



The Water Authority of the Cayman Islands



Water Authority Red Gate Reservoir #1 Demolition & New Tank Erection – October 2011 to June 2012

ANNUAL REPORT

For the 2011/12 Financial Year



**OWNERSHIP AGREEMENT
ANNUAL REPORT**

For

The Water Authority of the Cayman Islands

For the 2011/12 Financial Year

Contents

	Page
1. Purpose	3
2. Nature and Scope of Activities	3
3. Strategic Goals and Objectives	4
4. Ownership Performance Targets	5
5. Summarised Financial Statements	8
6. Other Financial Information	9
7. Agreement	11
Appendix: Financial Statements	14

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 2012.

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 2011/12, 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 2011/12 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 extended the distribution pipeline from AIP to Progressive Distributors, to the blue Iguana Reserve and miscellaneous small extensions at a combined cost of \$0.15 million.

During the course of the year the Authority sold 3.5 million m³ of water (2011: 3.5 million m³) and processed 808 million gallons of wastewater (2011: 755 million gallons) in Grand Cayman and sold 0.1 million m³ of water in Cayman Brac (2011: 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. Some of the special projects in the fiscal period were a workshop for the well drillers, resulting in proper logs of all wells that are installed, participation in the review of the International Plumbing Code with the Building Control Unit and participation in the Electricity, Renewable Energy, Water and Wastewater (EREWW) Subcommittee of the National Energy Policy Committee. The EREWW Subcommittee prepared a report recommending specific policies and benchmarks for the Electricity, Renewable Energy, Water and Wastewater sector, this report will be used to develop the National Energy Policy. In addition the Department represented the Authority on the Environmental Advisory Board to review the For Cayman Investment Alliance proposal to close the George Town Landfill and to establish a new Waste Management Facility in Bodden Town, this project continues into the 2012/13 fiscal period. The new Laboratory Information Management System, commissioned in January 2011, provided substantial improvements in the Laboratory in the fiscal period as data management is now automated.

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 (2011: \$50,000) and invested over \$1.3 million (2011: \$4.6 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 2011/12 financial year were as follows:

- **Island of Grand Cayman** – Misc. extensions, system connections, new road expansion – to provide water to unserviced areas within the general distribution grid.
- **ON HOLD - Red Gate Site** – File storage Building – to facilitate the file storage needs of the Authority.
- **Red Gate Site** – Replace water storage tank
- **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.
- **ON HOLD - 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.
- **ON HOLD - Cayman Brac** – Expansion of Existing RO Plant - Additional 60,000gpd (gallons per day) containerized SWRO Plant – to increase operational flexibility, reliability and minimize exposure to natural disasters.
- **ON HOLD – Little Cayman** – New RO Plant and water storage facilities.

Achievement during the Year

- **Island of Grand Cayman** – The Authority extended the distribution pipeline a total of 0.55 miles, out to the Blue Iguana Reserve (0.3 miles), miscellaneous small pipeline extensions (0.15 miles) and from AIP to Progressive Distributors (0.1 miles) at a combined cost of \$152,800. The total distribution pipeline on the island of Grand Cayman is 278.6 miles (2011: 278).
- **Red Gate Site – Replace Water Storage Tank** – This project was put out for competitive bid on 10 October 2012 and awarded to Florida Aquastore with the Central Tenders Committee's approval. Florida Aquastore was awarded the contract on 22 November 2011, commenced the project on 22 December 2011, completed it in June 2012 within budgeted figures at a cost of \$909k.
- **Red Gate Site** – File Storage Building and Vehicle Maintenance Building – the Authority submitted the master plan for the Red Gate site, which incorporates both the file storage and vehicle maintenance buildings, to the Central Planning Authority (CPA) on 18 February 2011. Approval for the plan was received on 18 May 2011. The Vehicle Maintenance Building will only become a necessity should the wastewater assets of the authority be sold and employees relocated from the treatment plant. At 30 June 2012 no plans for either building have been completed.
- **Cayman Brac Extension, Cayman Brac RO Expansion and Little Cayman** - although work has not commenced on these projects the Authority secured a suitable piece of property from the Cayman Islands Government in 2009/10 for the construction of a water production, storage and pumping facility on the Bluff which will also allow for the expansion of the water distribution system. No resources were allocated to the Little Cayman Project.

4. Ownership Performance Targets

Financial Performance

Financial Performance Measure	2011/12 Actual \$	2011/12 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	27,416,466	23,374,228	4,042,238
Surplus/deficit from outputs (Gross Operating Surplus)	7,351,322	6,381,368	969,954
Other expenses	5,927,397	6,137,421	(210,024)
Net Surplus/Deficit	1,423,925	243,947	1,179,978
Total Assets	81,770,062	64,396,337	17,373,725
Total Liabilities	22,865,476	22,118,479	746,997
Net Worth	58,904,586	42,277,858	16,626,728
Cash flows from operating activities	5,869,387	3,446,005	2,423,382
Cash flows from investing activities	(1,294,968)	(5,121,911)	3,826,943
Cash flows from financing activities	(4,987,816)	(2,532,066)	(2,455,750)
Change in cash balances	(413,397)	(4,207,972)	3,794,575

Financial Performance Ratio	2011/12 Actual	2011/12 Budget (Approved in LA)	Annual Variance
Current Assets: Current Liabilities	1.42	0.99	0.43
Total Assets: Total Liabilities	3.58	2.91	0.67

Explanation of Variances

Financial Performances: Income Statement

The original budget was prepared under the premise that the wastewater assets would have been sold prior to the start of the 2011/12 fiscal period and hence all revenue and expenditure related to this business unit were taken out of the consolidated projections for the Authority. This elimination of this division from the budgeted figures of the Water Authority will explain many of the variances.

