The Water Authority of the Cayman Islands

Water Authority Board visit to North Side Water Works - September 2009

ANNUAL REPORT

For the 2009/10 Financial Year

OWNERSHIP AGREEMENT ANNUAL REPORT

For

The Water Authority of the Cayman Islands

For the 2009/10 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 2010.

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 2009/10, 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 2009/10 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 Double Tree Lane to Hirst Road and Pointdexter to Red Bay, extension on High Rock Road and miscellaneous side roads on North Side West at a combined cost of $1.8 million.

During the course of the year the Authority sold 3.5 million m^3 of water (2009: 3.3 million m^3) and processed 733 million Gallons of wastewater (2009: 704 million Gallons) in Grand Cayman and sold 0.1 million m^3 of water in Cayman Brac (2009: 0.1 million m^3).

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 maintains its fiscal independence. The Authority contributed $50,000 to the Government of the Cayman Islands (2008: $50,000) and invested over $13.5 million (2009: $4.0 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 2009/10 financial year were as follows:

- ***Grand Cayman*** **–** Misc. extensions, system connections, new road expansion – to provide water to unserviced areas within the general distribution grid without piped water service.
- ***Red Gate Site*** **–** 2 million gallon water storage tank – to accommodate expected increase in storage requirements and facilitate maintenance on existing tanks.
- ***Red Gate Site*** **–** Reverse Osmosis (RO) plant upgrade – to facilitate continued operation to meet the daily requirements of the island**.**
- ***North Side Water Works*** **–** 2 million gallon water storage tank – to accommodate expected increase in storage requirements, facilitate regular maintenance on existing tanks and provide operational flexibility and increased storage in the event of a natural disaster.
- ***North Side Water Works*** **–** Complete RO Plant and Building – to accommodate expected growth within the distribution system and improve operational reliability of the existing system.
- ***West Bay Beach*** **–** Structural Sewer Lining Project – to lower salinity and reduce quantity of incoming sewage by reducing groundwater infiltration and to improve the integrity of the sewers.
- ***Wastewater Treatment Plant*** **–** Pond Relining Project – to update the existing system to be used in conjunction with the WWTP and to provide a backup wastewater system in the event of a natural disaster.
- **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 along the East / West Corridor, completing Double Tree Lane to Hirst Road and Pointdexter to Red Bay, extension on High Rock Road and miscellaneous side roads on North Side West at a combined cost of $1.8million.
- ***Red Gate Site*** **–** Plant Upgrade – Contract for the upgrade of the existing plant was awarded on 04 June 2009 to Ocean Conversion Limited (OCL) after a competitive bidding process for the amount of $3,063,816. The project commenced in November 2009 and was completed in July 2010.
- ***Red Gate Site and North Side Water Works Site*** **–** 2 million gallon water storage tanks – contract to supply and install water storage tanks on Red Gate and North Side sites was awarded to Florida Aquastore after a competitive bidding process for the amount of $1.75 million. The project commenced in late February 2010 and subsequently completed in July 2010.
- ***North Side Water Works*** **–** Contract for the construction of a 9,000 m^3 RO plant was awarded on 11 March 2008 to Ocean Conversion Limited (OCL) after a competitive bidding process for the amount of $9,176,442. This project commenced in July 2008 and was successfully completed and transferred to The Authority in July 2010.
- ***West Bay Beach, Wastewater Treatment Plant*** **–** Work has not commenced on these projects, as government directed to cease all capital projects on wastewater assets due to pending sale.
- ***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 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 performance targets

Financial Performance

Financial Performance Measure	2009/10 Actual $	2009/10 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	26,963,627	28,101,928	(1,138,301)
Surplus/deficit from outputs (Gross Operating Surplus)	7,297,145	2,849,382	4,447,763
Other expenses	5,479,202	814,913	4,664,289
Net Surplus/Deficit	3,438,101	2,034,469	1,403,632
Total Assets	82,744,560	86,016,842	(3,272,282)
Total Liabilities	28,821,454	35,071,297	(6,249,843)
Net Worth	53,923,106	30,534,544	23,388,562
Cash flows from operating activities	7,735,999	4,442,653	3,293,346
Cash flows from investing activities	(13,201,038)	5,909,020	(19,110,058)
Cash flows from financing activities	3,413,218	(14,794,822)	18,208,040
Change in cash balances	(2,051,821)	1,180,941	(3,232,762)

Financial Performance Ratio	2009/10 Actual	2009/10 Budget (Approved in LA)	Annual Variance
Current Assets: Current Liabilities	3.58	0.70	2.88
Total Assets: Total Liabilities	2.87	1.87	1.00

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 been 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 2008/09 ($26.5 million, an increase of 1.8%) and continues to benefit from mild economic growth on the island.

