



## **The Water Authority of the Cayman Islands**



**Water Authority Pipeline Upgrade on East – West Arterial from Red Bay to South Sound  
Winter 2010**

# **ANNUAL REPORT**

**For the 2010/11 Financial Year**





**OWNERSHIP AGREEMENT  
ANNUAL REPORT  
For**

***The Water Authority of the Cayman Islands***

***For the 2010/11 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 2011.

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 2010/11, 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 2010/11 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 along the East / West Corridor, completing from the Lantern Point Roundabout to South Sound Road and miscellaneous side roads at a combined cost of \$0.8 million.

During the course of the year the Authority sold 3.5 million m<sup>3</sup> of water (2010: 3.5 million m<sup>3</sup>) and processed 755 million gallons of wastewater (2010: 733 million gallons) in Grand Cayman and sold 0.1 million m<sup>3</sup> of water in Cayman Brac (2010: 0.1 million m<sup>3</sup>).

Throughout the fiscal period, and in an ongoing quest to protect and develop the groundwater resources, the Authority commenced discussion with the Development Control Board and planners in the Sister Islands to determine practical and feasible options for wastewater treatment and disposal on the Bluff and in Little Cayman, continued to work with Boatswain's Beach on options to reduce impacts of effluent disposal, and reviewed development applications submitted through the Planning Department to ensure compliance with the Water Authority Regulations.

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 \$50,000 to the Government of the Cayman Islands (2010: \$50,000) and invested over \$4.6 million (2010: \$13.5 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 2010/11 financial year were as follows:*

- **Grand Cayman** – Misc. extensions, system connections, new road expansion – to provide water to unserved areas within the general distribution grid without piped water service.
- **Red Gate Site** – File Storage Building and Vehicle Maintenance Building – To facilitate the file storage needs of the Authority and to construct a special purpose building for fleet maintenance, relocating the buildings and equipment staff and operations from the WWTP to the Red Gate Site.
- **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.
- **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.

#### Achievement during the Year

- **Grand Cayman** – The Authority extended the distribution pipeline a total of 2 miles along the East / West Corridor, completing from the Lantern Point Roundabout to South Sound Road (0.74 miles) and miscellaneous side roads (1.26 miles) at a combined cost of \$0.8 million. The total distribution pipeline on the island of Grand Cayman is 278 miles (2010: 276).
- **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. At 30 June 2011 no plans for either building have been completed.
- **Cayman Brac Extension and Cayman Brac RO Expansion** - 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.

## 4. Ownership Performance Targets

### Financial Performance

Financial Performance Measure	2010/11 Actual \$	2010/11 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	27,345,937	27,765,268	(419,331)
Surplus/deficit from outputs (Gross Operating Surplus)	6,721,763	5,749,713	972,050
Other expenses	5,581,362	7,016,328	(1,434,966)
Net Surplus/Deficit	2,678,126	241,604	2,436,522
Total Assets	83,529,583	91,454,532	(7,924,949)
Total Liabilities	26,978,351	40,317,384	(13,339,033)
Net Worth	56,551,232	51,137,148	5,414,084
Cash flows from operating activities	6,773,601	4,881,462	1,892,139
Cash flows from investing activities	(4,584,930)	(10,777,095)	(6,192,165)
Cash flows from financing activities	(2,014,376)	5,196,087	(7,210,463)
Change in cash balances	174,295	(699,546)	873,841

Financial Performance Ratio	2010/11 Actual	2010/11 Budget (Approved in LA)	Annual Variance
Current Assets: Current Liabilities	3.23	0.63	2.60
Total Assets: Total Liabilities	3.10	2.27	0.83

#### Explanation of Variances

##### *Financial Performances: Income Statement*

Original budgeted revenue figures were based on a strong projected rate of growth and a substantial rate increase. Therefore, it is reasonable that the Authority did not meet the original revenue projections as there was no adjustment to rates and growth has slowed considerably from original projections. While the Authority did not meet budgeted figures the revenue figures were still reflective of moderate growth over that shown in 2009/10 (\$27.0 million, an increase of 1.4%) and continues to benefit from mild economic growth on the island.

During 2010/11 the Authority maintained austere measures and hence were able to decrease other expenses (administrative) from originally budgeted figures by almost 21%. The majority of the savings can be attributed to zero salary adjustments, no new positions and the associated benefits (\$517k). The rest of the savings were from delayed information technology projects (\$176k), decreased depreciation (\$124k), favorable interest rates (\$88k), conservative utility estimates (\$84k), decreased legal and professional fees (\$30k), and several projects that the

Authority had planned to complete but was unable to due to limited in house resources, for example, completion of the Cost of Service and Rate Design project and employee handbook (\$150k).

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

The 2010/11 ownership agreement was completed in February 2010 and included \$2.0 million of wastewater capital projects (replacement, extensions and rehabilitation), however none of those projects came to fruition as the Government plans to divest themselves of the Wastewater assets and therefore the Authority was instructed not to proceed with any capital projects related to the Wastewater Assets. The total budgeted asset figure was therefore overstated by \$2.0 million.

If budgeted asset figures were reduced by \$2.0 million, reflective of the directive not to proceed with capital projects relating to the wastewater system, then the variance would be reduced to \$5.9 million. The Authority had aggressively planned to complete several water capital projects throughout 2010/11 however not all of them were completed. Most notably is the delay in the extension of the Cayman Brac Water Distribution System (\$2.9 million), File Storage and Vehicle Maintenance buildings (\$1.6 million), Cayman Brac expansion of the existing RO Plant (\$0.5 million) which have all been delayed due to unavailable resources. The total cost of these projects is \$5.0 million, and had they been completed would have put the asset values of the Authority well within the budgeted figures.