Original budget revenue figures did not include revenue for the wastewater collection and treatment. Water sales did not increase significantly and the increase in revenue is directly attributed to the inclusion of the wastewater division for the entire 12 months.

The higher than expected Net Surplus is a combination of the inclusion of the wastewater operations combined with prudent fiscal management as evidenced by the reduction in the other expenses.

Overall Assets have correctly increased by the net book value of the wastewater treatment assets as the 2011/12 budgeted figures did not include these assets. Long term liabilities are slightly higher than budgeted, attributed to the Past Service Pension Liability (\$412k), customer deposits (\$217k) and contract retention payable (\$118k).

Overall the growth in both the water and wastewater divisions has been stagnant.

During 2011/12 the Authority maintained austere measures and were able to maintain the administrative expenses against budgeted figures. The slight decrease from budgeted figures was a result of the Authority prudently budgeting for an annual hurricane expense of \$255k, thankfully this expense was not required, allowing the Authority to come in below budget.

An increased Net Surplus is a representation of the strong fiscal management of the Authority given lower than expected sales figures.

The increase in Total Assets is directly attributed to the inclusion of the Wastewater assets back on the financial records. The Net Book Value of the Wastewater assets @ 30 June 2012 was \$17.2 million, which fully explains the increase in total assets. Hence it is reasonable that the net worth of the Authority is higher than budgeted.

It is reasonable that cash flow from operating activities would be higher than budgeted as the net income is higher than expected. During the 2011/12 fiscal period the Authority had planned on spending \$5.2 million on capital works (upgrade and extension projects, new water storage tank, vehicle maintenance building), however during the year the Authority only did \$1.3 million worth of capital projects and so the difference is expected. The original budgeted figures had projected that the wastewater assets would have been sold and the associated loan paid off, however as the wastewater assets were not sold it was the responsibility of the Authority to pay the loan obligations of that division and that explains why the cash outflow for financing activities is much higher than expected. The overall change in cash position is a direct result of the Authority not completing the capital projects as planned, offset by the increase in wastewater loan payments.

The projections prepared for 2011/12 reflect the Authority's operations without the wastewater division. 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. As at 30 June 2012 the sale of the wastewater assets had been put on "hold" and future budgets are expected to reflect the operations of this division.

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 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:

In the 30 June 2011 and 2012 financial statements the wastewater assets were re-classified from "assets held for sale" to non-current assets however in the budget projections these assets were not included at all, therefore it is expected that the ratios would be better, as at 30 June 2012 the assets had a net book value of \$17 million with no associated liabilities.

The Financial Performance Ratios are within expectation given the discussion above and the inclusion of the Wastewater Assets.

Directive for sale of the Wastewater Assets:

In October 2009 the Authority received a directive from the Cayman Islands Government (CIG) to value the wastewater assets and prepare for their sale. Bids from interested vendors were received on 10 December 2010 and the Authority prepared a preliminary tender evaluation report by 23 December 2010. The Government appointed Wastewater Technical Committee (WTC) commenced their tender evaluation in early January 2011 and as at 30 June 2011 had not completed the evaluation and award process. (The WWTC completed their report on 16 August 2011 with additional information provided in September and October 2011. On 9 November 2011 the Central Tenders Committee (CTC) advised that it could not support the recommendation made by the Government-appointed Waste

Water Technical Committee). On 30 January 2012 the CIG directed the Authority to re-issue the Request for Proposals which resulted in local advertisements being published seeking interested vendors. The Authority sought the Central Tenders Committee's (CTC) approval of the RFP document prior to it being released to prospective bidders, however on 23 May 2012 the CTC indicated that without a policy statement by the CIG they would not endorse the procurement process. As a result of this announcement by the CTC the Authority did not send out the RFP to prospective bidders as it would be a futile project unless the Authority was confident that the CTC would be prepared to award the contract under the existing parameters. As at 30 June 2012 no progress has been made on this project.

Maintenance of Capability

Human Capital Measures	2011/12 Actual \$	2011/12 Budget (Approved in LA) \$	Annual Variance \$
Total full time equivalent staff	121	110	11
Staff turnover (%)	7%	14%	(7%)
Average length of service (In Years)			
Senior Management	14 years	14 Years	Nil
Professional Staff	12 years	8 Years	4
Administrative / Field Staff	9 years	10 Years	(1)
Significant changes to personnel management system	No projected software upgrades	No projected software upgrades	N/A

Physical Capital Measures	2011/12 Actual \$	2011/12 Budget (Approved in LA) \$	Annual Variance \$
Value of total assets (NBV of Fixed Assets, inclusive of CIP)	81,770,062	64,396,337	(17,373,725)
Asset replacements: total assets (Fixed Assets Purchased during the year / Total value of Assets)	1.6%	5.7%	(4.1%)
Book value of depreciated assets: initial cost of those assets (NBV of Depreciated assets / initial cost of those assets)	66.1%	71.7%	(5.6%)
Depreciation: Cash flow on asset purchases (Annual Depreciation / Cost of Fixed Assets Purchased)	311.6%	54.9%	256.7%
Changes to asset management policies	None	None	N/A

