



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



**Queens Highway Water Main Loop Completion June 2008**

# **ANNUAL REPORT**

**For the 2007/08 Financial Year**



**OWNERSHIP AGREEMENT  
ANNUAL REPORT**

**For**

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

***For the 2007/08 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 ending 30 June 2008.

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 2007/08, 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 2007/08 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 throughout the North Side District, completing phases 5,6,7 & 8 on North Side West to Cayman Kia and phases 3-8 on Queen's Highway from Old Robin Road to Barefoot Beach at a combined cost of \$2.1 million.

During the course of the year the Authority sold 3.3 million m<sup>3</sup> of water (2007: 3.1 million m<sup>3</sup>) and processed 2.5 million m<sup>3</sup> of wastewater (2007: 2.5 million m<sup>3</sup>) in Grand Cayman and sold 0.1 m<sup>3</sup> of water in Cayman Brac.

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 and invested over \$4.2 million (2007: \$7.8 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 2007/08 financial year were as follows:

- North Side Piped Water Supply – Pumping Facility
- North Side Piped Water Supply – Queens Highway
- Commence Development of water production plant to service the North Side
- Initiate comprehensive review of the water / sewer rates
- Commence development of the Cayman Brac water distribution system
- Extend existing wastewater collection system and rehabilitation of the system
- Pond sediment removal Project

#### Achievement during the Years

In January 2008 Construction Management and Engineering Company (CMEC) broke ground on the North Side Water Works Production and Pumping Facility with completion expected in the third quarter of 2008/09.

In June 2008 the Authority successfully “closed the loop” on the Queens Highway distribution project, thereby increasing the operational flexibility and reliability of the entire water distribution system.

The Authority awarded the contract to build a Reverse Osmosis plant on the North Side Site to Ocean Conversion (CAYMAN) Limited (OCL) in March 2008. Construction started in July 2008 and is expected to be completed by 30 June 2009.

In March 2008 the Authority awarded the contract to conduct a comprehensive review of the Water / Sewer rates to R.W. Beck Inc. The project started in April 2008 and is expected to be completed by the end of 2008/09.

The Authority has not commenced work on either the Cayman Brac Water Distribution System project or the extension of the existing wastewater collection systems or rehabilitation of the system due to limited in house resources.

The Pond Sediment removal contract was awarded in February 2007 and subsequently completed by 30 June 2008.

### 4. Ownership Performance Targets

#### Financial Performance

Financial Performance Measure	2007/08 Actual \$	2007/08 Budget (March 2007) \$	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	25,208,143	25,988,096	(779,953) 3% lower than budget
Surplus/deficit from outputs	8,377,792	8,351,267	26,525
Other expenses	21,982,923	22,257,050	(274,127)
Net Surplus/Deficit	3,225,220	3,731,044	(505,824)

Total Assets	67,647,547	73,400,000	(5,752,453)
Total Liabilities	20,616,867	29,600,000	(8,983,133)
Net Worth	47,030,680	40,700,000	6,330,680
Cash flows from operating activities	6,132,018	5,801,193	330,825
Cash flows from investing activities	(4,037,456)	(15,018,798)	10,981,342
Cash flows from financing activities	(3,116,177)	7,028,242	(10,144,419)
Change in cash balances	(1,021,615)	(2,189,363)	1,167,748

Financial Performance Ratio	2007/08 Actual	2007/08 Budget (March 2007)	Annual Variance
Current Assets: Current Liabilities	0.83	0.01	0.82
Total Assets: Total Liabilities	3.28	2.33	0.95

#### Explanation of Variances

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

Budgeted revenue figures were a fairly accurate presentation of the actual figures as presented in the 2007/08 audited Financial Statements. While the Authority did not meet budgeted figures the revenue figures were still reflective of a strong growth rate over 2006/07 (10.0%) and continues to benefit from economic growth on the island.

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

Decreased "Other Expenses" is within expectation as sales were not as high as originally planned and also evidence of 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.

The Authority had aggressively planned to complete several projects throughout 2007/08 however not all of them were completed, which is the reason that the Total Assets is \$5.7 million lower than originally expected. Most notably is the delay in construction of the North Side Reverse Osmosis Plant and Building, which are expected to be completed in 2008/09, and the development of Effluent Treatment which has been delayed due to unavailable resources.

During the course of the 2007/08 budget process the Authority had planned to borrow over \$10.7 million in Long Term Debt, however during the 2007/08 the Authority, through strong fiscal management, did not have to borrow any funds during the period. Reduced external debt supports a decrease in liabilities, assets and the associated reducing in cash flow from investing activities and an increase in cash flow from financing activities as there was no offset of proceeds from Long Term Debt.

With a solid revenue stream, strong cash management and prioritization of projects to complete, it is reasonable that the cash position of the Authority is stronger than originally anticipated. The strong cash position allows the Authority flexibility in the future to complete required projects with minimal injection of traditional debt financing.

As part of the annual budget process the Authority updates the ambitious 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 original projections for the 2007/08 fiscal period, as presented in the 2007/08 Ownership Agreement are taken from the 2007/08 budget, as prepared for Cabinet review in conjunction with the rate review in October 2006. Despite lower than expected sales, the Authority is in a stronger financial position than originally budgeted, primarily as a result of conservative estimates and prudent fiscal management which translated to the Authority's ability to complete many of the projects without the injection of outside credit facilities.

*Financial Performance Ratios:*

It is within reason, given the explanations as noted above that the Financial Performance Ratios are stronger than originally expected.