During the course of the 2010/11 budget process, the Authority had planned to borrow over \$10.3 million Long Term Debt, however during the 2010/11 fiscal period the Authority only borrowed \$3.1 million, which was in the form of vendor financing arrangement for the refurbishment of the Red Gate Plant.

The projections prepared for 2010/11 reflect the Authority's operations as a whole, inclusive of the wastewater division. Evidence of a solid revenue stream, strong cash management, prioritisation of projects to complete, and significant, conscious reductions in administrative expenses, is demonstrated through a higher net income than originally forecasted. As at 30 June 2011 the sale of the wastewater assets had not yet been finalized.

As part of the annual budget process, the Authority updates 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 lower than expected 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 2010 and 2011 financial statements the wastewater assets were classified as "assets held for sale" however in the budget projections these assets remained classified as long term, thereby significantly changing the ratios as calculated above, this explanation is consistent with the higher than expected Physical Capital Measures. Had the Wastewater Assets not been reclassified the current ratio would have been 1.2, which is more in line with original estimates.

The Financial Performance Ratios are within expectation given the discussion above and the reclassification of the Wastewater Assets from Long Term to Current Assets.

#### *Directive for sale of the Wastewater Assets:*

In October 2009 the Authority received a directive from the Government of the Cayman Islands 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.

## Maintenance of Capability

Human Capital Measures	2010/11 Actual	2010/11 Budget (Approved in LA)	Annual Variance
Total full time equivalent staff	123	120	3
Staff turnover (%)	11%	14%	(3%)
Average length of service (In Years)			
Senior Management	13 years	13 Years	Nil
Professional Staff	11 years	7 Years	4
Administrative / Field Staff	8 years	9 Years	(1)
Significant changes to personnel management system	No projected software upgrades	No projected software upgrades	N/A

Physical Capital Measures	2010/11 Actual	2010/11 Budget (Approved in LA)	Annual Variance
Value of total assets (NBV of Fixed Assets, inclusive of CIP)	55,230,159	85,242,895	(30,012,736)
Asset replacements: total assets (Fixed Assets Purchased during the year / Total value of Assets)	8.7%	12.8%	(4.1%)
Book value of depreciated assets: initial cost of those assets (NBV of Depreciated assets / initial cost of those assets)	70.1%	72.9%	(2.8%)
Depreciation: Cash flow on asset purchases (Annual Depreciation / Cost of Fixed Assets Purchased)	98.1%	42.5%	55.6%
Changes to asset management policies	None	None	N/A

Major Capital Expenditure Projects	2010/11 Actual \$	2010/11 Budget (Approved in LA) \$	Annual Variance \$
Island of Grand Cayman – Misc. Extensions, system connections, new road expansion	1,224,125	2,000,000	(775,875)
Red Gate Site – New File Storage and Maintenance Building	Nil	1,625,000	(1,625,000)
Cayman Brac Extension (WAC and Managed Contract)	Nil	2,902,000	(2,902,000)
Cayman Brac Expansion of existing RO Plant	Nil	500,000	(500,000)

## Risk Management

Key risks	Status of Risk	Actions taken during 2010/11 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 to fill 3 essential positions in 2010/11.

**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 567 new meters (2010: 795) and completed multiple extensions at a cost of \$0.8 million.

**Red Gate Site – New File Storage and Maintenance Building** – no significant work has been completed on these projects throughout 2010/11 due to restricted resources and funds.

**Cayman Brac - Water Distribution Extension and Expansion of the RO Plant** – In response to requests from the public and in fulfillment of the Authority's mission statements there are plans to provide the convenience of "city water" to residents living on the North Side of Cayman Brac. The Authority received a verbal commitment from government in 2006 to vest a section of property next to the Ashton Rutty Civic Centre on the Bluff to the Authority for the construction of a Water Production, Storage and Pumping Facility to service the existing customers of Cayman Brac and also to allow expansion of the water distribution system to the north side of the island. The Authority took the initiative and in December 2007 contracted with Cayman Survey Associated Limited to carry out a fixed boundary survey for a sub division of Block104A, Parcel #9 and submit a formal planning application for the subdivision. The process of vesting the 12.58 acre property was completed in December 2009. No work was done on this project in the 2010/11 fiscal period due to limited resources.

**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.

<b>Operating Statement</b>	<b>2010/11 Actual \$</b>	<b>2010/11 Budget (Approved in LA) \$</b>	<b>Annual Variance \$</b>
Revenue	27,345,937	27,765,268	(419,331)
Operating / Administrative Expenses	24,667,811	27,523,664	(2,855,853)
Net Surplus/Deficit	2,678,126	241,604	2,436,522

<b>Balance Sheet</b>	<b>2010/11 Actual \$</b>	<b>2010/11 Budget (Approved in LA) \$</b>	<b>Annual Variance \$</b>
Assets	83,529,583	91,454,532	(7,924,949)
Liabilities	26,978,351	40,317,384	(13,339,033)
Net Worth	56,551,232	51,137,148	5,414,084

<b>Statement of Cash Flows</b>	<b>2009/10 Actual \$</b>	<b>2009/10 Budget (Approved in LA) \$</b>	<b>Annual Variance \$</b>
Net cash flows from operating activities	6,773,601	4,881,462	1,892,139
Net cash flows from investing activities	(4,584,930)	(10,777,095)	(6,192,165)
Net cash flows from financing activities	(2,014,376)	5,196,087	(7,210,463)

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 (2005 Revision)*.