Major Capital Expenditure Projects	2011/12 Actual \$	2011/12 Budget (Approved in LA) \$	Annual Variance \$
Island of Grand Cayman – Misc. Extensions, system connections, new road expansion	378,152	1,000,000	(621,848)
Red Gate Site – Water Storage Tank	909,275	956,000	(46,725)
Red Gate Site – New File Storage and Maintenance Building	Nil	1,608,000	(1,608,000)
Cayman Brac Extension (WAC and Managed Contract)	Nil	831,300	(831,300)
Cayman Brac Expansion of existing RO Plant	Nil	500,000	(500,000)
Little Cayman – New Ro Plant and water storage facilities	Nil	486,000	(486,000)

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 did not divest itself of the wastewater assets and hence the actual number of employees was higher than budgeted. There were 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 minimize / 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 407 new meters (2011: 567) at a cost of \$225,352 (2011: \$316,078) and extended the pipeline 0.55 miles at a cost of \$152,800. The Authority's crew concentrated primarily on upgrades, which are expensed, rather than extensions which are capitalized, therefore it is reasonable that the Authority is under budget on capital works.

Red Gate Site – Water Storage Tank – this project was awarded by the CTC to Florida Aquastore after a competitive tendering process. Florida Aquastore commenced the project in November 2011 and completed it in June 2012 at the cost of \$909,275.

Red Gate Site – New File Storage and Maintenance Building – no progress has been 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 did not occur during the 2011/12 fiscal period there was no immediate requirement to re-allocate the equipment maintenance staff to the Red Gate site. Only upon divestment of the wastewater assets will the maintenance building be required.

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 Ruddy Civic Center on the Bluff to construct a Water Production, Storage and Pumping Facility to better service the residents on the Brac, however with limited resources and moratorium on borrowing no work was done on this project in 2011/12.

Risk Management – The Authority recognizes 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	2011/12 Actual \$	2011/12 Budget (Approved in LA) \$	Annual Variance \$
Revenue	27,416,466	23,374,228	4,042,238
Operating / Administrative Expenses	25,992,541	23,130,281	2,862,260
Net Surplus/Deficit	1,423,925	243,947	1,179,978

Balance Sheet	2011/12 Actual \$	2011/12 Budget (Approved in LA) \$	Annual Variance \$
Assets	81,770,062	64,396,337	17,373,725
Liabilities	22,865,476	22,118,479	746,997
Net Worth	58,904,586	42,277,858	16,626,728

Statement of Cash Flows	2011/12 Actual \$	2011/12 Budget (Approved in LA) \$	Annual Variance \$
Net cash flows from operating activities	5,869,387	3,446,005	2,423,382
Net cash flows from investing activities	(1,294,968)	(5,121,911)	3,826,943
Net cash flows from financing activities	(4,987,816)	(2,532,066)	(2,455,750)

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	2011/12 Actual \$	2011/12 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	Nil	Nil	N/A

Management Personnel ¹			
Remuneration ² Payments made to Key Management Personnel	997,149	1,150,000	(152,851)
Remuneration Payments made to Senior Management	Same as Above	Same as Above	Same as Above

	2011/12 Actual	2011/12 Budget (Approved in LA)
No of Key Management Personnel	8	8
No of Senior Management	8	8

Explanation of Variances

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. 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. The Chief Operations Manager post was not filled, 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 2011/12 financial year.

Hon. D. Kurt Tibbetts, OBE, JP
on behalf of the Cabinet

Chairman of the Board

Date:

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)

**THE WATER AUTHORITY OF THE CAYMAN ISLANDS
STATEMENT OF COMMITMENTS
FOR THE YEAR ENDING 30 JUNE 2012**

Type	One year or less	One to five years	Over five years	Total
	\$000	\$000	\$000	\$000
Capital Commitments				
Land and buildings	n/a	n/a	n/a	n/a
Other fixed assets	n/a	n/a	n/a	n/a
Other commitments [list separately if material]	n/a	n/a	n/a	n/a
Total Capital Commitments	n/a	n/a	n/a	n/a
Operating Commitments				
Non-cancellable accommodation leases	n/a	n/a	n/a	n/a
Other non-cancellable leases	n/a	n/a	n/a	n/a
Non-cancellable contracts for the supply of goods and services	n/a	n/a	n/a	n/a
Other operating commitments	n/a	n/a	n/a	n/a
Total Operating Commitments	n/a	n/a	n/a	n/a
Total Commitments	n/a	n/a	n/a	n/a

Please see note # 10 of the Financial Statements on page 18 which outlines and describes future capital and operating commitments.

**THE WATER AUTHORITY OF THE CAYMAN ISLANDS
STATEMENT OF CONTINGENT LIABILITIES
FOR THE YEAR ENDING 30 JUNE 2012**

Summary of Quantifiable Contingent Liabilities

	\$000
Legal Proceedings and Disputes	
None	n/a
None	n/a
Total Legal Proceedings and Disputes	<u>n/a</u>
Other Contingent Liabilities	
None	n/a
None	n/a
Total Other Contingent Liabilities	<u>n/a</u>
Summary of Non-Quantifiable Contingent Liabilities	
None	
None	

The Water Authority does not have any quantifiable Contingent Liabilities @ 30 June 2012; please refer to the attached financial statements and accompanying notes.

**THE WATER AUTHORITY
OF THE CAYMAN ISLANDS**

**FINANCIAL STATEMENTS
30 June 2012**

Table of Contents

Statement of Responsibility for Financial Statements	Page 2
Independent Auditors' Report	Page 3-4
Statement of Financial Position	Page 5
Statement of Comprehensive Income	Page 6-7
Statement of Changes in Equity	Page 8
Statement of Cash Flows	Page 9
Notes to the Financial Statements	Page 10-25

Water Authority of the Cayman Islands
STATEMENT OF RESPONSIBILITY FOR FINANCIAL STATEMENTS
30 June 2012

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 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 and Director, we are responsible for establishing; and have established and maintain 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 and Director, 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 changes in equity and a summary of significant accounting policies and other explanatory notes for the financial year ended 30 June 2012.

