additions	-	-	-	-	70,227	402,653	472,880
	Disposals	-	-	-	-	-	-	-
	Transfers between fixed assets	-	-	395,534	-	-	(395,534)	-
	Balance at end of year CIS	<u>3,555,599</u>	<u>5,499,883</u>	<u>64,415,639</u>	<u>28,340,151</u>	<u>6,429,518</u>	<u>13,584</u>	<u>108,254,374</u>
Accumulated Depreciation								
	Balance at beginning of year	-	878,275	19,311,531	11,136,065	5,197,342	-	36,523,213
	Depreciation expense	-	109,998	2,587,797	813,211	287,994	-	3,799,000
	Disposals	-	-	-	-	-	-	-
	Balance at end of year CIS	<u>-</u>	<u>988,273</u>	<u>21,899,328</u>	<u>11,949,276</u>	<u>5,485,336</u>	<u>-</u>	<u>40,322,213</u>
Net Book Value								
	At 30 June 2013 CIS	<u>3,555,599</u>	<u>4,511,610</u>	<u>42,516,311</u>	<u>16,390,875</u>	<u>944,182</u>	<u>13,584</u>	<u>67,932,161</u>
		<u>2012</u>						
		<u>Freehold Land</u>	<u>Buildings</u>	<u>Water Supply</u>	<u>Sewage</u>	<u>Other Assets</u>	<u>Construction in Progress</u>	<u>Total</u>
Cost								
	Balance at beginning of year	3,555,599	5,499,883	63,411,747	28,340,151	6,345,265	19,619	107,172,264
	Additions	-	-	-	-	33,421	1,261,547	1,294,968
	Disposals	-	-	(666,343)	-	(19,395)	-	(685,738)
	Transfers between fixed assets	-	-	1,274,701	-	-	(1,274,701)	-
	Balance at end of year CIS	<u>3,555,599</u>	<u>5,499,883</u>	<u>64,020,105</u>	<u>28,340,151</u>	<u>6,359,291</u>	<u>6,465</u>	<u>107,781,494</u>
Accumulated Depreciation								
	Balance at beginning of year	-	768,277	17,188,771	10,318,330	4,853,170	-	33,128,548
	Depreciation expense	-	109,998	2,789,103	817,735	358,772	-	4,075,608
	Disposals	-	-	(666,343)	-	(14,600)	-	(680,943)
	Balance at end of year CIS	<u>-</u>	<u>878,275</u>	<u>19,311,531</u>	<u>11,136,065</u>	<u>5,197,342</u>	<u>-</u>	<u>36,523,213</u>
Net Book Value								
	At 30 June 2012 CIS	<u>3,555,599</u>	<u>4,621,608</u>	<u>44,708,574</u>	<u>17,204,086</u>	<u>1,161,949</u>	<u>6,465</u>	<u>71,258,281</u>

Water Authority of the Cayman Islands
Notes to the Financial Statements
30 June 2013

6. Long-Term Liabilities

	Date of Loan	Loan Amount	Loan Term (Years)	Interest Rate		Current	1-2 yrs	3-5 yrs	5+ yrs	TOTAL	
				Rate	At Year End					2013	2012
a)											
	Aug 1998	1,600,000	15	LIBOR + 1%	-	248,917	497,834	-	-	1,144,801	41,223
	Jun 2007	2,421,500	15	LIBOR + 0.9%	2.07%	-	-	398,050	-	-	1,385,053
	Dec 2008	2,505,000	15	LIBOR + 0.9%	1.97%	241,746	483,492	725,238	60,845	1,511,321	1,779,346
	Jun 2009	4,676,000	15	LIBOR + 0.9%	1.97%	451,259	902,518	1,704,489	-	3,058,266	3,454,025
						941,922	1,883,844	2,827,777	60,845	5,714,388	6,659,647
b)											
	Apr 1995	4,822,349	25	0%	0.00%	210,894	421,788	632,683	168,446	1,433,811	1,644,705
						210,894	421,788	632,683	168,446	1,433,811	1,644,705
c)											
	Feb 2006	748,631	7	5.04%	5.04%	-	-	-	-	-	72,849
	Apr 2007	1,450,505	7	5.04%	5.04%	180,726	-	-	-	180,726	411,410
	Jul 2009	9,176,442	10	6.48%	6.48%	873,218	1,925,623	3,399,068	-	6,197,909	7,016,366
	Jul 2010	3,063,816	7	6.48%	6.48%	434,032	957,213	527,205	-	1,918,450	2,325,237
						1,487,976	2,882,836	3,926,273	-	8,297,085	9,825,862
						2,640,792	5,188,468	7,386,733	229,291	15,445,284	18,130,214
										(2,640,792)	(2,683,980)
										CIS 12,804,492	15,446,234