<b>Transaction</b>	<b>2010/11 Actual \$</b>	<b>2010/11 Budget (Approved in LA) \$</b>	<b>Annual Variance \$</b>
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	\$50,000	\$50,000	\$ 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 <sup>1</sup>	Nil	Nil	N/A
Remuneration <sup>2</sup> Payments made to Key Management Personnel	961,251	1,100,000	(138,749)
Remuneration Payments made to Senior Management	Same as Above	Same as Above	Same as Above

	<b>2010/11 Actual</b>	<b>2010/11 Budget (Approved in LA)</b>
No of Key Management Personnel	8	9
No of Senior Management	8	9

Explanation of Variances

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

<sup>2</sup> 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 was originally set at nine (9) but later reduced to eight (8) as the Authority strove to streamline operations and reporting structures. By natural attrition, the Chief Operations Manager post became vacant in April 2010 and not filled. 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 (12.6%) than budgeted.

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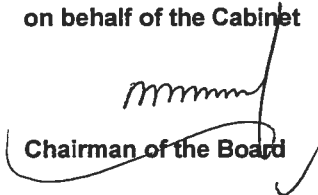
**Agreement**

We jointly agree that this Ownership Agreement accurately documents the ownership performance that The Water Authority of the Cayman Islands achieved for the 2010/11 financial year.



Hon Julianna O'Connor-Connolly

on behalf of the Cabinet



Date:

**THE WATER AUTHORITY OF THE CAYMAN ISLANDS**  
**STATEMENT OF COMMITMENTS**  
**FOR THE YEAR ENDING 30 JUNE 2011**

Type	One year or less	One to five years	Over five years	Total
	\$000	\$000	\$000	\$000
<b>Capital Commitments</b>				
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
<b>Total Capital Commitments</b>	n/a	n/a	n/a	n/a
<b>Operating Commitments</b>				
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
<b>Total Operating Commitments</b>	n/a	n/a	n/a	n/a
<b>Total Commitments</b>	n/a	n/a	n/a	n/a

Please see notes # 10 & 11 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 2011**

**Summary of Quantifiable Contingent Liabilities**

	<b>\$000</b>
<b>Legal Proceedings and Disputes</b>	
None	n/a
None	n/a
<b>Total Legal Proceedings and Disputes</b>	<u>n/a</u>

**Other Contingent Liabilities**

None	n/a
None	n/a
<b>Total Other Contingent Liabilities</b>	<u>n/a</u>

**Summary of Non-Quantifiable Contingent Liabilities**

None  
None

The Water Authority does not have any quantifiable Contingent Liabilities @ 30 June 2011; please refer to the attached financial statements and accompanying notes.



**THE WATER AUTHORITY  
OF THE CAYMAN ISLANDS**

**FINANCIAL STATEMENTS  
30 June 2011**

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# Water Authority-Cayman

*Incorporated by Law No.18 of 1982 in the Legislative Assembly of the Cayman Islands*

## STATEMENT OF RESPONSIBILITY FOR FINANCIAL STATEMENTS

**30 June 2011**

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, (2010 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, (2010 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.

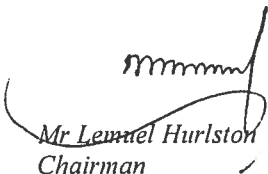
As Chairman and Director, we are responsible for the preparation of the Water Authority of the Cayman Islands financial statements and for the judgements made in them.

The financial statements fairly present the statement of financial position, statement of comprehensive income, statement of cash flows and statement of changes in equity for the financial year ended June 30, 2011.

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

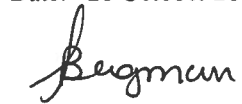
- (a) are completely and reliably reflect the financial transactions of the Water Authority of the Cayman Islands for the year ended June 30, 2011;
- (b) fairly reflect the financial position as at 30 June 2011 and comprehensive income for the year ended 30 June 2011; and
- (c) comply with International 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



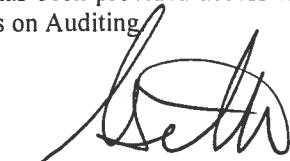
Mr. Lemuel Hurlston  
Chairman  
Water Authority of the Cayman Islands

Date: 26 October 2011



Lori Bergman  
Financial Controller  
Water Authority of the Cayman Islands

Date: 26 October 2011



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

Date: 26 October 2011

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***Suppliers of the World's most popular drink***

## **Auditor General's Report**

### **To the Board of Directors of the Water Authority of the Cayman Islands**

I have audited the accompanying financial statements of the Water Authority of the Cayman Islands, which comprise the statement of financial position as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes in pages 5 to 22 in accordance with the provisions of Section 17(1) of the Water Authority Law (1996 Revision), and Section 52(3) of the Public Management and Finance Law (2010 Revision).

#### **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.

#### **Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I 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 upon the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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.

**Basis for Qualified Opinion**

As disclosed in Note 9 of the financial statements, pension contributions for eligible employees of the Authority are paid to the Public Services Pension Fund which is administered by the Public Service Pensions Board. Prior to 1 January 2000, the scheme underlying the Fund was a defined benefit scheme. With effect from 1 January 2000, the Fund has both a defined benefit and a defined contribution element. In March 2005, the Honourable Financial Secretary of the Cayman Islands instructed the Authority to recognize its own portion of the past service pension liability from the date of incorporation. The Authority, however, is not able to quantify the liability as at 30 June 2011 as an actuarial valuation has not been completed for this date. As a result, I was unable to determine if the amount of \$1,172,000 that the Authority has established as a past service pension liability in these financial statements is fairly stated. Based on the information that I have been provided, the movement for the past service pension liability included in these financial statements is based on the actuarial report on 25 July 2011 for the year end 30 June 2010.