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 for the year ended 30 June 2012;
- (b) fairly reflect the financial position as at 30 June 2012 and comprehensive income for the year ended 30 June 2012; and
- (c) comply with International Financial Reporting Standards under the responsibility of International Accounting Standards Board.

The Office of the Auditor General conducts an independent audit and expresses an opinion on the accompanying financial statements. The Office of the Auditor General has 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

31 October 2012

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

31 October 2012

Ms Lori Bergman
Financial Controller
Water Authority of the Cayman Islands

31 October 2012

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 "Authority"), which comprise the statement of financial position as at 30 June 2012 and the statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information. The financial statements for the year ended 30 June 2011 were audited solely by the Office of the Auditor General whose report dated 26 October 2011 expressed a qualified opinion.

This report is prepared for and only for the Shareholder and Directors of the Authority in accordance with the terms of an engagement letter dated 6 August 2012 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 as necessary to enable the preparation of consolidated 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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance 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 Authority'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 Authority'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 opinion.

(continued)

Independent Auditors' Report to the Shareholder and Directors (continued)

Basis for Qualified Opinion

The statement of financial position at 30 June 2012 includes a past service pension liability of C\$1,391,000. The information used to record this pension liability at 30 June 2012 was based on actuarial valuations as at 30 June 2011. 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 at 30 June 2012, nor the related changes recognised in the statements of comprehensive income and the related information disclosed in note 9.

Qualified Opinion


In our opinion, except for the effects of such adjustments, if any, as might have determined to be necessary in respect of the matters discussed in the "Basis for Qualified Opinion" paragraph above, the financial statements present fairly, in all material respects, the financial position of the Authority as at 30 June 2012 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



October 31, 2012



Alastair Swarbrick, MA (Hons), CPFA
Auditor General
October 31, 2012



KPMG
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
Statement of Financial Position
As at 30 June 2012
(Stated in Cayman Islands dollars)

	Note	2012	2011
Assets			
<i>Non-current assets</i>			
Property, plant and equipment	5, 13	71,258,281	74,043,716
Total non-current assets		71,258,281	74,043,716
<i>Current assets</i>			
Cash and cash equivalents		4,996,119	5,409,516
Accounts receivable	3, 13	3,947,831	3,648,378
Inventory	4	1,278,186	1,223,961
Prepaid expenses		289,645	233,441
Total current assets		10,511,781	10,515,296
Total Assets	CI\$	81,770,062	84,559,012
Liabilities and Shareholder's Equity			
Liabilities			
<i>Non-current liabilities</i>			
Loans payable	6	15,446,234	18,230,504
Total non-current liabilities		15,446,234	18,230,504
<i>Current liabilities</i>			
Accounts payable		2,051,158	1,513,164
Contract retention payable		118,686	92,621
Interest payable		9,549	4,321
Customers deposits		1,164,869	1,178,215
Past service pension liability	9	1,391,000	1,172,000
Loans payable	6	2,683,980	4,787,526
Total current liabilities		7,419,242	8,747,847
Total liabilities		22,865,476	26,978,351
Shareholder's Equity			
Contributed capital	7	236,000	236,000
Retained earnings	13	58,668,586	57,344,661
		58,904,586	57,580,661
Total liabilities and Shareholder's Equity	CI\$	81,770,062	84,559,012

On behalf of the Board on the 31st of October 2012

Mr Lemuel Hurlston
Chairman

Dr Gelia 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 2012
(Stated in Cayman Islands dollars)

	Note	2012	2011
Operating Revenue			
Water sales	13	22,016,510	21,669,714
Sewerage fees		3,719,349	3,670,670
Connection and miscellaneous fees		285,948	376,985
Septage disposal		112,694	114,513
Agency work		49,035	31,152
Total operating revenue		26,183,536	25,863,034
Operating Expenses			
Water purchases		7,539,350	6,945,496
Depreciation expense	5, 13	3,922,514	3,522,383
Salaries		2,309,915	2,268,076
Wages		1,666,747	1,412,192
Electricity		1,426,583	993,380
Repairs and maintenance		1,325,055	1,123,581
Supplies		911,590	892,339
Miscellaneous		150,032	151,408
Land lease expense		12,335	12,335
Obsolete inventory		7,200	-
Total operating expenses		19,271,321	17,321,190
Finance Costs			
Loan interest		793,823	973,523
Gross operating profit		6,118,392	7,568,321
Other Income			
Royalties		1,168,144	1,182,456
Other		51,741	325,831
Statutory licencing fees		11,707	27,830
Interest income		1,338	1,608
Total other income		1,232,930	1,537,725
Operating Profit		7,351,322	9,106,046

Water Authority of the Cayman Islands
Statement of Comprehensive Income (continued)
For the Year Ended 30 June 2012
(Stated in Cayman Islands dollars)

	Note	2012	2011
Administration Expenses			
Salaries		1,814,353	1,737,729
Staff training and benefits		1,207,872	1,303,242
Insurance		785,539	797,638
Legal and professional fees		539,267	164,144
Telephone and utilities		364,973	332,753
Information systems		307,445	214,714
Past service pension expense	9	219,000	193,000
Miscellaneous		215,262	216,087
Depreciation expense	5	153,094	185,213
Repairs and maintenance		121,289	113,539
Office and lab supplies		85,483	66,970
Licenses and dues		82,362	93,453
Loan interest		27,754	41,380
Office rental		3,600	3,600
Bad debt expense	13	104	168,097
Total administration expenses		5,927,397	5,631,559
Net income for the year and total comprehensive income for the year			
	CI\$	1,423,925	3,474,487