**Maintenance of Capability**

Human Capital Measures	2007/08 Actual	2007/08 Budget (March 2007)	Annual Variance
Total full time equivalent staff	120	117	3
Staff turnover (%)	10%	14%	(4%)
Average length of service (In Years)			
Senior Management	10 Years	10 Years	nil
Professional Staff	5 Years	5 Years	Nil
Administrative / Field Staff	6 Years	5 Years	1 Year
Significant changes to personnel management system	No projected software upgrades	No projected software upgrades	N/A

Physical Capital Measures	2007/08 Actual	2007/08 Budget (March 2007)	Annual Variance
Value of total assets (NBV of Fixed Assets, inclusive of CIP)	61,797,747	56,600,000	11,047,547
Asset replacements: total assets (Fixed Assets Purchased during the year / Total value of Assets)	6.2%	Not provided in original submission	N/A
Book value of depreciated assets: initial cost of those assets (NBV of Depreciated assets / initial cost of those assets)	72.5%	Not provided in original submission	N/A
Depreciation: Cash flow on asset purchases (Annual Depreciation / Cost of Fixed Assets Purchased)	59.7%	Not provided in original submission	N/A
Changes to asset management policies	None	None	

Major Capital Expenditure Projects (amount spent to 30 June 2008)	2007/08 Actual \$	2007/08 Budget (October 2006) \$	Annual Variance \$
North Side Water Works – Pumping Facility	742,822	1,300,000	(557,178)
North Side Water Works – Queens Highway	1,050,800	1,200,000	(149,200)
Develop Water Production Plant to service North Side	Nil	5,000,000	(5,000,000)
Initiate Comprehensive review of the water / sewer rates	48,728	150,000	(101,272)
Cayman Brac Water Distribution System	Nil	2,500,000	(2,500,000)

Extend Existing Collection System	Nil	4,680,000	(4,680,000)
Pond Sediment Removal Project	400,233	700,000	(299,800)

## Risk Management

Key risks	Status of Risk	Actions taken during 2007/08 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 aggressively to fill essential positions.

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

### Major Capital Expenditure Projects:

*North Side Water Works Production and Pumping Facility* – The contract to construct the North Side Water Works Production and Pumping Facility was awarded through the competitive tender process and awarded to Construction Management and Engineering Company (CMEC) for \$0.7 million and work commenced in January 2008. As at 30 June 2008 the Authority had spent \$304,581 on the site internally and \$438,241 was paid to CMEC for work done, a total of \$742,822 or 58% of the original budgeted figure. The project is expected to be completed in the third quarter of 2008/09 and within budget expectations.

*North Side Water Works – Queens Highway* – Further to the establishment of a second pipe laying crew in October 2006, the Water Authority extended the North Side distribution system along Queens Highway from Old Robin Road to Barefoot Beach at a total cost of \$1,050,800. On June 11, 2008 the Water Authority celebrated the milestone of “closing the loop” around East End with distinguished members of parliament and Water Authority staff, thereby increasing the operational flexibility of the entire distribution system.

*Develop Water Production Plant to Service North Side* – To continue to provide the high level of water reliability and quality to the residents for the Cayman Island it was necessary to build a Reverse Osmosis plant on the North Side Site to accommodate expected growth within the distribution system, improve operational reliability and flexibility of the distribution system and to maintain a consistent pressure throughout. Production capacity was originally estimated to be for 3,000m<sup>3</sup> / day but later increased to 9,000m<sup>3</sup> / day to accommodate the expected growth. The Authority awarded the contract to Ocean Conversion (CAYMAN) Limited (OCL) in March 2008 to build the Water Production Plant at the North Side Site after a competitive tendering process was complete at a total cost of \$9.2 million. Ground was broken on the project in July 2008 with completion expected by the end of fiscal 2008/09. The Authority is not responsible for any payments until the project is completed and therefore it is reasonable that no costs have been incurred by the Authority @ 30 June 2008.

*Comprehensive Review of Water / Sewer Rates* – Subsequent to a comprehensive tendering process the Water Authority awarded the contract to review the water / sewer rates to R.W. Beck in March 2008 at a total cost of US\$90,000. In April 2008 representatives from R.W. Beck met with Management to kick off the project to discuss a list of expectations from both parties. As at 30 June 2008 the project was 47% completed, preliminary reports are expected in 2008/09 and the project is expected to be completed by 30 June 2009 at the contracted price, which is approximately 50% below budget.



*Cayman Brac Water Distribution System* – In response to requests from the public and in fulfilment 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 contract 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 ongoing up to the end of the 2007/08 fiscal period and therefore the Authority was not in the position to commence work on the project.

*Extend Existing Collection System* – The Water Authority has long term plans to extend the existing collection system into Govenors Harbour, down West Bay Road to the Cemetery and also into Snug Harbour to ensure proper treatment of wastewater and protect the natural environment and public health. To date (30 June 2008) no substantial work has been completed on this project due to insufficient resources.

*Pond Sediment Removal Project* – This contract was awarded through a competitive tender process to Bio-Nomic Services Inc., from Charlotte North Carolina in February 2007 for a total contract price of US\$698,858 (\$573,000) or 18% below the original budget figure. The project commenced in January 2008 and was completed by 30 June 2008 at a total cost of \$400,233, 42% below the original budget figure of \$700,000. Upon receipt of the contract price the Authority had an expectation that the project would come in under budget, combined with the fact that there was 36% less sediment (1,277 dry tonnes as compared to 2,000 dry tonnes budgeted) to remove than originally estimated resulted in the project being completed to the Authority’s satisfaction well within the original budget figure.

*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	2007/08 Actual \$	2007/08 Budget (October 2006) \$	Annual Variance \$
Revenue	25,208,143	25,988,096	(779,953)
Operating Expenses	21,982,923	22,257,050	(274,127)
<i>Net Surplus/Deficit</i>	3,225,220	3,731,044	(505,824)

<b>Balance Sheet</b>	<b>2007/08 Actual \$</b>	<b>2007/08 Budget (March 2007) \$</b>	<b>Annual Variance \$</b>
Assets	67,647,547	73,400,000	(5,752,453)
Liabilities	20,616,867	29,600,000	(8,983,133)
<i>Net Worth</i>	<i>47,030,680</i>	<i>40,700000</i>	<i>6,330,680</i>

<b>Statement of Cash Flows</b>	<b>2007/08 Actual \$</b>	<b>2007/08 Budget (March 2007) \$</b>	<b>Annual Variance \$</b>
Net cash flows from operating activities	6,132,018	5,801,193	330,825
Net cash flows from investing activities	(4,037,456)	(15,018,798)	10,981,342
Net cash flows from financing activities	(3,116,177)	7,028,242	10,144,419

#### Explanation of Variances

Explanations for variances are reviewed 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).