**Qualified Opinion**

In my opinion, except for the possible effects of the adjustments necessary for recording the past service pension liability, these financial statements present fairly, in all material respects, the financial position of the Water Authority of the Cayman Islands as at 30 June 2011, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



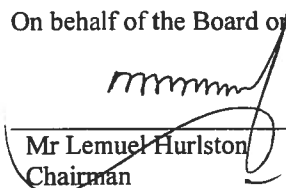
Alastair Swarbrick, MA (Hons), CPFA  
Auditor General

Cayman Islands  
26 October 2011

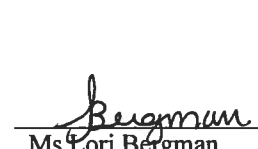
**Water Authority of the Cayman Islands**  
**Statements of Financial Position**  
**As at 30 June 2011**  
**(Stated in Cayman Islands dollars)**

	Note	2011	2010
<b>Assets</b>			
<i>Non-current assets</i>			
Land – freehold		3,555,599	3,555,599
Buildings		4,731,606	4,893,231
Water supply system		45,431,240	42,421,121
Other assets		1,492,095	1,626,044
Construction in progress		19,619	1,829,582
Total non-current assets	5	55,230,159	54,325,577
<i>Current assets</i>			
Cash and cash equivalents		5,409,516	5,235,221
Assets held for sale	13	18,021,821	18,840,805
Accounts receivable	3	3,410,685	2,880,457
Inventory	4	1,223,961	1,210,417
Prepaid expenses		233,441	252,083
Total current assets		28,299,424	28,418,983
<b>Total Assets</b>		<b>83,529,583</b>	<b>82,744,560</b>
<b>Liabilities and Shareholder's Equity</b>			
<b>Liabilities</b>			
<i>Non-current liabilities</i>			
Loans payable	6	18,230,504	20,889,518
Total non-current liabilities		18,230,504	20,889,518
<i>Current liabilities</i>			
Accounts payable		1,513,164	1,554,956
Contract retention payable		92,621	151,009
Interest payable		4,321	7,755
Customers deposits		1,178,215	1,146,328
Past service pension liability	9	1,172,000	979,000
Loans payable	6	4,787,526	4,092,888
Total current liabilities		8,747,847	7,931,936
Total liabilities		26,978,351	28,821,454
<b>Shareholder's Equity</b>			
Contributed capital	7	236,000	236,000
Retained earnings		56,315,232	53,687,106
		56,551,232	53,923,106
<b>Total Liabilities and Shareholder's Equity</b>		<b>83,529,583</b>	<b>82,744,560</b>

On behalf of the Board on the 26 of Oct. 2011

  
 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 2011**  
**(Stated in Cayman Islands dollars)**

	Note	2011	2010
<b>Operating Revenue</b>			
Water sales		21,614,892	21,148,045
Sewerage fees		3,670,670	3,543,988
Connection and miscellaneous fees		376,985	423,783
Septage disposal		114,513	111,683
Agency work		31,152	115,970
Total operating revenue		25,808,212	25,343,469
<b>Operating Expenses</b>			
Water purchases		6,945,496	7,227,526
Depreciation expense	5, 13	4,314,119	3,114,311
Salaries		2,268,076	2,427,579
Wages		1,412,192	1,312,530
Repairs and maintenance		1,123,581	967,172
Electricity		993,380	840,308
Supplies		892,339	1,047,277
Miscellaneous		151,408	153,639
Land lease expense		12,335	12,335
Total operating expenses		18,112,926	17,102,677
<b>Finance Costs</b>			
Loan interest		973,523	943,647
<b>Gross operating profit</b>		6,721,763	7,297,145
<b>Other Income</b>			
Royalties		1,182,456	1,268,299
Other		325,831	254,086
Statutory licencing fees		27,830	95,432
Interest income		1,608	2,341
Total other income		1,537,725	1,620,158
<b>Operating Profit</b>		8,259,488	8,917,303

**Water Authority of the Cayman Islands**  
**Statement of Comprehensive Income**  
For the Year Ended 30 June 2011  
(Stated in Cayman Islands dollars)

Continued:

	Note	2011	2010
<b>Administration Expenses</b>			
Salaries		\$ 1,737,729	\$ 1,752,072
Staff training and benefits		1,303,242	1,136,262
Insurance		797,638	728,960
Telephone and utilities		332,753	309,025
Miscellaneous		216,087	351,626
Information systems		214,714	353,439
Past service pension expense	9	193,000	106,000
Depreciation expense	5	185,213	241,824
Legal and professional fees		164,144	86,458
Bad debt expense		117,900	101,419
Repairs and maintenance		113,539	104,629
Licenses and dues		93,453	88,458
Office and lab supplies		66,970	77,172
Loan interest		41,380	38,258
Office rental		3,600	3,600
Total administration expenses		5,581,362	5,479,202
<b>Net income for the year</b>		<b>\$ 2,678,126</b>	<b>\$ 3,438,101</b>

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 2011**  
**(Stated in Cayman Islands dollars)**

	Notes	2011	2010
<b>CONTRIBUTED CAPITAL</b>			
Balance at beginning of year		\$ 236,000	\$ -
Land donated in Cayman Brac	7	-	236,000
Balance at end of year		<b>236,000</b>	<b>236,000</b>
<b>RETAINED EARNINGS</b>			
Balance at beginning of year		53,687,106	50,299,055
Net Income for Year		2,678,126	3,438,101
Contribution to Government	8	(50,000)	(50,000)
Balance at end of year		<b>56,315,232</b>	<b>53,687,106</b>
<b>TOTAL EQUITY</b>		<b>\$ 56,551,232</b>	<b>\$ 53,923,106</b>

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 2011**  
**(Stated in Cayman Islands dollars)**