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 2012
(Stated in Cayman Islands dollars)

	Notes	2012	2011
CONTRIBUTED CAPITAL			
Balance at beginning of year, and balance at end of year	7	236,000	236,000
RETAINED EARNINGS			
Balance at beginning of year, restated	13	57,344,661	53,920,174
Total comprehensive income for the year		1,423,925	3,474,487
Contribution to Government	8	(100,000)	(50,000)
Balance at end of year		58,668,586	57,344,661
TOTAL EQUITY	CI\$	\$ 58,904,586	\$ 57,580,661

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 2012
(Stated in Cayman Islands dollars)

	2012	2011
Cash flows from operating activities		
Net income for the year	1,423,925	3,474,487
Adjustments to reconcile net income for the year to net cash provided by operating activities:		
Depreciation expense	4,075,608	3,707,596
Loss on disposal of fixed assets	4,795	0
Add/(deduct) net changes in non-cash operating balances:		
Accounts receivable	(299,453)	(534,852)
Inventory	(54,225)	(13,544)
Prepaid expense	(56,204)	18,642
Accounts payable	537,994	(41,792)
Contract retention payable	26,065	(58,388)
Interest payable	5,228	(3,434)
Past service pension liability	219,000	193,000
Customer deposits	(13,346)	31,887
Net cash provided by operating activities	5,869,387	6,733,602
Cash flows from investing activities		
Property, plant and equipment purchased	(1,308,122)	(6,394,894)
Construction in progress	13,154	1,809,963
Net cash used in investing activities	(1,294,968)	(4,584,931)
Cash flows from financing activities		
Proceeds from loans payable	-	3,063,816
Repayment of loans payable	(4,887,816)	(5,028,192)
Contribution to government	(100,000)	(50,000)
Net cash used in financing activities	(4,987,816)	(2,014,376)
Net increase (decrease) in cash and cash equivalents during year		
	(413,397)	174,295
Cash and cash equivalents at beginning of year	5,409,516	5,235,221
Cash and cash equivalents at end of year	CIS \$ 4,996,119	5,409,516
Supplemental disclosure for cash flow information:		
Cash received during the year for interest	-	1,608
Cash paid during the year for interest	821,578	1,018,337

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

Water Authority of the Cayman Islands
Notes to the Financial Statements
30 June 2012

1. Establishment and Principal Activities

The Water Authority is a statutory body, wholly owned by the government of the Cayman Islands, 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 2012, the Water Authority has 121 employees (2011: 123 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 (CIS), which is the 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 impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour, related costs to put the asset into service, and capitalized 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 2012

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 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 comprehensive 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 capitalized 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. No depreciation is charged on construction in progress assets which are not in use.

(e) Foreign currency translation

Assets and liabilities denominated in currencies other than Cayman Islands dollars are translated at exchange rates in effect at year end. 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 adjustments

The preparation of the financial statements to conform to IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, contingent assets and contingent liabilities at the statement of financial position date and the income and expense for the year then ended. Actual amounts could 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 2012

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) Unbilled revenue

Estimates of unbilled revenue are based on usage determined by the actual usage as measured by the billing cycle of the subsequent month, apportioned evenly over the billed month to arrive at a daily usage figure. Revenue is recognized based on the number of days of the billing cycle to period end multiplied by the daily usage.

(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 in terms of IAS 23 which 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.

Water Authority of the Cayman Islands
Notes to the Financial Statements
30 June 2012

2. Significant Accounting Policies (continued)

(j) Financial instruments

(i) Financial assets

The 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 Authority becomes a party to the contractual provisions of the instrument.

The Authority derecognises a financial asset when the 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 Authority is recognised as a separate allocated asset or liability.

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

Loans and receivables:

Loans and receivables comprising trade and other receivables 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 Authority becomes a party to the contractual provisions of the instrument.

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

The 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 and borrowings and trade and other payables.

Water Authority of the Cayman Islands
Notes to the Financial Statements
30 June 2012

2. Significant Accounting Policies (continued)

(j) *Financial Instruments (continued)*

(iii) *Offsetting financial assets and liabilities*

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

(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) *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 2012, and have not been applied in preparing these financial statements. None of these will have an effect on the financial statements of the 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.

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

- IFRS 13, *Fair Value Measurement* (effective January 1, 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.
- *Amendments to IAS 1, Presentation of Items of Other Comprehensive Income* (effective July 1, 2012) retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met.
- IAS 19, *Employee Benefits (Revised)*, effective for financial reporting periods commencing on or after January 1, 2013.