(*) = refer to note 5

(**) = These loans are subject to a letter of undertaking dated December 21, 2000 issued by the Cayman Islands Government.

Water Authority of the Cayman Islands
Notes to the Financial Statements
30 June 2013

6. Long Term Liabilities (continued)

The Water Authority has an overdraft facility at 4.25% interest per annum with First Caribbean International Bank in the amount of CI\$ 416,000 (2012: CI\$ 416,000). At 30 June 2013 \$nil (2012: \$nil) of the overdraft facility was being utilized.

The loans subject to a letter of undertaking by the Cayman Islands Government have the following covenants included in the agreements:

1. The Government shall retain full legal and beneficial ownership of the whole issued share capital of the Water Authority at all times.
2. The Government will not permit the Water Authority to pay dividends or authorize capital withdrawals (including, without limitation, withdrawals to make contributions to the Government) to the detriment of the Water Authority's full debt service obligations.
3. No agreements or arrangements will be entered into (whether by the Government, the Water Authority or otherwise) in terms of which any option, right to purchase or right to subscribe, in each case, in respect of any shares in capital of the Water Authority is granted to any third party.

At 30 June 2013, the Water Authority was in good standing with FCIB regarding the above covenants.

As described in note 5, the administration building serves as security for the loan thereon.

7. Contributed Capital

The Cayman Islands Government provided 12.58 acres of land on Cayman Brac to the Water Authority of the Cayman Islands during the 2009/10 fiscal period at no cost. The fair market value at the time of transfer was CI\$ 236,000.

8. Related Party Transactions

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

1. The Water Authority made loan repayments to the Government during the year in the amount of CI\$210,894 (2012: CI\$210,894). The outstanding balance of the loans with Government was CI\$1,433,811 (2012: CI\$1,644,705) at June 30, 2013; refer to note 6.
2. The Water Authority paid a dividend to the Government in the amount of CI\$100,000 (2012: CI\$100,000).
3. The remuneration of directors and other members of key management personnel during the year was CI\$1,053,960 (2012: CI\$997,149). This amount entirely pertains to short-term employee benefits, namely salary, medical insurance and pension contributions. No loans were issued to key management personnel during the year (2012: nil). There were 8 personnel categorized in 2013 broken down as 7 key management personnel and 1 Director (2012: 7 key management personnel and 1 Director).

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8. Related Party Transactions (continued)

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 Watler'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 Water Authority does not estimate the value of services provided to the Government.

9. Pensions

a) Defined Benefit Plan

The Public Services Pension Plan is managed by the Cayman Islands Government through the Public Services Pension Board. The Board is responsible for among other things, administering The Public Service Pensions Fund (the "Fund"), communicating with plan participants and employers, prescribing contribution rates in accordance with the latest actuarial valuation and recommending amendments to the Public Service Pensions Plan (the "Plan") as needed. The current number of employees enrolled under the defined benefit plan is 5(2012: 5).

The Water Authority recognises the unfunded past service liability as a liability on its financial statements once the actuarial valuation is completed and the actual liability since 1990 (date of establishment) is determined.

The most recent actuarial valuations for IAS 19 reporting was conducted on 26 August 2013, using data as at 30 June 2012. Management use this as best estimate to record the unfunded past service pension liability and the profit and loss charges associated with the plan participation as at and for the year ended 30 June 2013.