	2011	2010
<b>Cash flows from operating activities</b>		
Net income for the year	\$ 2,678,126	\$ 3,438,101
Adjustments to reconcile net income for the year to net cash provided by operating activities:		
Depreciation expense	4,499,332	3,356,135
Loss on disposal of fixed assets	-	82,914
Bad debt expense	117,900	101,419
Add/(deduct) net changes in non-cash operating balances:		
Accounts receivable	(648,128)	(97,692)
Inventory	(13,544)	(79,422)
Prepaid expense	18,642	(21,038)
Accounts payable	(41,792)	(17,448)
Contract retention payable	(58,388)	(178,412)
Interest payable	(3,434)	(20,361)
Past service pension liability	193,000	106,000
Customer deposits	31,887	63,537
Net cash provided by operating activities	6,773,601	6,733,733
<b>Cash flows from investing activities</b>		
Property, plant and equipment purchased	(6,394,893)	(13,165,866)
Construction in progress	1,809,963	(35,172)
Net cash used in investing activities	(4,584,930)	(13,201,038)
<b>Cash flows from financing activities</b>		
Proceeds from loans payable	3,063,816	9,176,442
Repayment of loans payable	(5,028,192)	(4,710,958)
Contribution to government	(50,000)	(50,000)
Net cash (used in) provided by financing activities	(2,014,376)	4,415,484
<b>Net increase (decrease) in cash and cash equivalents during year</b>	174,295	(2,051,821)
Cash and cash equivalents at beginning of year	5,235,221	7,287,042
<b>Cash and cash equivalents at end of year</b>	<b>\$ 5,409,516</b>	<b>\$ 5,235,221</b>
<b>Supplemental disclosure for cash flow information:</b>		
Cash received during the year for interest	1,608	2,341
Cash paid during the year for interest	1,018,337	1,002,266
Fair value of freehold land contributed as capital during the year	-	236,000

The accompanying notes form an integral part of these financial statements

**Water Authority of the Cayman Islands**  
**Notes to the Financial Statements**  
**30 June 2011**

**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 2011, the Water Authority has 123 employees (2010: 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**

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

*(a) Changes in International Financial Reporting Standards*

*(i) Amendments to published standards effective July 1, 2010:*

IAS 1 - Presentation of Financial Statements (amended and effective for periods beginning after January 1, 2010) – provides clarification that the potential settlement of a liability by an issue of equity is not relevant in classifying the liability as current or non-current. The adoption of the amendment did not have any impact on the financial position or comprehensive income of the Authority

IAS 24 - Related party disclosures (amended and effective for periods beginning after January 1, 2011) - simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. This amendment has not impacted the disclosures required in the financial statements.

IFRS 2 - Share-based Payment (amended and effective for periods beginning January 1, 2010) – incorporates IFRIC 8, “Scope of IFRS 2” and IFRIC 11, “IFRS 2 – Group and treasury share transactions”, the amendments also expand on guidance in IFRIC 11 to address the classification of group arrangements. The adoption of the amendment did not have any impact on the financial position or comprehensive income of the Authority.

IFRS 5 – Non-current assets held for sale and discontinued operations (amended and effective for periods beginning after January 1, 2010) - specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. This amendment may impact the disclosures required in the financial statements, but the impact thereof is yet to be assessed.

**Water Authority of the Cayman Islands**  
**Notes to the Financial Statements**  
**30 June 2011**

**2. Significant Accounting Policies (continued)**

*(ii) Relevant standards and amendments issued prior to June 30, 2010, but not effective until future periods*

IFRS 9 – Financial instruments (effective for periods beginning January 1, 2013) – addresses classification and measurement of financial instruments and replaces portions of IAS 39. Financial instruments can only be measured at amortized cost or fair value. Equity securities can only be recorded at fair value. An entity can record unrealized and realized gains or losses in other comprehensive income on an instrument by instrument basis and the election to do so is at initial recognition and this election is irrevocable. Dividend income on these equity securities can be recorded in profit and loss. Debt securities can only be recorded at amortized cost if the objective is to hold financial assets for the collection of contractual cash flows and the contractual cash flows represent solely payments of principal and interest, otherwise debt securities must be carried at fair value. An entity can still designate a financial instrument at fair value through profit and loss – however, this is an irrevocable election and the entity has to be consistent with this basis from year to year.

The Authority does not have any securities and it would not be foreseen that it acquires any securities other than a term deposit in the future. The Authority is not in the business of investing in equities and, even though this is not applicable until 2013, this will not affect the Authority.

IFRIC 19 - "Extinguishing Financial Liabilities with Equity Instruments" (effective July 1, 2010) clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognized in the profit and loss account based on the fair value of the equity instruments compared to the carrying amount of the debt. This interpretation is not expected to impact the Authority.

*(b) Basis of preparation*

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

*(c) Property, plant and equipment*

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

(ii) Depreciation is recorded on a straight-line basis over the estimated useful. The estimated useful lives of the property, plant and equipment are as follows:

Buildings	50 Years
Water and Sewerage Systems	10 - 50 Years
Other Assets	3 - 10 Years

(iii) Management reviews the depreciation method and useful life periodically to ensure that they are consistent with the expected economic benefits from property, plant and equipment.

**Water Authority of the Cayman Islands**  
**Notes to the Financial Statements**  
**30 June 2011**

**2. Significant Accounting Policies (continued)**

*(d) 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.

*(e) Accounts receivables and allowance for bad debts*

Accounts receivable are stated at the invoice amount less allowance for bad debt. Management of the Water Authority establishes an allowance for bad debts based on estimates of accounts receivable balances that may be uncollectible. The amount is expensed as bad debts, which is netted against gross accounts receivable balances.

Management estimates the amount of the allowance based on its knowledge of debtors' past performance.