During 2009/10 the Authority responded to the requests of Government to decrease administrative expenses and hence were able to decrease administrative expenses 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 ($500k). The rest of the savings were from favourable interest rates, decreased legal fees 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.

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

The Authority had aggressively planned to complete several projects throughout 2009/10 however not all of them were completed, which is the reason that the Total Assets is $3.2 million lower than originally expected. The Authority was notified in July 2009 about the Government's plant to divest themselves of the Wastewater assets and was therefore instructed not to proceed with any capital projects related to the Wastewater Assets.

Most notably is the delay in Structural Lining Replacement of Sewer lines ($1.4 million), Pond Relining Project ($1.1 million) the extension of the Water Distribution System on the island of Cayman Brac ($0.4 million), expansion of the Cayman Brac water production capacity ($0.5 million) which have all been delayed due to unavailable resources. The total cost of these projects is $3.4 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 2009/10 budget process, the Authority had planned to borrow over $10.9 million Long Term Debt, however during the 2009/10 fiscal period the Authority only borrowed $9.2 million, which was in the form of vendor financing for the North Side Plant. Also reflected is the sale of the Wastewater Assets, projected by the Budget Management Unit (BMU), at CI$ 20 million.

The BMU projected cash position was budgeted to be higher than actually obtained, primarily because of reflecting the sale of the Wastewater Assets. 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 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 - The projections for the 2009/10 fiscal period, as shown in the 2009/10 Ownership agreement was approved by the Legislative Assembly on 14 October 2009. 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:
As at 30 June 2010 the wastewater assets were transferred from long term to current, thereby significantly changing the rations as calculated above, this explanation is consistent with the higher than expected Physical Capital Measurers. 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.

Maintenance of Capability

Human Capital Measures	**2009/10 Actual**	**2009/10 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 Professional Staff Administrative / Field Staff	 12 years 4 years 6 years	 12 Years 6 Years 8 Years	 Nil (2) (2)
Significant changes to personnel management system	No projected software upgrades	No projected software upgrades	N/A

Physical Capital Measures	**2009/10 Actual**	**2009/10 Budget** (Approved in LA)	**Annual Variance**
Value of total assets (NBV of Fixed Assets, inclusive of CIP)	73,166,382	65,605,842	7,560,540
Asset replacements: total assets (Fixed Assets Purchased during the year / Total value of Assets)	16.3%	21.5%	(5.2%)
Book value of depreciated assets: initial cost of those assets (NBV of Depreciated assets / initial cost of those assets)	73.2%	73.3%	(0.1%)
Depreciation: Cash flow on asset purchases (Annual Depreciation / Cost of Fixed Assets Purchased)	24.8%	24.0%	0.8%
Changes to asset management policies	None	None	N/A

Major Capital Expenditure Projects	**2009/10 Actual $**	**2009/10 Budget** (Approved in LA) **$**	**Annual Variance $**
Island of Grand Cayman – Misc. Extensions, system connections, new road expansion	1,909,215	2,789,000	(879,785)
Red Gate Site & North Side Water Works – 2 million gallon water storage tank (x2)	1,814,470	2,100,000 (900,000 + 1,200,000)	(285,530)
Red Gate Site – Reverse Osmosis (RO) plant upgrade Not completed and handed over to the Authority until July 2010	Nil	3,078,000	(3,078,000)
North Side Water Works – Complete RO plant and Building	119,352	240,000	(120,648)
West Bay Beach – Structural Sewer Lining Project	Nil	1,380,000	(1,380,000)
Wastewater Treatment Plant – Pond Relining Project	Nil	1,080,000	(1,080,000)
Cayman Brac Extension	Nil	402,000	(402,000)
Cayman Brac Expansion of existing RO Plant	Nil	500,000	(500,000)

Risk Management

Key risks	**Status of Risk**	**Actions taken during 2009/10 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 recruited to fill three essential positions.

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 795 new meters (2009: 610) at a cost of $293k (2009: 278k) and completed multiple extensions at a cost of $728,365.