The actuarial position is as follows:

	30 June 2013	30 June 2012
Net Present Value of Funded Obligation, beginning of year	(3,246,000)	(2,772,000)
Fair Value of Plan Assets	1,302,000	1,193,000
Defined Benefit Liability	(1,944,000)	(1,579,000)
Unrecognised Actuarial Net Gains/(Losses)	424,000	188,000
Net Liability in Financial Position, end of year	CIS (1,520,000)	(1,391,000)

Past Service Pension Liability valuations for the period ending 30 June 2012, in the amount of CUS\$129,000, was made available to the Water Authority during the current fiscal period. The Water Authority recognized the adjustment in the current period. No valuation was done as at 30 June 2013 and thus the amount recognized reflects the actuarial position as at 30 June 2012.

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9. Pensions (continued)

The present value of the funded obligation changes as follows:

	30 June 2013	30 June 2012
Defined Benefit Obligation, beginning of year	2,772	3,399
Current Service Cost	73	113
Interest Cost	152	187
Plan Participant Contributions	22	27
Net Actuarial (Gain)/Loss on obligations	227	(280)
Transfers between other participating Entities	-	(674)
Defined Benefit Obligation, end of year	<u>CIS'000 3,246</u>	<u>2,772</u>

The fair value of the plan assets during the year changed as follows:

	30 June 2013	30 June 2012
Fair value of plan at the beginning of year	1,193	1,467
Employer & Participant Contributions	45	55
Expected Return on Assets net of Expense	73	90
Actuarial Gain/(Loss) on plan assets	(9)	255
Transfers between other participating Entities	-	(674)
Fair value of plan at the end of year	<u>CIS'000 1,302</u>	<u>1,193</u>

Reconciliation of past service liability (PSL) during the period:

	30 June 2013	30 June 2012
Balance as the beginning of year	1,391	1,172
Plus: Reconciliation of PSL 2012	129	219
Balance as at the end of the year	<u>CIS'000 1,520</u>	<u>1,391</u>

Actuarial Determination of Pension Expense as at:

	30 June 2013	30 June 2012
Current Service Cost, net of employee contributions	73	73
Interest Cost	152	152
Recognition of Net (Gain)/Loss	-	4
Expected Return on Assets	(73)	(73)
Pension Expense	<u>CIS'000 152</u>	<u>156</u>

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9. Pensions (continued)

The total amount recognised as a pension expense for 2013 was CI\$27,520 (2012: CI\$44,802). This amount is included as administrative expenses (staff training and benefits). The actual amount of pension expense relating to the defined benefits for staff should include the effect of the changes in the actuarial determined liability.

The distribution of the plan assets based on the share of the total fund allocated to the Water Authority was as follows:

	30 June 2013	30 June 2012
Global equities	64%	61%
Bonds	32%	32%
Other / cash	1%	4%
Property	3%	3%

The principal actuarial assumptions at the date of valuation:

A. Cost method - Projected Unit Credit

B. Economic assumptions used to determine the net benefit obligations as at:

	30 June 2013	30 June 2012
Discount rate	5.25%	5.50%
Expected long-term rate of return (net of expense)	7.00%	6.00%
Salary increase	3.50%	4.00%
Future pension increases	2.50%	2.50%
Inflation rate	2.50%	2.50%
Expected remaining working lives (years)	11.51	12.01

C. Other assumptions –

1. Mortality – standard U.S. mortality rates
2. Retirement age – completion of age 57 and 10 years of service

D. Asset valuation –fair (market) value

b) Defined Contribution 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 defined contribution pension. During the year, the Water Authority and its employees paid 5% and 5% (2012: 5% and 5%) respectively of salary contributions for British Caymanian. The total employees enrolled in the defined contribution plan with British Caymanian Pension is 113 (2012: 116).

The total amount recognised as a pension expense for the 12 months ended 30 June 2013, inclusive of both the defined benefit and defined contribution plans, was CI\$305,893 (2012: CI\$ 320,815).

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10. Leases

The Water Authority leases a parcel of land in Cayman Brac under an operating lease. Lease payments are currently CI\$1,028 per month and are subject to periodic review to reflect open market rental values. The lease was signed in January 2000 and is for a period of thirty years.