*(f) Inventory and allowance for obsolete inventory*

Inventory consists of consumable spares and water. Consumable spares are accounted for on the first-in, first-out basis, and stated at the lower of cost or net realizable value. Water inventory is calculated at the cost of water plus chemicals multiplied by the volume of water. Management of the Water Authority establishes an allowance for obsolescence of inventory items when it determines that those items are no longer usable in the Water Authority's operations. This amount is expensed as obsolete inventory, which is netted against gross inventory balances.

*(g) Interest expense*

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

*(h) Cash & cash equivalents*

Cash and cash equivalents are considered as cash with an original maturity of three months or less.

*(i) 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 billed. No account is been taken of unread water consumption, sewerage and other services at the end of the financial year.

*(j) 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 2011**

**2. Significant Accounting Policies (continued)**

*(k) Use of estimates*

The preparation of Financial Statements, in conformity with International Financial Reporting Standards, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenue and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the reporting period and in any future periods that are affected by those revisions.

*(l) Financial Instruments*

*(i) Classification*

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

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

*(ii) Recognition*

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

*(iii) Derecognition*

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

*(iv) Measurement*

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

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

**Water Authority of the Cayman Islands**  
**Notes to the Financial Statements**  
**30 June 2011**

**2. Significant Accounting Policies (continued)**

*(m) Offsetting Financial Instruments*

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

**3. Accounts Receivable**

	<u>2011</u>	<u>2010</u>
Trade Receivables	\$ 3,851,724	\$ 3,261,226
Non-Trade Receivables	394,676	337,046
Allowance for Doubtful Accounts	(835,715)	(717,815)
	<u>\$ 3,410,685</u>	<u>\$ 2,880,457</u>

**4. Inventory**

	<u>2011</u>	<u>2010</u>
Water Supply and Sewerage Materials	\$ 1,154,999	\$ 1,156,435
Water Inventory	78,073	63,093
Provision for Obsolete Inventory	(9,111)	(9,111)
	<u>\$ 1,223,961</u>	<u>\$ 1,210,417</u>

**5. Property, Plant and Equipment**

	<u>2011</u>					
	<u>Freehold Land</u>	<u>Buildings</u>	<u>Water Supply</u>	<u>Other Assets</u>	<u>Construction In Progress</u>	<u>Total</u>
<b>Cost</b>						
Balance at beginning of year	3,555,599	5,583,197	57,151,692	6,079,107	1,829,582	74,199,177
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	<u>3,555,599</u>	<u>5,499,883</u>	<u>63,411,747</u>	<u>6,345,265</u>	<u>19,619</u>	<u>78,832,113</u>
<b>Accumulated Depreciation</b>						
Balance at beginning of year	-	689,966	14,730,571	4,453,063	-	19,873,600
Depreciation for Year	-	109,998	3,212,398	357,950	-	3,680,346
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	<u>-</u>	<u>768,277</u>	<u>17,980,507</u>	<u>4,853,170</u>	<u>-</u>	<u>23,601,954</u>
<b>Net Book Value</b>						
At 30 June 2011	<u>\$ 3,555,599</u>	<u>\$ 4,731,606</u>	<u>\$ 45,431,240</u>	<u>\$ 1,492,095</u>	<u>\$ 19,619</u>	<u>\$ 55,230,159</u>

**Water Authority of the Cayman Islands**  
**Notes to the Financial Statements**  
**30 June 2011**

**5. Property, Plant and Equipment (continued)**

	2010						
	Freehold Land	Buildings	Water Supply	Sewerage	Other Assets	Construction In Progress	Total
<b>Cost</b>							
Balance at beginning of year	\$ 3,319,599	\$ 5,583,197	\$ 44,407,439	\$ 27,290,640	\$ 6,866,995	\$ 1,794,410	\$ 89,262,280
Additions	236,000	-	9,176,443	4,695	256,928	3,837,004	13,511,070
Disposals	-	-	(234,022)	-	-	-	(234,022)
Transfer to assets held for sale	-	-	-	(27,295,335)	(1,044,816)	-	(28,340,151)
Transfers between fixed assets	-	-	3,801,832	-	-	(3,801,832)	-
Balance at end of year	3,555,599	5,583,197	57,151,692	-	6,079,107	1,829,582	74,199,177
<b>Accumulated Depreciation</b>							
Balance at beginning of year	-	578,302	12,883,142	7,879,644	4,752,799	-	26,093,887
Depreciation for Year	-	111,664	1,997,311	770,893	476,267	-	3,356,135
Disposals	-	-	(151,108)	-	-	-	(151,108)
Transfers between fixed assets	-	-	1,226	(1,226)	-	-	-
Transfer to assets held for sale	-	-	-	(8,649,311)	(850,035)	-	(9,499,346)
Capitalized during construction	-	-	-	-	74,032	-	74,032
Balance at end of year	-	689,966	14,730,571	-	4,453,063	-	19,873,600
<b>Net Book Value</b>							
At 30 June 2010	\$ 3,555,599	\$ 4,893,231	\$ 42,421,121	\$ -	\$ 1,626,044	\$ 1,829,582	\$ 54,325,577

a) Construction in Progress

	2011	2010
1. Red Gate and North Side Water Reservoirs	\$ -	\$ 1,814,470
2. Cayman Brac – Site Preparation	15,112	15,112
3. Red Gate Facility Development	4,507	-
	<u>\$ 19,619</u>	<u>\$ 1,829,582</u>

In 2010/11, the Authority changed the depreciation period for water storage tanks reported under Water Supply from 50 years to 25 years, resulting in an increase in annual depreciation expense of \$860,059.