Red Gate Site and North Side Water Works – Erection of two (2) two million gallon water storage tanks – The Authority awarded the contract to supply and install two (2) two million gallon water storage tanks on the Red Gate and North Side Water Work sites after a competitive bidding process to Florida Aquastore for the sum of $1.75 million. The total cost of the projects, inclusive of Water Authority direct costs (site preparation, labour etc.) was $1.8 million, which was 13.6% below budget. These tanks will provide an integral part of the water distribution system, increase reserve storage capacity and improve operational efficiency.

Red Gate Site – Reverse Osmosis (RO) plant upgrade - The Authority awarded the contract to upgrade the existing Red Gate plant to Ocean Conversion Limited. This project commenced in July 2008 and was only completed in July 2010 and therefore there was no expense to the Authority in the 2009/10 fiscal period.

North Side Water Works – Complete RO plant and Building – throughout the 2009/10 fiscal period the Authority completed the North Side site, the majority of the expense (69%) was for the paving of the site, completed by ARCP at a cost of $81k.

West Bay Beach, WWTP – Structural Sewer Lining and Pond Relining Projects - In May 2009 the Water Authority had immediate plans to conduct a CCTV survey and perform remedial work on the sewer pipeline and to contract a company to provide, lay and install high-density polyethylene (HDPE) liners in the wastewater stabilisation ponds. Both these projects were put on hold in October 2009 after the Authority received direction from the Government of the Cayman Islands not to initiate any capital projects on the wastewater system as they intended to divest themselves of these assets, hence to date (30 June 2010) no further work has been completed on these projects.

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 Ruddy 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.

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	**2009/10 Actual $**	**2009/10 Budget (Approved in LA) $**	**Annual Variance $**
Revenue	26,963,627	28,101,928	(1,138,301)
Operating Expenses	23,525,526	25,252,546	(1,727,020)
Net Surplus/Deficit	3,438,101	*2,849,382*	588,719

Balance Sheet	**2009/10 Actual $**	**2009/10 Budget (Approved in LA) $**	**Annual Variance $**
Assets	82,774,560	65,605,842	17,168,718
Liabilities	28,821,454	35,071,297	6,249,843
Net Worth	*53,923,106*	*30,534,544*	*23,388,562*

Statement of Cash Flows	**2009/10 Actual $**	**2009/10 Budget (Approved in LA) $**	**Annual Variance $**
Net cash flows from operating activities	6,733,734	4,442,653	2,291,081
Net cash flows from investing activities	(13,201,036)	5,909,020	(19,110,056)
Net cash flows from financing activities	4,288,481	(14,794,822)	19,083,303

Explanation of Variances

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

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)*.

Transaction	**2009/10 Actual $**	**2009/10 Budget (Approved in LA) $**	**Annual Variance $**
Equity Investments into Water Authority - Cayman	Nil	Nil	N/A
Capital Withdrawals from Water Authority – Cayman	Nil	21,500,000	(21,500,000)
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[1]	Nil	Nil	N/A
Remuneration[2] Payments made to Key Management Personnel	$1,080,338	$1,015,000	$65,338
Remuneration Payments made to Senior Management	Same as Above	Same as Above	Same as Above

	2009/10 Actual $	**2009/10 Budget (May 2009) $**
No of Key Management Personnel	8	9
No of Senior Management	8	9

Explanation of Variances

Transaction:

During the 2009/10 fiscal period The Authority presented government with a proposal to provide a cash dividend of $1.5 million which was contingent upon a rate increase for all services together with a modified royalty calculation. The $1.5 million would be calculated using the new royalty formula on actual sale figures recorded throughout the current and future fiscal periods. As the Government did not give approval for a rate increase nor the modified royalty calculation The Authority had no obligation to pay the estimated amount.

The Government of the Cayman Islands issued a directive to the Water Authority to divest itself of the Wastewater side of the business. The Government estimated an amount of CI$20 million in The Authority's ownership agreement to reflect the sale.

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 set at nine (9); The Director, Deputy Director, Chief Operations Manager, Financial Controller, Customer Service Manager, Chief Human Resource manager, Water Resources Engineer, Information Technology Manager and Operations Manager – CYB. This was subsequently decreased to eight (8) with the retirement of the Chief Operations Manager as the organizational structure of the Authority was shuffled whereby duties and responsibilities for the operations department will fall onto a Senior Engineering Manager – Operations who reports directly to the Deputy Director, however this position is not considered as "Key Management Personnel".