<b>Transaction</b>	<b>2007/08 Actual \$</b>	<b>2007/08 Budget (October 2006) \$</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	\$100,000	\$ (50,000)
Government Loans to be made to Water Authority – Cayman	Nil	Nil	N/A
Government Guarantees to be issued in relation to Water Authority – Cayman	Nil	Nil	N/A
Related Party Payments (Non Remuneration) made to Key Management Personnel <sup>1</sup>	Nil	Nil	N/A
Remuneration <sup>2</sup> Payments made to Key Management Personnel	\$852,995	\$860,000	\$(7,005)
Remuneration Payments made to Senior Management	Same as Above	Same as Above	Same as Above

<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)

	2007/08 Actual	2007/08 Budget (March 2007)
No of Key Management Personnel	9	9
No of Senior Management	9	9

Explanation of Variances

*Transaction:*

As part of the budgeting process that the Authority undertakes is to highlight the annual contribution to Government. The number as provided in March 2007 (\$100,000) was subsequently revised in April 2008 (down to \$50,000), approved by the Board and submitted to Treasury. The variance is therefore explained as the original budget number was updated in the revised budget.

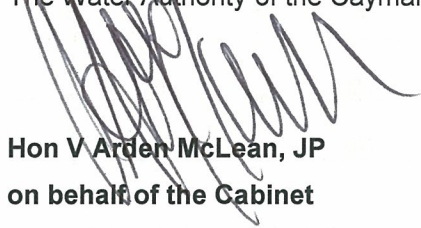
The optimal number of Key Management Personnel for the Authority is set at nine (9); The Director, Deputy Director, Chief Operations Manager, Financial Controller, Customer Service Manager, Chief Human Resource manager, Water Resources Engineer, Information Technology Manager and Operations Manager – CYB.

Remuneration for Key Management Personnel is only negligibly lower than originally estimated (<1%) and within expectation so no further analysis was performed.


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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 2007/08 financial year.



**Hon V Arden McLean, JP**  
on behalf of the Cabinet



**Chairman of the Board**  
Mr. Brainerd Watler, JP  
Date: 16 February 2009

**THE WATER AUTHORITY OF THE CAYMAN ISLANDS  
STATEMENT OF COMMITMENTS  
FOR THE YEAR ENDING 30 JUNE 2008**

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 20 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 2008**

**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>
<b>Other Contingent Liabilities</b>	
None	n/a
None	n/a
<b>Total Other Contingent Liabilities</b>	<u>n/a</u>
<b>Summary of Non-Quantifiable Contingent Liabilities</b>	
None	
None	

The Water Authority does not have any quantifiable Contingent Liabilities @ 30 June 2008; please refer to the attached financial statements and accompanying notes.

**THE WATER AUTHORITY  
OF THE CAYMAN ISLANDS**

**FINANCIAL STATEMENTS  
For the Year Ended 30 June 2008**

*The Ministry of Communications, Works and Infrastructure*

**THE WATER AUTHORITY  
OF THE CAYMAN ISLANDS**

**FINANCIAL STATEMENTS**

For the Year Ended 30 June 2008

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**Water Authority of the Cayman Islands  
Financial Statements  
30 June 2008**

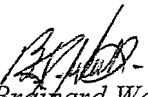
**STATEMENT OF RESPONSIBILITY FOR FINANCIAL STATEMENTS**

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). The financial statements comply with generally accepted accounting practice as defined in International Public Sector Accounting Standards and International Financial Reporting Standards.

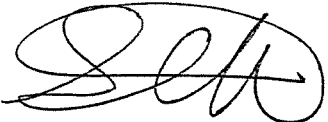
We accept responsibility for the accuracy and integrity of the financial information **in** these financial statements and their compliance with the Public Management and Finance Law, (2005 Revision).

To the best of my knowledge the statements are:

- (a) complete and reliable;
- (b) fairly reflect the financial position as at 30 June 2008 and performance for the financial year ended 30 June 2008; and
- (c) comply with generally accepted accounting practice.

  
Mr. Brainerd Walter, JP  
Chairman  
Water Authority of the Cayman Islands

Date: 17 December 2008

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

Date: 17 December 2008





Cayman Islands

*Water Authority of the Cayman Islands*

**CERTIFICATE OF AUDITOR GENERAL**

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

I have audited the accompanying financial statements of the Water Authority, which comprise of the balance sheet as at 30 June 2008, the statement of net income and retained earnings, statement of income, statement of expenses, and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes as set out on pages 5 to 22 in accordance with the provisions of Section 17(1) of the *Water Authority Law (1996 Revision)*, and Section 60(a) of the *Public Management and Finance Law (2005 Revision)*.

**Respective Responsibilities of Management and the Auditor General**

Management is responsible for the preparation and fair representation 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.

**Basis of Opinion**

My responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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.

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 as of the date of incorporation. The Authority however is not able to quantify the liability as at 30 June 2008 as an actuarial valuation has not been done subsequent to 30 June 2006. As a result of insufficient relevant and reliable information acceptable to and agreed by the Authority and the Pensions Board, the Authority has established a past service pension liability in the amount of \$708,000 which has been recognized in these financial statements.

**Opinion**

In my opinion, except for the possible effects of 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 2008, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion we draw your attention to one other matter in regards to the financial statements. During the fiscal year we noted that there was water unaccounted for when comparing the amount of water billed versus the expected water to be billed in cubic meters. We estimate the unaccounted water losses cost the Authority \$750,000 (2007: \$1,305,000) to produce.