**Water Authority of the Cayman Islands**  
**Notes to the Financial Statements**  
**30 June 2011**

**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					2011	2010
a)											
First Caribbean International Bank (Cayman) Limited (FCIB)	Aug 1998	\$ 1,600,000	15	LIBOR + 1%	2.15%	\$ 146,897	\$ 41,201	\$ -	\$ -	\$ 188,098	\$ 331,565
Administration Building Loan	Dec 2000	\$501,000	8	LIBOR + 1%	2.15%	127,234	101,215	-	-	228,449	352,493
Waste Water Treatment Works Loan # 107762	Dec 2002	\$12,677,508	8	LIBOR + 1%	2.15%	1,906,625	-	-	-	1,906,625	4,195,124
# 10013845	Jun 2007	\$2,421,500	15	LIBOR + 0.9%	2.05%	240,156	480,313	720,470	184,065	1,625,004	1,854,736
New Administration Building Loan	Dec 2008	\$ 2,505,000	15	LIBOR + 0.9%	2.05%	232,962	465,925	698,888	580,797	1,978,572	2,200,749
North Side Supply Extension & North Side Pumping Facility	Jun 2009	\$4,676,000	15	LIBOR + 0.9%	2.05%	434,863	869,726	1,304,589	1,312,752	3,921,930	4,331,978
Credit Facility F						3,088,737	1,958,380	2,723,947	2,077,614	9,848,678	13,266,645
Sub-total for FCIB											
b)											
Cayman Islands Government (CIG)	Apr 1995	\$ 4,822,349	25	0%	0.00%	210,895	421,787	632,682	590,234	1,855,598	2,066,492
Grand Cayman						210,895	421,787	632,682	590,234	1,855,598	2,066,492
Sub-total for CIG											
c)											
Ocean Conversion (Cayman) Ltd. (OCL)											
Lower Valley – Second Expansion	Feb 2006	\$ 748,631	7	0.42%	0.42%	120,054	72,848	-	-	192,902	307,114
North Sound – Expansion	Apr 2007	\$ 1,450,505	7	0.42%	0.42%	219,456	411,410	-	-	630,866	839,641
North Side – Original	Jul 2009	\$ 9,176,442	10	0.54%	0.54%	767,129	1,691,674	2,986,107	2,338,584	7,783,494	8,502,514
Red Gate - Upgrade	Jul 2010	\$3,063,816	7	0.54%	0.54%	381,255	840,819	1,484,418	-	2,706,492	-
Sub-total for OCL						1,487,894	3,016,751	4,470,525	2,338,584	11,313,754	9,649,269
TOTALS						\$ 4,787,526	\$ 5,396,918	\$7,827,154	\$5,006,432	23,018,030	24,982,406
						Less Current Maturities				(4,787,526)	(4,092,888)
										\$ 18,230,504	\$ 20,889,518

**Water Authority of the Cayman Islands**  
**Notes to the Financial Statements**  
**30 June 2011**

**6. Long Term Liabilities (continued)**

Overdraft Facility CI\$ 500,000

The Authority has an overdraft facility at prime plus 0.5% interest per annum with First Caribbean International Bank in the amount of CI\$ 500,000. At 30 June 2011 \$nil (2010: \$nil) of the overdraft facility was being utilized.

**7. Contributed Capital**

The Government of the Cayman Islands 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 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 \$210,894 (2010: \$245,997).
2. The Authority paid a dividend to the Government in the amount of \$50,000 (2010: \$50,000).
3. The remuneration of directors and other members of key management personnel during the year was \$961,251 (2010: \$1,080,338). This amount entirely pertains to short-term employee benefits. There were 8 personnel categorized in 2011 broken down as 7 key management personnel and 1 Director (2010: 7 key management personnel and 1 Director).

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

The Authority also engages the services of other government departments of the Cayman Islands Government. Such services are provided at current prevailing market prices on an arm's length basis.

**9. Pensions**

*a) Defined Benefit Plan*

The Public Services Pension Plan is managed by the Government of the Cayman Islands 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 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 as at 30 June 2010 (dated 25 July 2011) which identified the Authority's unfunded past service pension liability as at that date and the profit and loss charges associated with the plan participation for the financial year then ended.

**Water Authority of the Cayman Islands**  
**Notes to the Financial Statements**  
**30 June 2011**

**9. Pensions (continued)**

The actuarial position is as follows:

	As at 30 June 2010	As at 30 June 2009	As at 30 June 2008
Net Present Value of Funded Obligation, beginning of year	\$ 3,399,000	\$ 3,163,000	\$ 2,393,000
Fair Value of Plan Assets	1,467,000	1,497,000	1,643,000
Defined Benefit Liability	(1,932,000)	(1,666,000)	(750,000)
Unrecognised Past Service Cost	-	-	-
Unrecognised Actuarial Net Gains/(Losses)	760,000	687,000	(123,000)
Net Liability in Financial Position, end of year	<u>\$ (1,172,000)</u>	<u>\$ (979,000)</u>	<u>\$ (873,000)</u>

Past Service Pension Liability valuations for the period ending 30 June 2010, in the amount of \$193,000, was made available to the Authority during the current fiscal period. The Authority recognized the adjustment in the current period. No valuation was done as at 30 June 2011 and thus the amount recognized reflects the actuarial position as at 30 June 2010.