Water Authority of the Cayman Islands
Notes to the Financial Statements
30 June 2012

3. Accounts Receivable

	<u>2012</u>	<u>2011</u>
Trade Receivables	4,665,650	4,479,885
Non-Trade Receivables	506,989	394,676
Allowance for Doubtful Accounts	(1,224,808)	(1,226,183)
	CIS 3,947,831	3,648,378

4. Inventory

	<u>2012</u>	<u>2011</u>
Water Supply and Sewerage Materials	1,208,542	1,154,999
Water Inventory	85,955	78,073
Provision for Obsolete Inventory	(16,311)	(9,111)
	CIS 1,278,186	1,223,961

5. Property, Plant and Equipment

	2012						
	Freehold Land	Buildings	Water Supply	Sewerage	Other Assets	Construction In Progress	
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	1,274,265	1,307,686
Disposals	-	-	(666,343)	-	(19,395)	-	(685,738)
Transfers between fixed assets	-	-	1,287,419	-	-	(1,287,419)	-
Balance at end of year	3,555,599	5,499,883	64,032,823	28,340,151	6,359,291	6,465	107,794,212
Accumulated Depreciation							
Balance at beginning of year	-	768,277	17,188,771	10,318,330	4,853,170	-	33,128,548
Depreciation for Year	-	109,998	2,789,103	817,735	358,772	-	4,075,608
Disposals	-	-	(666,343)	-	(14,600)	-	(680,943)
Capitalized during construction	-	-	-	-	12,718	-	12,718
Balance at end of year	-	878,275	19,311,531	11,136,065	5,210,060	-	36,535,931
Net Book Value							
At 30 June 2012	CIS 3,555,599	4,621,608	44,721,292	17,204,086	1,149,231	6,465	71,258,281

Water Authority of the Cayman Islands
Notes to the Financial Statements
30 June 2012

5. Property, Plant and Equipment (continued)

	2011 (restated)						Total
	Freehold Land	Buildings	Water Supply	Sewerage	Other Assets	Construction In Progress	
Cost							
Balance at beginning of year	3,555,599	5,583,197	57,151,692	28,340,151	6,079,107	1,829,582	102,539,328
Additions	-	-	3,063,816	-	71,270	1,512,950	4,648,036
Disposals	-	-	-	-	(15,100)	-	(15,100)
Transfers between fixed assets	-	(83,314)	3,196,239	-	209,988	(3,322,913)	-
Balance at end of year	3,555,599	5,499,883	63,411,747	28,340,151	6,345,265	19,619	107,172,264
Accumulated Depreciation							
Balance at beginning of year	-	689,966	14,730,571	9,499,344	4,453,063	-	29,372,944
Depreciation for Year	-	109,998	2,420,662	818,986	357,950	-	3,707,596
Disposals	-	-	-	-	(15,100)	-	(15,100)
Transfers between fixed assets	-	(31,687)	37,538	-	(5,851)	-	-
Capitalized during construction	-	-	-	-	63,108	-	63,108
Balance at end of year	-	768,277	17,188,771	10,318,330	4,853,170	-	33,128,548
Net Book Value							
At 30 June 2011	CIS 3,555,599	4,731,606	46,222,976	18,021,821	1,492,095	19,619	74,043,716

At 30 June 2012, buildings with a carrying amount of CI\$4,621,608 (2011: CI\$4,699,919) were used as security for loans and borrowings amounting to CI\$1,246,276 (2011: CI\$1,813,102) (note 6).

The Authority's desalination plants operate and are secured under a number of finance lease agreements. At 30 June 2012, the carrying amount of leased plant, included in Water Supply assets, was CI\$12,499,800 (2011: CI\$13,805,232). During the year ended 30 June 2012, the Authority did not acquire any desalination plants (2011: CI\$3,063,816).

Water Authority of the Cayman Islands
Notes to the Financial Statements
30 June 2012

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					2012	2011
a) <i>CIBC First Caribbean International Bank (Cayman) Limited</i>											
Administration Building Loan	Aug 1998	\$ 1,600,000	15	LIBOR + 1%	2.07%	\$41,223	-	-	-	41,223	188,098
Waste Water Treatment Works Loan # 107762	Dec 2000	\$501,000	8	LIBOR + 1%	-	-	-	-	-	-	228,449
# 10013845	Dec 2002	\$12,677,508	8	LIBOR + 1%	-	-	-	-	-	-	1,906,625
New Administration Building Loan	Jun 2007	\$2,421,500	15	LIBOR + 0.9%	1.97%	240,051	480,102	664,900	-	1,385,053	1,625,004
North Side supply extension & North Side pumping facility	Dec 2008	\$ 2,505,000	15	LIBOR + 0.9%	1.97%	231,290	462,580	693,870	391,606	1,779,346	1,978,572
Credit Facility F	Jun 2009	\$4,676,000	15	LIBOR + 0.9%	1.97%	431,743	863,486	1,295,229	863,567	3,454,025	3,921,930
Sub-total for FCIB						944,307	1,806,168	2,653,999	1,255,173	6,659,647	9,848,678
b) <i>Cayman Islands Government (CIG)</i>											
Grand Cayman	Apr 1995	\$ 4,822,349	25	0%	0.00%	210,895	421,787	632,682	379,341	1,644,705	1,855,598
Sub-total for CIG						210,895	421,787	632,682	379,341	1,644,705	1,855,598
c) <i>Ocean Conversion (Cayman) Ltd. (OCL)</i>											
Lower Valley - Second Expansion	Feb 2006	\$ 748,631	7	5.04%	5.04%	72,849	-	-	-	72,849	192,902
North Sound - Expansion	Apr 2007	\$ 1,450,505	7	5.04%	5.04%	230,685	180,725	-	-	411,410	630,866
North Side - Original	Jul 2009	\$ 9,176,442	10	6.48%	6.48%	818,456	1,804,862	3,185,904	1,207,144	7,016,366	7,783,494
Red Gate - Upgrade	Jul 2010	\$3,063,816	7	6.48%	6.48%	406,788	897,130	1,021,319	-	2,325,237	2,706,492
Sub-total for OCL						1,528,778	2,882,717	4,207,223	1,207,144	9,825,862	11,313,754
TOTALS						2,683,980	5,110,672	7,493,904	2,841,658	18,130,214	23,018,030
Less Current Maturities						(2,683,980)				(2,683,980)	(4,787,526)
										CIS 15,446,234	\$ 18,230,504

Water Authority of the Cayman Islands
Notes to the Financial Statements
30 June 2012

6. Long Term Liabilities (continued)

Overdraft Facility CUS\$416,000:

The Authority has an overdraft facility at prime plus 4.25% interest per annum with CIBC First Caribbean International Bank in the amount of CUS\$416,000. At 30 June 2012 \$nil (2011: \$nil) of the overdraft facility was being utilized.