Dan Duguay, MBA, FCGA  
Auditor General

Cayman Islands  
17 December 2008

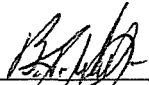
## Water Authority of the Cayman Islands


## Balance Sheets

As at 30<sup>th</sup> June 2008

(Stated in Cayman Islands Dollars)

CURRENT ASSETS	NOTES	2008	2007
Cash on Hand		\$ 8,100	\$ 2,800
Cash at Bank		1,872,662	2,899,577
Total Cash and Cash Equivalents		1,880,762	2,902,377
Accounts Receivable	3	2,834,323	2,668,344
Inventory	4	979,833	805,881
Prepaid Expenses		155,882	477,647
Total Current Assets		<u>5,850,800</u>	<u>6,854,249</u>
<b>CURRENT LIABILITIES</b>			
Accounts Payable		1,838,102	1,389,509
Interest Payable		37,620	66,360
Past Service Pension Liability	9	708,000	708,000
Contract Retention Payable		306,552	260,619
Customer Deposits		1,037,930	967,357
Current Maturities on Long Term Liabilities	6	3,156,904	2,970,384
Total Current Liabilities		7,085,108	6,362,229
NET CURRENT ASSETS		<u>(1,234,308)</u>	<u>492,020</u>
<b>FIXED ASSETS</b>			
Land - Freehold		3,319,598	3,319,598
Buildings		4,947,472	2,327,575
Water Supply System		30,539,003	28,958,549
Sewerage System		19,623,521	20,394,492
Other Assets		2,108,070	1,882,544
Construction in Progress		1,259,083	3,277,194
Total Fixed Assets	5	<u>61,796,747</u>	<u>60,159,952</u>
TOTAL NET ASSETS		60,562,439	60,651,972
LONG TERM LIABILITIES	6	(13,531,759)	(16,796,512)
NET ASSETS		<u>47,030,680</u>	<u>43,855,460</u>
<b>EQUITY REPRESENTED BY:</b>			
Contributed Capital	7	1,085,223	1,085,223
Retained Earnings		45,945,457	42,770,237
Total Equity		<u>\$ 47,030,680</u>	<u>\$ 43,855,460</u>

On behalf of the Board on the 17<sup>th</sup> of Dec 2008
  
 \_\_\_\_\_  
 Mr. Brainard Walter, JP  
 Chairman

  
 \_\_\_\_\_  
 Dr. Gelia Frederick van Genderen  
 Director

The accompanying notes form an integral part of these financial statements

Water Authority of the Cayman Islands  
Statement of Net Income and Retained Earnings  
For the Year Ended 30<sup>th</sup> June 2008  
(Stated in Cayman Islands Dollars)

INCOME	<u>Notes</u>	<u>2008</u>	<u>2007</u>
Gross Operating Revenue		\$ 23,849,965	\$ 21,662,265
Less: Operating Expenses		(16,830,351)	(14,792,711)
Gross Operating Surplus for the Year		<u>7,019,614</u>	<u>6,869,554</u>
Sundry Income		1,358,178	1,282,236
Operating Surplus for Year		<u>8,377,792</u>	<u>8,151,790</u>
OTHER REVENUE / (EXPENSES)			
Administrative Expenses		(5,152,572)	(4,394,934)
Insurance Settlement - WWTP	14		284,361
Hurricane Revenue (net of interim settlement)	13		
Past Service Pension Expense	9		(559,537)
Net Income for Year		<u>3,225,220</u>	<u>3,481,680</u>
Retained Earnings at the Beginning of the Year		<u>42,770,237</u>	<u>39,338,557</u>
Retained Earnings Before Contribution to Government		45,995,457	42,820,237
Contribution to Government	8	(50,000)	(50,000)
Retained Earnings at End of Year		<u>\$ 45,945,457</u>	<u>\$ 42,770,237</u>

The accompanying notes form an integral part of these financial statements

**Water Authority of the Cayman Islands  
Statement of Income  
For the Year Ended 30<sup>th</sup> June 2008  
(Stated in Cayman Islands Dollars)**

<b>OPERATING REVENUE</b>	<b>2008</b>	<b>2007</b>
Water Sales	\$ 20,041,921	\$ 18,158,275
Sewerage Fees	3,253,410	2,923,234
Connection and Miscellaneous Fees	372,180	376,864
Septage Disposal	137,942	132,447
Agency Work	44,512	71,445
<b>Total Operating Revenue</b>	<b>23,849,965</b>	<b>21,662,265</b>
<b>SUNDRY INCOME</b>		
Royalties	1,206,243	1,145,400
Other	133,805	114,451
Statutory Licencing Fees	18,130	22,385
<b>Total Sundry Income</b>	<b>1,358,178</b>	<b>1,282,236</b>
<b>TOTAL REVENUE</b>	<b>\$ 25,208,143</b>	<b>\$ 22,944,501</b>

The accompanying notes form an integral part of these financial statements

**Water Authority of the Cayman Islands**  
**Statement of Expenses**  
**For the Year Ended 30<sup>th</sup> June 2008**  
**(Stated in Cayman Islands Dollars)**

<b>OPERATING EXPENSES</b>	<b>NOTES</b>	<b>2008</b>	<b>2007</b>
Water Purchases		\$ 7,020,096	\$ 6,109,291
Depreciation Expense	5	2,239,540	2,121,451
Salaries		2,067,201	1,903,986
Wages		1,269,563	1,267,879
Repairs and Maintenance		1,432,111	928,016
Loan Interest		729,537	803,497
Supplies		944,654	792,687
Electricity		921,317	758,123
Miscellaneous		193,997	86,336
Land Lease Expense	10	12,335	12,335
Obsolete Inventory			9,110
<b>Total Operating Expenses</b>		<b>16,830,351</b>	<b>14,792,711</b>
<b>ADMINISTRATIVE EXPENSES</b>			
Salaries		1,578,974	1,458,132
Staff Training and Benefits		1,160,110	1,020,283
Insurance		719,188	642,325
Telephone and Utilities		315,474	282,625
Miscellaneous		371,066	247,775
Depreciation Expense	5	188,869	172,084
Licenses and Dues		139,588	125,664
Information Systems		159,529	106,875
Repairs and Maintenance		158,949	85,798
Office and Lab Supplies		75,425	87,192
Loan Interest		170,112	51,240
Audit Fees		52,061	46,711
Bad Debt Expense		35,000	32,000
Legal Fees		23,875	31,154
Office Rental		4,352	5,076
<b>Total Administrative Expenses</b>		<b>5,152,572</b>	<b>4,394,934</b>
<b>TOTAL OPERATING AND ADMINISTRATIVE EXPENSES</b>		<b>\$ 21,982,923</b>	<b>\$ 19,187,645</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<sup>th</sup> June 2008  
(Stated in Cayman Islands Dollars)