The original estimate for remuneration for Key Management Personnel provided was only for basic salary, subsequently The Authority was instructed to include both health and pension benefits, which account for $99k not included in the original budgeted figure. Therefore, it is reasonable that there is a slight (6.4%) variation.

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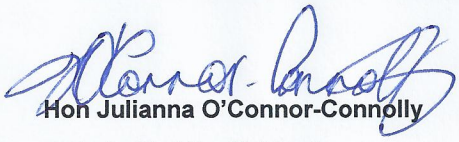
[1] Key Management Personnel as defined by International Public Accounting Standards No 20, eg Minister, Board Member and Senior Management Team

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

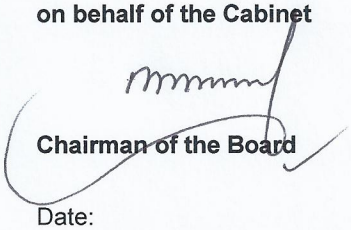
Agreement

We jointly agree that this Ownership Agreement accurately documents the ownership performance that The Water Authority of the Cayman Islands achieved for the 2009/10 financial year.



Hon Julianna O'Connor-Connolly

on behalf of the Cabinet



Chairman of the Board

Date:

THE WATER AUTHORITY OF THE CAYMAN ISLANDS
STATEMENT OF COMMITMENTS
FOR THE YEAR ENDING 30 JUNE 2010

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 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 2010

Summary of Quantifiable Contingent Liabilities

	$000
Legal Proceedings and Disputes	
None	n/a
None	n/a
Total Legal Proceedings and Disputes	n/a
Other Contingent Liabilities	
None	n/a
None	n/a
Total Other Contingent Liabilities	n/a

Summary of Non-Quantifiable Contingent Liabilities
None
None

The Water Authority does not have any quantifiable Contingent Liabilities @ 30 June 2010; please refer to the attached financial statements and accompanying notes.

THE WATER AUTHORITY
OF THE CAYMAN ISLANDS

FINANCIAL STATEMENTS
30 June 2010

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Water Authority of the Cayman Islands
STATEMENT OF RESPONSIBILITY FOR FINANCIAL STATEMENTS
30 June 2010

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, (2005 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, (2005 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, 2010.

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, 2010;

(b) fairly reflect the financial position as at 30 June 2010 and comprehensive income for the year ended 30 June 2010; 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 of Auditing.

Mr Tristan Hydes
Acting Chairman
Water Authority of the Cayman Islands

Date: 21/10/10

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

Date: 21/10/10

Bergman

Lori Bergman
Financial Controller
Water Authority of the Cayman Islands

Date: 21/10/10

Cayman Islands

Office of the Auditor General
3rd Floor, Anderson Square
64 Shedden Road, George Town
c/o Government Admin. Building
Grand Cayman KY1-1109
Cayman Islands

TEL: 345-244-3211
FAX: 345-945-7738

E-mail: auditorgeneral@gov.ky

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 of the statement of financial position as at 30 June 2010, 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 9 to 20 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 (2005 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 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 and 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.

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 2010 as an actuarial valuation has not been completed for this date. As a result, I was unable to determine if the amount of $979,000 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 20 July 2010 for the year end 30 June 2009.

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 2010, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying my opinion, I draw your attention to one other matter in regards to the financial statements. During the year, I noted that there was water unaccounted for when comparing the amount of water billed versus the expected water to be billed in cubic meters. I estimate the unaccounted water losses cost the Authority $1,501,000 (2009: $1,440,000) to produce.

Alastair Swarbrick, MA(Hons), CPFA
Auditor General

Cayman Islands
21 October 2010

Water Authority of the Cayman Islands
Statement of Financial Position
As at 30 June 2010
(Stated in Cayman Islands dollars)