The present value of the funded obligation changes as follows:

	30 June 2010 \$000	30 June 2009 \$000	30 June 2008 \$000
Defined Benefit Obligation, beginning of year	3,163	2,393	2,375
Current Service Cost	107	82	97
Interest Cost	180	161	148
Plan Participant Contributions	37	37	55
Net Actuarial (Gain)/Loss on obligations	199	582	(282)
Transfers between other participating Entities	(287)	(92)	-
Defined Benefit Obligation, end of year	<u>3,399</u>	<u>3,163</u>	<u>2,393</u>

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

	30 June 2010 \$000	30 June 2009 \$000	30 June 2008 \$000
Fair value of plan at the beginning of year	1,497	1,643	1,702
Employer & Participant Contributions	75	76	113
Expected Return on Assets net of Expense	90	118	122
Actuarial Gain/(Loss) on plan assets	92	(262)	(294)
Transfers between other participating Entities	(287)	(92)	-
Other: Impact of re-statement of beginning of year assets	-	14	-
Fair value of plan at the end of year	<u>1,467</u>	<u>1,497</u>	<u>1,643</u>

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**9. Pensions (continued)**

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

Balance as at 30 June 2009	\$ 979,000
Plus: Reconciliation of PSL 2010	193,000
Balance as at 30 June 2010	<u>\$1,172,000</u>

Actuarial Determination of Pension Expense as at:

	30 June 2011	30 June 2010	30 June 2009
	\$000	\$000	\$000
Current Service Cost, net of employee contributions	113	107	82
Interest Cost	187	180	161
Recognition of Net (Gain)/Loss	37	34	-
Expected Return on Assets	(90)	(90)	(118)
Pension Expense	<u>247</u>	<u>231</u>	<u>125</u>

The total amount recognised as a pension expense for 2011 was \$44,046 (2010: \$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. However, since the most current valuation is for 30 June 2010, management has not estimated the impact on the recorded expense for the year ended 30 June 2011.

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

	30 June 2010	30 June 2009	30 June 2008
Global Equities	55%	44%	46.4%
Bonds	37%	49%	43.1%
Other / Cash	5%	4%	5.9%
Property	3%	3%	4.6%

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 2010	30 June 2009	30 June 2008
Discount Rate	5.50%	5.75%	6.75%
Expected long-term rate of return (net of Expense)	6.00%	6.00%	7.00%
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)	12.48	14.55	14.09

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**9. Pensions (continued)**

**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 (British Caymanian Pension). During 2010/11 the Authority and its employees paid 5% and 5% respectively of salary contributions for British Caymanian and 5% and 7.26% for Public Service Pension Fund. The current number of employees enrolled under the defined benefit plan with the Public Service Pension Fund is 6 (2010: 9) and the total employees enrolled in the defined contribution plan with British Caymanian Pension is 117 (2010: 114).

Members enrolled in the Public Service Pensions Plan prior to 01 January 2000 are governed by Section 28 to 45 (Defined Benefits) of the *Public Service Pensions Law, 1999*. A decision by the Board of Directors was made in July 1998 that all new employees of the Authority at that date would be enrolled in a local approved defined contribution pension plan (British Caymanian Pension).

The total amount recognised as a pension expense for the 12 months ended 30<sup>th</sup> June 2011, inclusive of both the Public Service Pensions Fund and British Caymanian, was \$316,390 (2010: \$ 324,316).

**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>2011</u>	<u>2010</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	154,186	166,521
	<u>\$ 228,196</u>	<u>\$ 240,531</u>

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**11. Financial Risk Management Objectives and Policies**

The Authority's principal Financial Liabilities are comprised of loans and borrowings, and trade and other payables. The main purpose of these financial liabilities is to raise finances for the Authority's operations. The Authority is exposed to market risk, credit risk and liquidity risk.

*a) Market Risk* – Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The only financial instrument held by the Authority that is subject to market risk, in the form of interest rate risk, is loans and borrowings.

*i) Interest Rate Risk* – The Authority has loans with Government and a counterpart with fixed interest rates ranging from 5% to 8%. Details of rates and maturities are presented in note 6. The Authority manages its interest rate risk by negotiating the lowest available rates on credit facilities and taking advantage of lower long term rates.

*b) Credit Risk* – Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Authority is exposed to credit risk from its operating activities (primarily for trade receivables) and from its deposits with banks and financial institutions.

*i) Credit Risk Related To Receivables* – 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 does hold customer deposits on each account as collateral against non-payment 2011 \$1,178,215 (2010: \$1,146,328), which is 35% and 41%, respectively on net trade receivable accounts.

*ii) Credit Risk Related to Financial Instruments* – The Authority's maximum exposure to credit risk of the components of the financial position at 30 June 2011 and 2010 is the carrying amounts as illustrated in note 6. The Authority balances this risk by maintaining cash, offset by loan balances at the main financial institution.

*c) Liquidity Risk* – Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Authority's objective is to maintain a strong cash position, while balancing payment of capital projects from either available cash balances or through a traditional credit facility.

**12. Financial Instrument**

*Fair values.* As at 30 June 2011 and 2010, the carrying amount of cash deposits, accounts receivable, other receivables and accounts payables approximate their fair value due to their short-term maturities. Fair values are made at specific points in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions, economic conditions and other factors could cause significant changes in fair value estimates.

**Water Authority of the Cayman Islands**  
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**13. Subsequent Events**

**Directive for sale of the Sewerage Assets**

In October 2009, the Authority received direction from the Government of the Cayman Islands to value the sewerage assets and to prepare for their sale. At that time, the sale was expected to be imminent and the Authority engaged KPMG to conduct a comprehensive valuation of the sewerage assets. The result of that valuation was provided to the Government. In October 2010, based on direction from the Government, the Authority issued a Request for Proposal for the sale of the sewerage assets with bids due on December 10, 2010. As the sale is imminent, an amount of \$18,021,821 and \$18,840,805 was transferred from Property, Plant and Equipment to Assets Held for Sale at June 30, 2011 and 30 June 2010 respectively in accordance with the applicable accounting standards. For the period ending 30 June 2011 depreciation of \$818,986 was charged against the assets. An estimate for the cost of selling the assets has not been determined at the date of these financial statements.

**Request to assess feasibility of leasing the Water Utility Assets**

In August 2010, the Authority was requested by the Government of the Cayman Islands to explore the option of leasing the water utility assets of the Authority. No significant progress has been made as at the date of these financial statements.