	<u>2008</u>	<u>2007</u>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net Income for Year	\$ 3,225,220	\$ 3,481,680
Adjustments to Reconcile Net Income to Net Cash Provided by:		
Operating Activities		
Depreciation	2,428,409	2,293,536
Interest Earned	(27,761)	(93,551)
Interest Expense	899,649	854,737
	<u>6,525,517</u>	6,536,402
Net Change in Working Capital		
Interest Paid	(928,387)	(789,352)
Accounts Receivable	(165,977)	50,067
Inventory	(173,950)	(152,456)
Prepaid Expense	321,767	434,910
Accounts Payable	436,538	157,726
Contract Retention Payable	45,935	257,207
Past Service Pension Liability		559,537
Customer Deposits	70,575	87,000
Net Cash Provided by Operating Activities	<u>6,132,018</u>	7,141,041
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Cost of Fixed Assets Purchased	(6,083,313)	(6,586,971)
Interest Received	27,761	93,551
Construction in Progress	2,018,096	(1,091,798)
Net Cash Used by Investing Activities	<u>(4,037,456)</u>	(7,585,218)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds of Long Term debt		3,872,005
Repayment of Long Term Debt	(3,078,233)	(2,109,931)
Loans Payable	12,056	159,360
Contribution to Government	(50,000)	(50,000)
Net Cash (Used) / Provided by Financing Activities	<u>(3,116,177)</u>	1,871,434
Net (Decrease)/Increase in Cash and Cash Equivalents During the Year	(1,021,615)	1,427,257
Cash and Cash Equivalents at the Beginning of the Year	<u>2,902,377</u>	1,475,120
Cash and Cash Equivalents at End of Year	<u>1,880,762</u>	<u>2,902,377</u>

The accompanying Notes form an integral part of these financial statements

Water Authority of the Cayman Islands  
Notes to the Financial Statements  
For the Year Ended 30<sup>th</sup> June 2008  
(Stated in Cayman Island Dollars)

1. Establishment and Principal Activity

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 2008, the Water Authority had 120 employees (30 June 2007: 115 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) *Basis of preparation*

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

(b) *Fixed Assets*

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

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

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

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



Water Authority of the Cayman Islands  
Notes to the Financial Statements  
For the Year Ended 30<sup>th</sup> June 2008  
(Stated in Cayman Island Dollars)

2. Significant Accounting Policies (continued)

(c) *Foreign currency translation*

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

(d) *Allowance for bad debts*

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

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

(e) *Inventory and Allowance for Obsolete Inventory*

Inventory consists of consumable spares and water. Consumable spares are accounted for on the first-in, first-out basis, and is stated at the lower of cost and net realizable value. Water is calculated as 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. The allowance is expensed and an equal amount is set-up as a provision for obsolete inventory, which is netted-off against gross inventory balances. The allowance is equal to the book value of inventory that management considers no longer usable.

(f) *Interest Expense*

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

(g) *Cash & cash equivalents*

Cash and cash equivalents are considered as cash held on demand and fixed deposits with an original maturity of three months or less.

(h) *Revenue recognition*

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

Water Authority of the Cayman Islands  
Notes to the Financial Statements  
For the Year Ended 30<sup>th</sup> June 2008  
(Stated in Cayman Island Dollars)

2. Significant Accounting Policies (continued)

*(i) Employees benefits*

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 board decision 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).

*(j) Financial Instruments*

*(i) Classification*

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

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

*(ii) Recognition*

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

*(iii) Derecognition*

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

*(iv) Measurement*

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

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

Water Authority of the Cayman Islands  
Notes to the Financial Statements  
For the Year Ended 30<sup>th</sup> June 2008  
(Stated in Cayman Island Dollars)

3.	Accounts Receivable							
		<u>2008</u>	<u>2007</u>					
	Trade Receivables	\$ 3,093,974	\$ 2,946,257					
	Non Trade Receivables	290,313	243,380					
	Provision for Bad Debts	(549,964)	(521,293)					
		<u>\$ 2,834,323</u>	<u>\$ 2,668,344</u>					
4.	Inventory							
		<u>2008</u>	<u>2007</u>					
	Water Supply and Sewerage Materials	\$ 950,596	\$ 768,122					
	Water Inventory	38,348	46,870					
	Provision for Obsolete Inventory	(9,111)	(9,111)					
		<u>\$ 979,833</u>	<u>\$ 805,881</u>					
5.	Fixed Assets							
	Cost	Freehold Land	Buildings	Water Supply	Sewerage	Other Assets	Construction In Progress	Total
	At 30 June 2007	\$ 3,319,599	\$ 2,738,211	\$ 39,261,955	\$ 26,734,300	\$ 5,681,429	\$ 3,277,194	\$ 81,012,688
	Additions					677,277	3,519,443	4,196,720
	Transfers between fixed assets		<u>2,679,215</u>	<u>2,858,339</u>			<u>(5,537,554)</u>	-
	At 30 June 2008	<u>3,319,599</u>	<u>5,417,426</u>	<u>42,120,294</u>	<u>26,734,300</u>	<u>6,358,706</u>	<u>1,259,083</u>	<u>85,209,408</u>
	 Accumulated Depreciation							
	At 30 June 2007		410,635	10,303,406	6,339,806	3,798,889		20,852,736
	Charge for Year		59,318	1,277,885	770,972	320,234		2,428,409
	Capitalized during construction					131,516		131,516
	At 30 June 2008		<u>469,953</u>	<u>11,581,291</u>	<u>7,110,778</u>	<u>4,250,639</u>		<u>23,412,661</u>
	 Net Book Value							
	At 30 June 2007	<u>\$ 3,319,599</u>	<u>\$ 2,327,576</u>	<u>\$ 28,958,549</u>	<u>\$ 20,394,494</u>	<u>\$ 1,882,540</u>	<u>\$ 3,277,194</u>	<u>\$ 60,159,952</u>
	At 30 June 2008	<u>\$ 3,319,599</u>	<u>\$ 4,947,473</u>	<u>\$ 30,539,003</u>	<u>\$ 19,623,522</u>	<u>\$ 2,108,067</u>	<u>\$ 1,259,083</u>	<u>\$ 61,796,747</u>