	NOTES	2010	2009
CURRENT ASSETS			
Cash on Hand		$ 3,700	$ 8,700
Cash at Bank		5,231,521	7,278,342
Total Cash and Cash Equivalents		**5,235,221**	**7,287,042**
Assets Held for Sale	5,14	18,840,805	-
Accounts Receivable	3	2,880,457	2,884,184
Inventory	4	1,210,417	1,130,995
Prepaid Expenses		252,083	231,045
Total Current Assets		**28,418,983**	**11,533,266**
CURRENT LIABILITIES			
Current Maturities on Long-Term Liabilities	6	4,092,888	3,786,626
Accounts Payable		1,554,956	1,572,404
Customer Deposits		1,146,328	1,082,791
Past Service Pension Liability	9	979,000	873,000
Contract Retention Payable		151,009	329,421
Interest Payable		7,755	28,116
Total Current Liabilities		**7,931,936**	**7,672,358**
NET CURRENT ASSETS		**20,487,047**	**3,860,908**
PROPERTY, PLANT AND EQUIPMENT			
Land – Freehold		3,555,599	3,319,599
Buildings		4,893,231	5,004,895
Water Supply System		42,421,121	31,524,297
Sewerage System		-	19,410,996
Other Assets		1,626,044	2,114,196
Construction in Progress		1,829,582	1,794,410
Total Property, Plant and Equipment	**5**	**54,325,577**	**63,168,393**
TOTAL NET ASSETS		74,812,624	67,029,301
LONG-TERM LIABILITIES	6	(20,889,518)	(16,730,296)
NET ASSETS		**$ 53,923,106**	**$ 50,299,005**
EQUITY			
Contributed Capital	7	$236,000	$-
Retained Earnings		53,687,106	50,299,005
TOTAL EQUITY		**$ 53,923,106**	**$ 50,299,005**

On behalf of the Board on the 21 of Oct 2010

Mr Tristan Hydes
Acting Chairman

Dr Gelia Frederick van Genderen
Director

Bergman

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 2010
(Stated in Cayman Islands dollars)

	Notes	2010	2009
OPERATING REVENUE			
Water Sales		$ 21,148,045	$ 21,112,254
Sewerage Fees		3,543,988	3,382,020
Connection and Miscellaneous Fees		423,783	372,274
Agency Work		115,970	153,247
Septage Disposal		111,683	123,942
Total Operating Revenue		**25,343,469**	**25,143,737**
OPERATING EXPENSES			
Water Purchases		7,227,526	7,599,665
Depreciation Expense	5	3,114,311	2,350,878
Salaries		2,427,579	2,299,717
Wages		1,312,530	1,404,872
Repairs and Maintenance		1,047,277	1,230,408
Supplies		967,172	1,007,823
Loan Interest		943,647	540,450
Electricity		840,308	917,797
Miscellaneous		153,639	135,367
Land Lease Expense		12,335	12,335
Total Operating Expenses		**18,046,324**	**17,499,312**
GROSS OPERATING SURPLUS FOR THE YEAR		**7,297,145**	**7,644,425**
OTHER INCOME			
Royalties		1,268,299	1,239,097
Other		256,427	80,305
Statutory Licencing Fees		95,432	13,340
Total Sundry Income		**1,620,158**	**1,332,742**
OPERATING SURPLUS FOR THE YEAR		**8,917,303**	**8,977,167**
AMINISTRATION EXPENSES			
Salaries		1,752,072	1,748,969
Staff Training and Benefits		1,136,262	1,297,329
Insurance		728,960	689,250
Information Systems		353,439	178,608
Miscellaneous		351,626	316,224
Telephone and Utilities		309,025	399,943
Depreciation Expense	5	241,824	233,446
Past Service Pension Expense	9	106,000	165,000
Repairs and Maintenance		104,629	133,539
Licenses and Dues		88,458	134,409
Office and Lab Supplies		77,172	83,110
Audit Fees		58,199	49,849
Bad Debt Expense		101,419	67,100
Loan Interest		38,258	87,750
Legal Fees		28,259	20,216
Office Rental		3,600	4,100
Total Administration Expenses		**5,479,202**	**5,608,842**
NET INCOME FOR THE YEAR		**$ 3,438,101**	**$ 3,368,325**

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 2010
(Stated in Cayman Islands dollars)

	Notes	2010	2009
CONTRIBUTED CAPITAL			
Balance at beginning of year		$ -	$ -
Land donated in Cayman Brac	7	236,000	-
Balance at end of year		**236,000**	**-**
RETAINED EARNINGS			
Balance at beginning of year		50,299,005	47,030,680
Net Income for Year		3,438,101	3,368,325
Contribution to Government	8	(50,000)	(100,000)
Balance at end of year		**53,687,106**	**50,299,005**
TOTAL EQUITY		**$ 53,923,106**	**$ 50,299,005**

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 2010
(Stated in Cayman Islands dollars)