Future minimum lease rentals payable follow:

	<u>2013</u>	<u>2012</u>
Within one year	12,335	12,335
After one year but not more than five years	61,675	61,675
After more than five years	129,516	141,851
	CI\$ 203,526	215,861

11. Financial Risk Management objectives and policies

The Water Authority's activities expose it to various types of risk that are associated with the financial instruments and markets in which it operates. The Water Authority's Board has overall responsibility for the establishment and oversight of its risk management framework. The most important types of financial risk to which the Water Authority is exposed to are credit risk, liquidity risk and market risk. This note presents information about the Water Authority's exposure to each of these risks and the Water Authority's objectives, policies and processes for measuring and managing risk, and the Water Authority's management of capital.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Water Authority. Financial assets which potentially subject the Water Authority to credit risk consist principally of trade receivables. Concentrations of credit risks with respect to trade receivables are small as the customer base is large and unrelated.

Customer credit risk is jointly managed within the finance and customer service departments of the Water Authority. Outstanding customer receivables are regularly monitored and the Water Authority will disconnect water supply to any customers who do not pay their invoices within 60 days. Payment agreements are available to customer who seek assistance, and are monitored closely to ensure compliance. Failure to pay within the outlined time will result in disconnection. The Water Authority holds customer deposits on each account as collateral against non-payment amounting to CI\$1,162,522 (2012: CI\$1,164,869).

The maximum exposure to credit risk for financial assets at the reporting date without taking account of any collateral held or other credit related enhancements and based on the carrying amounts as reported in the statements of financial position, is:

	<u>2013</u>	<u>2012</u>
Trade receivables	5,013,949	4,665,650
Non-trade receivables	914,410	506,989
	CI\$ 5,928,359	5,172,639

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11. Financial risk management objectives and policies (continued)

Credit risk (continued)

As at 30 June 2013, a provision for doubtful receivables of CI\$1,421,014 has been made against accounts receivable (2012: CI\$1,124,808). The aging of receivables at 30 June is as follows:

	<u>2013</u>	<u>2012</u>
Current	3,736,468	2,839,225
Between 30 days and 60 days	25,714	507,264
Between 60 days and 90 days	313,644	202,906
Greater than 90 days	1,852,533	1,623,244
	<u>CI\$ 5,928,359</u>	<u>5,172,639</u>

Liquidity risk

Liquidity risk is the risk that the Water Authority will not be able to meet its financial obligations as they fall due.

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to predict and manage the Water Authority's expected cash outflows. Management monitors rolling forecasts of the cash and cash equivalents on the basis of expected cash outflows.

As at 30 June 2013 accounts payable and interest payable are all due within 3 months of the statements of financial position date. The repayment dates on the loans and borrowings are as described in note 6.

Market risk

Market risk is the risk that changes in interest rates, foreign exchange rates or commodity prices will affect the financial performance of the Water Authority. The Water Authority's activities expose it to interest rate risk and currency risk.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

Loans and borrowings are subject to interest rate risk. As outlined in Note 6, the loans and borrowings attracts variable and fixed interest rates based on market interest rates which are reset monthly. Management does not consider there to be a significant interest rate risk due to the low interest environment.

As at 30 June 2013, the interest rate profile of the Water Authority's interest-bearing financial instruments were:

	<u>2013</u>	<u>2012</u>
Financial Liabilities		
Fixed rate instruments	9,730,896	11,470,567
Variable rate instruments	5,714,388	6,659,647
	<u>CI\$ 15,445,284</u>	<u>18,130,214</u>

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11. Financial risk management objectives and policies (continued)

Market risk (continued)

A change of 1% in interest rates throughout the reporting period would have increased/decreased net income to CI\$ 97,640 (2012:CI\$490,527)

The nature of Water Authority's exposures to interest rate risk and its objectives, policies and processes for managing interest rate risk have not changed significantly from the prior year. Subsequent to 30 June 2012 the market interest rates have remained static and Water Authority has therefore not experienced any adverse effects as a result of interest rate risk.

Currency risk

As substantially all transactions are denominated in Cayman Island dollars, the Water Authority is not significantly exposed to currency risk due to the Cayman Islands dollar being fixed to the United States dollar. The nature of the Water Authority's exposure to currency risk has not changed significantly from the prior year.

12. Financial instruments

Fair values

As at 30 June 2013 and 2012, the carrying amount of cash and cash equivalents, accounts receivable, accounts payable, interest payable and customer 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.

13. Comparative amounts

Certain comparative amounts have been reclassified to conform to the financial statement presentation adopted in the current year.