Water Authority of the Cayman Islands  
Notes to the Financial Statements  
For the Year Ended 30<sup>th</sup> June 2008  
(Stated in Cayman Island Dollars)

## 5. Fixed Assets (continued)

## a) Construction in Progress

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

	2008	2007
I. North Side Water Production and Pumping - Contractors	438,241	
2. North Side Supply Extension	317,949	381,920
3. North Side Water Works Site Preparation	304,581	281,174
4. Red Gate Storeroom Modifications	125,908	
5. West Bay Beach - Extension to Renaissance	45,339	279
6. Cayman Brac – Site Preparation	11,230	
7. Emergency Generator - Pump Station # 1	9,282	2,544
8. East End Wellfield and Reservoir Upgrade	6,033	
9. Upgrade on Bobby Thompson	520	
10. Extension to existing Administration Building		2,451,002
II. WWTP Retaining Wall and Fence		106,964
12. Red Gate Site - Storm water pump station		23,062
13. Water supply extension - Airport		15,406
14. Meter Testing Room		14,744
15. Pond Sediment Removal Contract		99
	\$ 1,259,083	\$ 3,277,194

## 6. Long Term Liabilities

## LONG TERM LIABILITIES

(Interest Rate)	Current	1-2 yrs	3-5yrs	5+yrs	2008	2007
					\$	\$
a) First Caribbean International Bank (Cayman) Limited						
(i) Administration Building Loan (3.82%)	121,291	242,582	236,216		600,089	712,474
(ii) Waste Water Treatment Works Loan						
LIBOR note # 107762 (6.35%)			501,000		501,000	501,000
LIBOR note # 10013845 (6.07%)	1,962,377	3,924,753	2,573,866		8,460,996	10,342,947
(iii) New Administration Building Loan (6.26%)	126,897	253,793	380,690	1,528,040	2,289,420	2,421,500
b) Caribbean Development Bank Water Supply (6.0%)						19,705
c) Cayman Islands Government						
(i) Grand Cayman (0%)	210,894	421,788	632,682	1,222,916	2,488,280	2,699,174
(ii) Cayman Brac (8.0%)	70,200	35,100			105,300	175,500
d) Ocean Conversion (Cayman) Ltd.						
(i) Lower Valley - Second Expansion (0.41667%)	103,364	222,863	192,903		519,130	617,463
(ii) North Sound - Original (0%)	372,935	124,312			497,247	870,182
(iii) North Sound – Expansion (0.41667%)	188,946	407,388	630,866		1,227,200	1,406,951

Water Authority of the Cayman Islands  
Notes to the Financial Statements  
For the Year Ended 30<sup>th</sup> June 2008  
(Stated in Cayman Island Dollars)

6. Long Term Liabilities (continued)

	2008	2007
Total Long Term Liabilities:	16,688,663	19,766,896
Less Current Maturities:	(3,156,904)	(2,970,384)
	\$ 13,531,759	\$ 16,796,512

- a) (i) On 17<sup>th</sup> August 1998 FirstCaribbean approved a credit facility of CI\$ 1,600,000 for the Water Authority Administration Building at 13G Red Gate Road. The loan is provided at an interest rate of 1% over London Interbank Offered Rate (LIBOR) repayable on a monthly basis of US\$ 14,875 over a fifteen-year period that commenced on 14<sup>th</sup> October 1999. FirstCaribbean presently holds a Registered First Charge over the property.
- (ii) In September 2000, Government gave approval for the Water Authority to enter into the US\$ 12.8 million loan agreement with FirstCaribbean for the financing of the Grand Cayman Wastewater Treatment Wodes Project. The loan agreement was approved by FirstCaribbean under the terms and conditions of the facility letter dated 15th September 1999 and was signed on 29th December 2000. In September 2002 this loan agreement was increased by US\$ 4.4 million to a total of US\$ 17.2 million. In addition to the terms and conditions defined in the facility letter dated 15th September 1999, FirstCaribbean required a written confirmation from the Cayman Islands Government that they will not guarantee any future obligations of the Water Authority without their written consent. The government shall also retain full legal and beneficial ownership of the whole issued share capital of the Water Authority at all times and total of all dividends and other capital withdrawals shall not be made to the detriment of the authority's full debt service obligations.

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

In April 2003 FirstCaribbean International Bank and the Authority amended the Deed of Agreement dated December 29, 2000 and agreed to syndicate 113rd of the credit facility to Scotiabank (Cayman Islands) Ltd.. This agreement would allow FCIB and Scotiabank to hold a maximum loan balance of US\$ 11,466,667 and US\$ 5,733,333 respectively. At 30 June 2008, 80% (US\$ 8,099,641) of the loan balance was held with FCrn and 20% (US\$ 2,033,288) with Scotiabank.

- (iii) In November 2006, Government gave approval for the Water Authority to enter into a credit agreement for the financing of the extension to the Administration Building and future capital projects. The loan agreement was approved by First Caribbean on the 29th of May 2006.

FirstCaribbean approved a credit facility D of US\$ 3,000,000 for the extension to the Water Authority Administration Building at 13G Red Gate Road.. The loan is provided at an interest rate of London Interbank Offered Rate (LIBOR) plus 0.9% per annum. The availability period was 1 July 2006 to 30 June 2007 during which the loan was carried on an interest only basis payable monthly in arrears. At the end of the availability period a monthly blended payment of US\$ 26,500 over 14 years is payable. FirstCaribbean presently holds a Registered First Charge over the property.