	2010	2009
CASH FLOW FROM OPERATING ACTIVITIES		
Net Income for Year	$ 3,438,101	$ 3,368,325
Adjustments to Reconcile Net Income to Net Cash Provided by:		
Operating Activities		
Depreciation	3,356,135	2,584,324
Loss on Disposal of Fixed Assets	82,914	105
Bad Debt Expense	101,419	67,500
Interest Expense	981,905	628,200
	7,960,474	6,648,454
Net Change in Working Capital		
(Increase)/Decrease in:		
Accounts Receivable	(97,692)	(117,361)
Inventory	(79,422)	(151,162)
Prepaid Expense	(21,038)	(75,163)
Accounts Payable	(17,448)	(315,698)
Contract Retention Payable	(178,412)	22,869
Past Service Pension Liability	106,000	165,000
Customer Deposits	63,537	44,861
Net Cash Provided by Operating Activities	7,735,999	6,221,800
CASH FLOW FROM INVESTING ACTIVITIES		
Fixed Assets Purchased	(13,165,866)	(3,422,548)
Proceeds from Sale of Fixed Assets	-	1,800
Construction in Progress	(35,172)	(535,326)
Net Cash Used by Investing Activities	(13,201,038)	(3,956,074)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds of Long Term debt	9,176,442	7,181,000
Repayment of Long Term Debt	(4,710,958)	(3,352,742)
Interest Paid	(1,002,266)	(637,704)
Contribution to Government	(50,000)	(100,000)
Contribution Payable to Government	-	50,000
Net Cash Provided by Financing Activities	3,413,218	3,140,554
Net (Decrease)/Increase in Cash and Cash Equivalents During the Year	(2,051,821)	5,406,280
Cash and Cash Equivalents at the Beginning of the Year	7,287,042	1,880,762
Cash and Cash Equivalents at End of Year	**$ 5,235,221**	**$ 7,287,042**

The accompanying notes form an integral part of these financial statements

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 2010, the Water Authority has 123 employees (2009: 122 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) Early adoption of IAS 1 (Revised)
International Accounting Standard (IAS) 1 (Revised), Presentation of Financial Statements and IAS 1 (Amendment) Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009). IAS now requires recognised Income and expenses to be presented in a single statement (a statement of comprehensive income) separately from owner changes in equity. The balance sheet will be referred to as the 'Statement of Financial Position' and the cash flow statement is referred to as the 'Statements of Cash Flows'. The Water Authority made a decision to implement early adoption of IAS 1 (Revised) and the changes were reflected in the 30 June 2009 Financial Statements.

(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.

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.

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 expires.

(iv) Measurement

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

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

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

	2010	2009
Trade Receivables	$ 3,261,226	$ 3,133,160
Non-Trade Receivables	337,046	368,088
Allowance for Doubtful Accounts	(717,815)	(617,064)
	$ 2,880,457	$ 2,884,184

4. Inventory

	2010	2009
Water Supply and Sewerage Materials	$ 1,156,435	$ 1,069,453
Water Inventory	63,093	70,653
Provision for Obsolete Inventory	(9,111)	(9,111)
	$ 1,210,417	$ 1,130,995

5. Property, Plant and Equipment

	2010						
	Freehold Land	Buildings	Water Supply	Sewerage	Other Assets	Construction In Progress	Total
Cost							
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
Accumulated Depreciation							
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
Net Book Value							
At 30 June 2010	$ 3,555,599	$ 4,893,231	$ 42,421,121	$ -	$ 1,626,044	$ 1,829,582	$ 54,325,577

5. Property, Plant and Equipment (continued)

	2009						
	Freehold Land	Buildings	Water Supply	Sewerage	Other Assets	Construction In Progress	Total
Cost							
Balance at beginning of year	$ 3,319,599	$ 5,417,426	$ 42,120,294	$ 26,734,300	$ 6,358,706	$ 1,259,083	$ 85,209,408
Additions	-	-	-	-	523,469	3,544,583	4,068,052
Disposals	-	-	-	-	(15,180)	-	(15,180)
Transfers between fixed assets	-	165,771	2,287,145	556,340	-	(3,009,256)	-
Balance at end of year	3,319,599	5,583,197	44,407,439	27,290,640	6,866,995	1,794,410	89,262,280
Accumulated Depreciation							
Balance at beginning of year	-	469,953	11,581,291	7,110,778	4,250,639	-	23,412,661
Depreciation for Year	-	108,349	1,301,851	768,866	405,258	-	2,584,324
Disposals	-	-	-	-	(13,274)	-	(13,274)
Capitalized during construction	-	-	-	-	110,176	-	110,176
Balance at end of year	-	578,302	12,883,142	7,879,644	4,752,799	-	26,093,887
Net Book Value							
At 30 June 2009	$ 3,319,599	$ 5,004,895	$ 31,524,297	$ 19,410,996	$ 2,114,196	$ 1,794,410	$ 63,168,393