All the FCIB loans are subject to a letter of undertaking by the Government of the Cayman Islands and 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 Authority at all times.
2. The Government will not permit the Authority to pay dividends or authorize capital withdrawals (including, without limitation, withdrawals to make contributions to the Government) to the detriment of the Authority's full debt service obligations.
3. No agreements or arrangements will be entered into (whether by the Government, the 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 Authority is granted to any third party.

At 30 June 2012, the 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 thereover.

7. Contributed Capital

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

8. Related Party Transactions and Balances

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

1. The Authority made loan repayments to the Government during the year in the amount of CUS\$210,894 (2011: CUS\$210,894). The outstanding balance of loans with the Government was CUS\$1,644,705 at 30 June 2012 (2011: CUS\$1,855,598) – see note 6.
2. The Authority paid a dividend to the Government in the amount of CUS\$100,000 (2011: CUS\$50,000).
3. The remuneration of directors and other members of key management personnel during the year was CUS\$997,149 (2011: CUS\$961,251). This amount entirely pertains to short-term employee benefits. There were 8 personnel categorized in 2012 broken down as 7 key management personnel and 1 Director (2011: 7 key management personnel and 1 Director).

During the year, the Water Authority provided at no charge to the 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 Authority does not estimate the value of services provided to the Government. The Authority also engages the services of other government related entities.

Water Authority of the Cayman Islands
Notes to the Financial Statements
30 June 2012

9. Pensions

a) Defined Benefit Plan

The Public Services Pension Plan ("the Plan") is managed by the 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 Plan as needed. The current number of employees enrolled under the defined benefit plan is 5 (2011: 6).

The 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 27 July 2012, using data at 30 June 2011. 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 at 30 June 2012 and for the year then ended.

The actuarial position is as follows:

	As at 30 June 2011	As at 30 June 2010	As at 30 June 2009
Net present value of funded obligation, beginning of year	2,772,000	3,399,000	3,163,000
Fair value of plan assets	1,193,000	1,467,000	1,497,000
Defined benefit liability	(1,579,000)	(1,932,000)	(1,666,000)
Unrecognised actuarial net gains	188,000	760,000	687,000
Net liability in financial position, end of year	<u>CIS (1,391,000)</u>	<u>(1,172,000)</u>	<u>(979,000)</u>

There is a twelve month lag between the financial period end and the data used by the actuary to estimate the Plan's assets and liabilities. Management therefore records the estimates when they are reported and do not expect any material errors to arise as a result of the lag time.

The present value of the funded obligation changes as follows:

	30 June 2011 CIS000	30 June 2010 CIS000	30 June 2009 CIS000
Defined benefit obligation, beginning of year	3,399	3,163	2,393
Current service cost	113	107	82
Interest cost	187	180	161
Plan participant contributions	27	37	37
Net actuarial (gain)/loss on obligations	(280)	199	582
Transfers between other participating entities	(674)	(287)	(92)
Defined benefit obligation, end of year	<u>2,772</u>	<u>3,399</u>	<u>3,163</u>

Water Authority of the Cayman Islands
Notes to the Financial Statements
30 June 2012

9. Pensions (continued)

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

	30 June 2011	30 June 2010	30 June 2009
	CIS000	CIS000	CIS000
Fair value of Plan at the beginning of year	1,467	1,497	1,643
Employer & participant contributions	55	75	76
Expected return on assets net of expense	90	90	118
Actuarial gain/(loss) on plan assets	255	92	(262)
Transfers between other participating entities	(674)	(287)	(92)
Other: Impact of re-statement of beginning of year assets		-	14
Fair value of plan at the end of year	<u>1,193</u>	<u>1,467</u>	<u>1,497</u>

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

Balance as at 30 June 2010	\$1,172,000
Plus: Reconciliation of PSL 2011	<u>219,000</u>
Balance as at 30 June 2011	<u>\$1,391,000</u>

Actuarial Determination of Pension Expense as at:

	30 June 2011	30 June 2010	30 June 2009
	CIS000	CIS000	CIS000
Current service cost, net of employee contributions	73	113	107
Interest cost	152	187	180
Recognition of net (gain)/loss	4	37	34
Expected return on assets	(73)	(90)	(90)
Pension expense	<u>156</u>	<u>247</u>	<u>231</u>

The total amount recognised as a pension expense for 2012 was CI\$44,802 (2011: CI\$44,046). 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 Authority was as follows:

	30 June 2011	30 June 2010	30 June 2009
Global Equities	61%	55%	44%
Bonds	32%	37%	49%
Other / Cash	4%	5%	4%
Property	3%	3%	3%

Water Authority of the Cayman Islands
Notes to the Financial Statements
30 June 2012

9. Pensions (continued)

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 2011	30 June 2010	30 June 2009
Discount Rate	5.50%	5.50%	5.75%
Expected long-term rate of return (net of Expense)	6.00%	6.00%	6.00%
Salary Increase	4.00%	4.00%	4.00%
Future Pension Increases	2.50%	2.50%	2.50%
Inflation Rate	2.50%	2.50%	2.50%
Expected remaining working lives (years)	12.01	12.48	14.55

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 plan. During 2011/12 the Authority and its employees paid 5% and 5% respectively of salary contributions to the defined contribution plan. The current number of employees enrolled under the defined contribution plan is 116 (2011: 117).