Water Authority of the Cayman Islands  
Notes to the Financial Statements  
For the Year Ended 30<sup>th</sup> June 2008  
(Stated in Cayman Island Dollars)

6. Long Term Liabilities (continued)

As part of that same agreement, the Authority finalized negotiations with FCIB to secure financing for future capital projects. The loan agreement outlined two additional credit facilities:

- (i) Credit facility E for an amount of US\$ 4,500,000 to finance capital projects for the period 1 July 2006 - 30 June 2007;
- (ii) Credit facility F, in the amount of US\$ 8,600,000 to finance capital projects for the period 1 July 2007 to 30 June 2008

These two credit facilities (E and F) have been updated twice since, the first on 1<sup>st</sup> December 2006 to extend the availability period to 31 December 2007 and 31 December 2008 respectively, and the second on the 15 February 2008 whereby Credit Facility E was cancelled and Credit Facility F further extended to 30 June 2009. During the availability period the loans will be carried on an interest only basis payable monthly in arrears.

As at 30 June 2008 the Authority had not drawn on the available funds.

Credit Facility F carries an interest rate of LIBOR plus 0.9% with repayments of US\$ 76,000 for a period of 15 years.

- b) The Caribbean Development Bank: (CDB) water supply loan was fully repaid during the 2007/08 fiscal period.
- c) (i) The Cayman Islands Government loaned the Authority CIS 4,822,349 for the development of the facilities in Grand Cayman. The loan is interest free and is being repaid in quarterly instalments of CIS 48,223 over a period of twenty-five years which commenced on the 1<sup>st</sup> of April 1995. This loan was increased in February 1997 by CIS 450,000 in exchange for a 1.3-acre parcel of land at Red Gate that was sold to the Water Authority by the Cayman Islands Government for the purpose of constructing the Administration Building. The increased portion of the loan was formalised on 27<sup>th</sup> December 2001. It is interest free and is being repaid by an initial instalment of CIS 90,000 and annual instalments thereafter of CIS 18,000 over a period of 20 years.
- (ii) The Cayman Islands Government loaned the Authority CIS 1,053,000 for the development of the facilities in Cayman Brae. The loan attracts interest at a fixed rate of 8% per annum and is repayable in quarterly instalments of CIS 17,550 over a period of 15 years which commenced on the 1<sup>st</sup> of April 1995.
- d) (i) The Water Authority contracted with Ocean Conversion (Cayman) Ltd. ("OCL") on the 17<sup>th</sup> of June 1997 to provide and operate a reverse osmosis seawater desalination plant at Lower Valley, Grand Cayman under a lease purchase and operating agreement. The plant was completed in March 1998 and is financed at a fixed interest rate of 5% per annum. Under the terms of the agreement, the Authority commenced payments to OCL in April 1998, making monthly payments of US\$ 17,325 and CIS 6,998 for a duration of seven years.

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

Water Authority of the Cayman Islands  
Notes to the Financial Statements  
For the Year Ended 30<sup>th</sup> June 2008  
(Stated in Cayman Island Dollars)

6. Long Term Liabilities (continued)

On the 1<sup>st</sup> of August 2005 the Authority signed a contract with OCL to expand the Lower Valley Reverse Osmosis Plant to a production capacity of 4,000 cubic meters per day. The cost of the expansion to the Authority was CIS 749,174, plus additional monthly operating fees. The plant expansion was completed in January of 2006. Under the terms of the agreement, the Authority commenced payments to OCL in February of 2006, making monthly payments of US\$ 9,591 and CIS 2,572 for duration of seven years.

- (ii) On 26<sup>th</sup> October 2001 the Authority signed a contract with OCL to construct the North Sound (previously referred to as expansion of the Red Gate Reverse Osmosis Plant) Reverse Osmosis plant on the Red Gate site with a production capacity of 3,000 cubic meters per day. The cost to the Authority was CIS 2,612,006, plus additional monthly operating fees. The plant was completed in November of 2002. Under the terms of the agreement, the Authority commenced payments to OCL in November of 2002, making monthly payments of US\$ 21,750 and CIS 12,917 for duration of seven years

On 5<sup>th</sup> January 2007 the Authority signed a contract with OCL to expand the North Sound Reverse Osmosis Plant from a production capacity of 3,000 to 6,000 cubic meters per day. The cost of the expansion to the Authority was US\$ 1,302,705 and CIS 362,746, plus monthly operating fees. The plant expansion was completed in March 2007. Under the terms of the agreement, the Authority commenced payments to OCL in April 2007, making monthly payments of US\$ 18,412 and CIS 5,127 for duration of seven years.

OCL holds the Lower Valley and North Sound buildings and the plant and equipment comprising the seawater desalination plant as collateral for the loans as described above.

e) Overdraft Facility CI\$500,000

The Authority has arranged an overdraft facility at prime rate plus 0.5% interest per annum with First Caribbean International Bank: in the amount of CI\$500,000. At 30 June 2008 \$nil (2007: \$nil) of the overdraft facility was being utilized.

7. Contributed Capital

Contributed capital of \$ 1,085,223 (2007: \$1,085,223) represents funds received from private individuals to fund capital work that was completed by the Water Authority. The relevant costs have been capitalised as water and sewerage works (see Note 5).

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 Government during the twelve month period of \$ 300,799 (2007: \$ 411,255).
2. The Authority recognized contributions to Government relating to the year ended 30 June 2008 of \$ 50,000 (2007: \$ 50,000).
3. Government Contribution Payable \$ 50,000 (2007: \$ nil).

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8. Related Party Transactions (continued)

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

As detailed in Note 9 the Authority and its eligible employees paid contributions to the Public Service Pensions Fund during the year.

9. Pensions

*a) Defined Benefit Plan*

The Public Services Pension Plan is managed by Government through the Public Services Pension Board. The Board is responsible for among other things, administering The Public Service Pensions Fund (the "Fund"), communicating with plan participants and employers, prescribing contribution rates in accordance with the latest actuarial valuation and recommending amendments to the Public Service Pensions Plan (the "Plan") as needed.