a) Construction in Progress

		2010	2009
1.	Red Gate and North Side Water Reservoirs	$ 1,814,470	$ -
2.	Cayman Brac – Site Preparation	15,112	15,112
3.	North Side Water Works Site Preparation	-	874,674
4.	North Side Water Production and Pumping – Contractors	-	718,285
5.	Extension on High Rock Road	-	100,492
6.	Extension on East/West Corridor	-	79,814
7.	East End Wellfield and Reservoir Upgrade	-	6,033
		$ 1,829,582	$ 1,794,410

6. Long-Term Liabilities

		Date of Loan	Loan Amount	Loan Term (Years)	Interest Rate	At Year End	Current	1-2 yrs	3-5 yrs	5+ yrs	TOTAL 2010	TOTAL 2009
a)	First Caribbean International Bank (Cayman) Limited (FCIB)											
	Administration Building Loan	Aug 1998	$ 1,600,000	15	LIBOR + 1%	1.32%	$ 143,253	$ 188,312	$ -	$ -	$ 331,565	$ 470,503
	Waste Water Treatment Works Loan											
	# 107762	Dec 2000	$501,000	8	LIBOR + 1%	1.32%	123,817	228,676	-	-	352,493	472,348
	# 10013845	Dec 2002	$12,677,508	8	LIBOR + 1%	1.94%	1,711,662	2,483,462	-	-	4,195,124	6,410,138
	New Administration Building Loan	Jun 2007	$2,421,500	15	LIBOR + 0.9%	1.44%	229,233	458,467	687,701	479,335	1,854,736	2,092,114
	North Side Supply Extension & North Side Pumping Facility	Dec 2008	$ 2,505,000	15	LIBOR + 0.9%	1.98%	220,473	440,947	661,421	877,908	2,200,749	2,505,000
	Credit Facility F	Jun 2009	$4,676,000	15	LIBOR + 0.9%	1.98%	411,550	823,100	1,234,650	1,862,678	4,331,978	4,676,000
	Sub-total for FCIB						2,839,988	4,622,964	2,583,772	3,219,921	13,266,645	16,626,103
b)	Cayman Islands Government (CIG)											
	Grand Cayman	Apr 1995	$ 4,822,349	25	0%	0.00%	210,894	421,788	632,682	801,128	2,066,492	2,277,386
	Cayman Brac	Apr 1995	$ 1,053,000	15	8%	8.00%	-	-	-	-	-	35,100
	Sub-total for CIG						210,894	421,788	632,682	801,128	2,066,492	2,312,486
c)	Ocean Conversion (Cayman) Ltd. (OCL)											
	Lower Valley – Second Expansion	Feb 2006	$ 748,631	7	0.42%	0.42%	114,211	192,903	-	-	307,114	415,766
	North Sound – Original	Nov 2002	$ 2,610,545	7	0.00%	0.00%	-	-	-	-	-	124,312
	North Sound – Expansion	Apr 2007	$ 1,450,505	7	0.42%	0.42%	208,775	450,140	180,726	-	839,641	1,038,255
	North Side – Original	Jul 2009	$ 9,176,442	10	0.54%	0.54%	719,020	1,585,585	2,798,841	3,399,068	8,502,514	-
	Sub-total for OCL						1,042,006	2,228,628	2,979,567	3,399,068	9,649,269	1,578,333
	TOTALS						$ 4,092,888	$ 7,273,380	$6,196,021	$7,420,117	24,982,406	20,516,922
										Less Current Maturities	(4,092,888)	(3,786,626)
											$ 20,889,518	$ 16,730,296

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 2010 $nil (2009: $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 year 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 $245,997 (2009: $281,094).
2. The Authority paid a dividend to the Government in the amount of $50,000 (2009: $100,000).
3. The remuneration of directors and other members of key management personnel during the year was $1,080,338 (2009:$1,068,999). This amount entirely pertains to short-term employee benefits. There were 8 personnel categorized in 2010 broken down as 7 key management personnel and 1 Director (2009: 8 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 2009 (dated 20 July 2010) 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.