The total amount recognised as a pension expense for the year ended 30 June 2012, inclusive of both the defined contribution and defined benefit plans, was CI\$320,815 (2011: CI\$316,390).

Water Authority of the Cayman Islands
Notes to the Financial Statements
30 June 2012

10. Leases

The Authority leases a parcel of land in Cayman Brac under an operating lease. Lease payments are currently \$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>2012</u>	<u>2011</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	141,851	154,186
	CIS 215,861	228,196

11. Financial Risk Management objectives and policies

The Authority's activities expose it to various types of risk that are associated with the financial instruments and markets in which it operates. The 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 Authority is exposed to are credit risk, liquidity risk and market risk. This note presents information about the Authority's exposure to each of these risks and the Authority's objectives, policies and processes for measuring and managing risk, and the 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 Authority. Financial assets which potentially subject the 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 Authority. Outstanding customer receivables are regularly monitored and the 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 Authority holds customer deposits on each account as collateral against non-payment amounting to CI\$1,164,869 (2011: CI\$1,178,215).

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 statement of financial position, is:

	<u>2012</u>	<u>2011</u>
Trade receivables	4,665,650	4,479,885
Non-trade receivables	506,989	394,676
	CIS 5,172,639	4,874,561

Water Authority of the Cayman Islands
Notes to the Financial Statements
30 June 2012

11. Financial risk management objectives and policies (continued)

Credit risk (continued)

As at 30 June 2012, a provision for doubtful receivables of CI\$1,124,808 has been made against accounts receivable (2011: CI\$1,126,183). The aging of receivables at 30 June 2012 and 2011 is as follows:

	2012	2011
Current	2,739,225	2,608,954
Between 30 days and 60 days	507,264	524,265
Between 60 days and 90 days	202,906	222,945
Greater than 90 days	1,623,244	1,418,397
	CI\$ 5,072,639	4,774,561

Liquidity risk

Liquidity risk is the risk that the 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 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 2012 accounts payable and interest payable are all due within 3 months of the statement 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 Authority. The 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 attract 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 2012, the interest rate profile of the Authority's interest-bearing financial instruments were:

	2012	2011
Financial Liabilities		
Fixed rate instruments	11,470,567	13,169,352
Variable rate instruments	6,659,647	9,848,678
	CI\$ 18,130,214	23,018,030

Water Authority of the Cayman Islands
Notes to the Financial Statements
30 June 2012

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 by CI\$490,527 (2011: CI\$712,220).

The nature of 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 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 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 Authority's exposure to currency risk has not changed significantly from the prior year.

12. Financial instruments

Fair values

As at 30 June 2012 and 2011, the carrying amount of customer deposits, trade and other receivables, contract retentions payable and accounts payable 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. 2011 Restatements

a) Property, plant and equipment and depreciation

During the year ended 30 June 2011, the useful economic life of the water tanks were revised from 50 years to 25 years. This change in useful economic life was not accounted for prospectively in accordance with IFRS during the year then ended. Management corrected this by restating the accumulated depreciation. This resulted in an increase in the book value of the water supply system by CI\$791,736 and an increase in net income and retained earnings at 30 June 2011 by a corresponding amount.

b) Revenue and receivables

At 30 June 2011 the Authority had not accounted for unbilled revenue earned in accordance with IFRS. Management corrected this by restating revenue and accounts receivable in the financial statements at that date. The impact resulted in an increase in revenue, accounts receivable, net income and retained earnings at that date of CI\$628,161.

c) Receivables

Receivables were overstated at 30 June 2011 by CI\$390,467. Management corrected this by restating the receivables balance at that date. The impact resulted in an increase in expenses, and a decrease in accounts receivable, net income and retained earnings at that date of CI\$390,467.

Water Authority of the Cayman Islands
Notes to the Financial Statements
30 June 2012

13. 2011 Restatements (continued)

The impact of the restatement on the financial statements for the year ended 30 June 2011 was as follows:

	Originally Reported	Adjustments	Restated Amount
Statement of financial position			
Property, plant and equipment (see note 14)	55,230,159	18,813,557	74,043,716
Account receivable	3,410,685	237,693	3,648,378
Assets held for sale (see note 14)	18,021,821	(18,021,821)	0
Retained earnings – opening balance	(53,687,106)	(233,068)	(53,920,174)
Impact to retained earnings		CIS (796,361)	
Statement of comprehensive income			
Revenue	(21,614,892)	(54,822)	(21,669,714)
Depreciation expense	4,314,119	(791,736)	3,522,383
Bad debt expense	117,900	50,197	168,097
Impact to net income and total comprehensive income		CIS (796,361)	

14. Comparative amounts

Certain comparative amounts have been reclassified to conform to the financial statement presentation adopted in the current year. Included in are the assets of the WasteWater division, which at 30 June 2011 met the criteria under IFRS 5 to be classified as held for sale. However, as at 30 June 2012 the Authority has assessed the likelihood of the sale as unlikely and thus these assets are no longer classified as held for sale. The effect of this reclassification is shown in note 13.

15. Subsequent events

The Directors have evaluated subsequent events through 31 October 2012, the date the financial statements were available to be issued and, have determined that no additional items require disclosure.