In March 2005, the Financial Secretary of the Government of the Cayman Islands informed the Authority that the decision to keep the unfunded past service liability a central liability of the Government has now been reversed and the Authority is expected to recognize 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 2006 (dated 14 March 2008), 30 June 2005 (dated 9 November 2007) and 1 July 2004 (dated 31 July 2007) 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.

The actuarial position is as follows:

	As at 30 June 2006	As at 30 June 2005	As at 1 July 2004
	\$	\$	\$
Net Present Value of Funded Obligation, beginning of year	2,210,000	2,872,000	2,139,000
Fair Value of Plan Assets	1,543,000	1,774,000	1,566,000
Defined Benefit Liability	(667,000)	(1,098,000)	(573,000)
Unrecognised Past Service Cost			
Unrecognised Actuarial Net Gains/(Losses)	(41,000)	488,000	
Net Liability in Balance Sheet, end of year	(708,000)	(610,000)	(573,000)

No valuation was done as at 30 June 2008 and thus the amount recognized as a Past Service Pension Liability on the Balance Sheet is \$708,000, which reflects the actuarial position as at 30 June 2006.



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## 9. Pensions (continued)

The movement in the present value of the funded obligation was as follows:

	30 .June 2006	30 .June 2005
	\$000	\$000
Defined Benefit Obligation, beginning of year	2,872	2,139
Current Service Cost	108	81
Interest Cost	149	137
Plan Participant Contributions	45	57
Net Actuarial (Gain)/Loss on obligations	(505)	458
Transfers between other participating Entities	(459)	
Defined Benefit Obligation, end of year	2,210	2,872

The movement in the fair value of the plan assets during the year was as follows:

	30 June 2006	30 June 2005
	\$000	\$000
At the beginning of year	1,774	1,566
Employer & Participant Contributions	92	124
Expected Return on Assets net of Expense	127	114
Actuarial Gain/(Loss) on plan assets	9	(30)
Transfers between other participating Entities	(459)	
At the end of year	1,533	1,784

Reconciliation showing movement of past service liability during the period:

	\$
Balance as at 31 December 2001	148,463
Plus: Reconciliation of PSL 2004	424,537
Plus: Reconciliation of PSL 2005	37,000
Plus: Reconciliation of PSL 2006	<u>98,000</u>
Balance as at 30 June 2006	<u>708,000</u>

Actuarial Determination of Pension Expense as at:

	30 June 2007	30 .June 2006
	\$000	\$000
Current Service Cost, net of employee contributions	114	108
Interest Cost	138	149
Expected Return on Assets	(111)	(127)
Recognition of Net (Gain)/Loss		15
Pension Expense	141	145

The total amount recognised as a pension expense during 20087 was \$43,557 (2007: \$47,572), which is included as Administrative Expenses (Staff Training and Benefits) on the Statement of Expenses. The actual amount of pension expense relating to the defined benefits for staff should also include the effect of the changes in the actuarial determined liability. However, since the most current valuation is as at 30 June 2006, management has not estimated the impact on the recorded expense for the year ended 30 June 2008.

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9. Pensions (continued)

The Distribution of the Plan Assets based on the share of the total Fund allocated to the Authority was as follows:

	30 June 2006	30 June 2005	1 July 2004
Global Equities	58.7%	47.8%	25.3%
US Equities	0.0%	0.0%	1.2%
Bonds	37.0%	37.9%	46.6%
Other	3.7%	3.8%	3.3%
Cash	0.6%	4.6%	4.1%
Cash Term Deposits	0.0%	5.9%	19.5%

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 2006	30 June 2005	1 July 2004
Discount Rate	6.25%	5.25%	6.50%
Expected long-term rate of return (net of Expense)	7.00%	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)	11.18	12.18	12.18

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

Prescribed Contribution Rates:

An actuarial valuation report was conducted as at 1 January 2005 (dated 16 March 2007) to present the prescribed contribution rates specific to the Authority. The minimum normal annual contribution for the Authority was assessed at 16.56 % for 2007 (13% in 2006), which is inclusive of the employee contributions.

This deficiency position gives rise to a required annual amortization payment of CI\$36,000. The actuary recommends that the Authority contributes at a prescribed rate of 21.57% of defined pensionable earnings for the year 2005 and subsequent years until the next actuarial assessment is conducted.

*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 2007-08 the Authority and its employees paid 5% and 5% respectively of salary contributions. The current number of employees enrolled under the defined benefit plan with the Public Service Pension Fund is 12 (2007: 12) and the total employees enrolled in the defined contribution plan with British Caymanian Pension is 108 (2007: 103).

The total amount recognised as a pension expense for the 12 months ended 30<sup>th</sup> June 2008, inclusive of both the Public Service Pensions Fund and British Caymanian, was \$ 296,183 (2007: \$ 271,538).

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10. Leases

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

11. Commitments

In an agreement with Ocean Conversion Limited (OCL) (previously called Reliable Water Cayman Ltd.) in 1989, the Authority agreed to pay a monthly fee and a quantity fee based on quantity of water delivered to the Authority. In November 2001 a seven year extension was signed to this license in accordance with section 14 of the agreement, which expires in November 2008. The monthly fee payable to OCL is US\$14,476 and is charged as a water expense. On completion of the seven year extension, the Plant shall become the property of the Authority without any further payment. However, management expect at this time the Plant will have to be refurbished to continue to produce water efficiently and at a high quality of standard.

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 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 2008 \$1,037,930 (2007: 967,357), which is 41% and 40% 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 balance sheet at 30 June 2008 and 2007 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. At 30 June 2008 the Authority had \$7.2million credit facility available from FCrn, details of which are outlined in Note 6a iii.

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13. Financial Instrument

*Fair values.* As at 30 June 2008 and 2007, 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. Insurance Settlement

During the construction of the Wastewater Treatment Plant (WWTP) it was identified that the design of the Sequencing Batch Reactor (SBR) Basin structure contained some deficiencies. A settlement was reached early in the 2006/07 fiscal period whereby Globaltech, the design consultants and DPIC Companies, Inc., their insurance company, compensated the Water Authority - Cayman US\$ 327,235 (CI\$ 284,361) in full and final settlement of the claim.