9. **Pensions (continued)**

The actuarial position is as follows:

	As at 30 June 2009	As at 30 June 2008	As at 30 June 2007
Net Present Value of Funded Obligation, beginning of year	$ 3,163,000	$ 2,393,000	$ 2,375,000
Fair Value of Plan Assets	1,497,000	1,643,000	1,702,000
Defined Benefit Liability	(1,666,000)	(750,000)	(673,000)
Unrecognised Past Service Cost	-	-	-
Unrecognised Actuarial Net Gains/(Losses)	687,000	(123,000)	(135,000)
Net Liability in Financial Position, end of year	$ (979,000)	$ (873,000)	$ (808,000)

Past Service Pension Liability valuations for the period ending 30 June 2009, in the amount of $106,000, 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 2010 and thus the amount recognized reflects the actuarial position as at 30 June 2009.

The present value of the funded obligation changes as follows:

	30 June 2009 $000	30 June 2008 $000	30 June 2007 $000
Defined Benefit Obligation, beginning of year	2,393	2,375	2,210
Current Service Cost	82	97	114
Interest Cost	161	148	138
Plan Participant Contributions	37	55	39
Net Actuarial (Gain)/Loss on obligations	582	(282)	(41)
Transfers between other participating Entities	(92)	-	(85)
Defined Benefit Obligation, end of year	3,163	2,393	2,375

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

	30 June 2009 $000	30 June 2008 $000	30 June 2007 $000
Fair value of plan at the beginning of year	1,643	1,702	1,543
Employer & Participant Contributions	76	113	80
Expected Return on Assets net of Expense	118	122	111
Actuarial Gain/(Loss) on plan assets	(262)	(294)	81
Transfers between other participating Entities	(92)	-	(85)
Other: Impact of re-statement of beginning of year assets	14	-	(28)
Fair value of plan at the end of year	1,497	1,643	1,702

9. Pensions (continued)

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

Balance as at 30 June 2008	$873,000
Plus: Reconciliation of PSL 2009	106,000
Balance as at 30 June 2009	$979,000

Actuarial Determination of Pension Expense as at:

	30 June 2010 $000	30 June 2009 $000	30 June 2008 $000
Current Service Cost, net of employee contributions	107	82	97
Interest Cost	180	161	148
Recognition of Net (Gain)/Loss	34	-	-
Expected Return on Assets	(90)	(118)	(122)
Pension Expense	231	125	123

The total amount recognised as a pension expense for 2010 was $44,046 (2009: $45,511). 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 2009, management has not estimated the impact on the recorded expense for the year ended 30 June 2010.

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

	30 June 2009	30 June 2008	30 June 2007
Global Equities	44%	46.4%	59.0%
Bonds	49%	43.1%	32.8%
Other	4%	5.9%	2.5%
Cash	0%	0.0%	5.4%
Term Deposits	0%	0.0%	0.3%
Property	3%	4.6%	0.0%

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 2009	30 June 2008	30 June 2007
Discount Rate	5.75%	6.75%	6.25%
Expected long-term rate of return (net of Expense)	6.00%	7.00%	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)	14.55	14.09	14.09

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 2009/10 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 9 (2009: 10) and the total employees enrolled in the defined contribution plan with British Caymanian Pension is 114 (2009: 112).

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 30th June 2010, inclusive of both the Public Service Pensions Fund and British Caymanian, was $324,316 (2009: $ 333,932).

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:

	2010	2009
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	166,521	178,856
	$ 240,531	$ 252,866

11. Commitments

On 4 June 2009, the Authority signed a contract with OCL to refurbish the existing Red Gate Reverse Osmosis plant. The cost is $3,063,816 plus additional operating fees. Construction started in November 2009 and was completed in July 2010 and the Authority commenced making monthly payments of $45,496 for the duration of ten years, in July 2010. The total amount to be paid is $5,459,520. The additional operating fees are not known.

12. 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 form 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 2009 $1,146,328 (2009: $1,082,791), which is 41% 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 2010 and 2009 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.

13. Financial Instrument

Fair values. As at 30 June 2010 and 2009, 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.

14. 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 $18,840,805 was transferred from Property, Plant and Equipment to Assets Held for Sale at June 30, 2010 in accordance with the applicable accounting standards. 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.

15. Comparative Figures

Certain accounts from the prior year financial statements have been reclassified for comparative purposes.