



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



**New Trenchers for North Side Water Supply Project 2006**

# **ANNUAL REPORT**

**For the 2006/07 Financial Year**



**OWNERSHIP AGREEMENT  
ANNUAL REPORT**

**For**

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

***For the 2006/07 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 2007.

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 2006/07, 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 2006/07 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 2, 3 & 4 on North Side West to Grape Tree Point and phases 1 & 2 on Queen's highway from Old Man Bay to Old Robin Road at a combined cost of \$1.3 million.

During the course of the year the Authority sold 3.1 million m<sup>3</sup> of water (2006: 2.7 million m<sup>3</sup>) and processed 2.5 million m<sup>3</sup> of wastewater (2006: 2.2 million m<sup>3</sup>) in Grand Cayman.

Throughout the fiscal period, and in an ongoing quest to protect and develop the groundwater resources, the Authority responded to the Office of the Complaints Commissioner with respect to the discharge permit from Boatswain's Beach, 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 \$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 2006/7 financial year were as follows:

- Continue work on the North Side Water Works
- Commence development of water production plant to service the North Side
- Initiate comprehensive review of the water / sewer rates
- Commence construction of expanded administrative offices, to be located at the Red Gate site

#### Achievement during the Year

Throughout 2006/07 the Authority continued to prepare the North Side site for development by erecting a 6' high security gate at the entrance to the property, engaging a consultant to provide electrical design drawings for the construction of a pumping station, and using in house resources to provide the architectural drawings for the pumping station, post treatment building, and pipe storage rack. The contract to construct these three buildings was subsequently awarded to CMEC (Construction Management Engineering Co. Ltd) in April 2007 at a total cost of \$0.6 million. Due to various delays CMEC commenced work on the project in January 2008.

The Authority drafted the tender documents for the Water Production Plant at the North Side site to service the Eastern districts in the third quarter of 2006/07 with a 9,000m<sup>3</sup> / day production capacity, which is an increase from the original 3,000 m<sup>3</sup> / day to account for updated growth expectations. The budgeted cost increased from \$3.5 million to \$7.6 million as a result of the necessary change.

The Authority prepared an "Expression of Interest" document in late 2006/07 in regards to the Cost of Service and Rate Design project that the Authority wishes to undertake, thereby meeting the objective to initiate the project.

In July 2006 the contract for the construction of the expanded Administrative office was awarded to Unit Construction at a cost of \$2.4 million with an original completion date of February 2007, later adjusted to May 2007. Unit Construction commenced construction in July of 2006.

### 4. Ownership Performance Targets

#### Financial Performance

Financial Performance Measure	2006/7 Actual \$	2006/7 Budget (May 2005) \$	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	22,944,501	19,468,285	3,476,216
Surplus/deficit from outputs	6,869,554	2,228,894	4,640,660
Other expenses	19,462,821	17,239,392	2,223,429
Net Surplus/Deficit	3,481,680	2,228,894	1,252,786
Total Assets	67,014,201	70,605,698	(3,591,497)

Total Liabilities	23,158,741	29,837,280	(6,678,539)
Net Worth	43,855,460	40,768,418	3,087,042
Cash flows from operating activities	7,141,041	4,132,225	3,008,816
Cash flows from investing activities	(7,585,218)	(9,715,000)	2,129,782
Cash flows from financing activities	1,871,434	5,418,802	(3,547,368)
Change in cash balances	1,427,257	(163,973)	1,260,274

Financial Performance Ratio	2006/7 Actual	2006/7 Budget (May 2005)	Annual Variance
Current Assets: Current Liabilities	1.08	0.47	0.61
Total Assets: Total Liabilities	2.89	2.60	0.29

#### Explanation of Variances

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

The original Revenue figures were prepared in May 2005 and were a conservative reflection of the market conditions, subsequent budget revisions showed an expected revenue figure of \$22 million, which is more in line with the actual 2006/07 figures. The Authority experienced a strong growth rate over 2005/06 (7%) and continues to benefit from economic growth on the island.

An increased Net Surplus is within expectation given the stronger than expected sales figures.

During the course of the 2006/07 budget process the Authority had planned to borrow over \$9.0 million in Long Term Debt, however only 43% of this planned borrowing took place, with Proceeds of Long Term Debt reduced to \$3.9 million. Reduced external debt supports a decrease in Long Term Liabilities and the associated Assets. Total assets did not increase as much as originally expected; with several budgeted projects (i.e., Effluent Treatment & Sewerage System Extension) which did not take place. The Authority's original plan to complete these projects was ambitious considering the limited available resources (both internal and external). A Ten Year Capital Development plan is an integral part of the operations and included / updated with each budget submission, taking into consideration cash flow, country expectations and available resources. This document is dynamic and it is necessary for the Authority to continuously adjust priority projects to ensure compliance with the Mission Statement.

With an increased revenue stream, strong cash management, prioritization of projects to complete, minimal proceeds from long term debt and 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 without the 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 2006/07 fiscal period, as presented in the 2006/07 Ownership Agreement are taken from the 2006/07 original budget, produced in May 2005. 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**

<b>Human Capital Measures</b>	<b>2006/7 Actual</b>	<b>2006/7 Budget (May 2005)</b>	<b>Annual Variance</b>
Total full time equivalent staff	115	105	10
Staff turnover (%) Monthly Turnover Rate Calculation = # of Separations during the month / # of employees during the month * 100	13%	4%	9%
Average length of service (In Years) Senior Management Professional Staff Administrative / Field Staff	9 Years 4 Years 6 Years	10 Years 7 Years 5 Years	(1 Year) (3 Years) 1 Year
Significant changes to personnel management system	No projected software upgrades	No projected software upgrades	N/A

<b>Physical Capital Measures</b>	<b>2006/7 Actual</b>	<b>2006/7 Budget (May 2005)</b>	<b>Annual Variance</b>
Value of total assets (NBV of Fixed Assets, inclusive of CIP)	\$60,159,955	\$70,605,696	\$(10,445,741)
Asset replacements: total assets (Fixed Assets Purchased during the year / Total value of Assets)	11.6%	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)	73.1%	Not provided in original submission	N/A
Depreciation: Cash flow on asset purchases (Annual Depreciation / Cost of Fixed Assets Purchased)	29.9%	Not provided in original submission	N/A
Changes to asset management policies	None	None	N/A

<b>Major Capital Expenditure Projects (amount spent to 30 June 2007)</b>	<b>2006/7 Actual \$</b>	<b>2006/7 Budget (May 2005) \$</b>	<b>Annual Variance \$</b>
Office Building	2,451,002	2,100,000	351,002
Spent prior to 2006/07	89,256	Nil	89,256
Spent in 2006/07	2,361,746	2,100,000	261,746
North Side Water Works – Production and Pumping Facilities	281,174	2,600,000	(2,318,826)
North Side Water Supply Extension	2,439,810	1,530,000	909,810
Spent in 2005/06	831,663	765,000	66,663
Spent in 2006/07	1,608,147	765,000	843,147

## Risk Management

Key risks	Status of Risk	Actions taken during 2006/7 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:*

The original budget figure was conservative and the Authority recruited aggressively to fill essential positions.

The turnover rate is significantly higher than originally estimated, primarily as a result to of a change in calculation methodology. The estimate was calculated using the budgeted change in employees at year end, however the calculation provided takes the number of separations on a monthly basis, rather than offsetting these departures against new arrivals.

#### *Major Capital Expenditure Projects:*

*Office Building* - In May 2005 the Administration building was originally estimated to cost approximately \$2.1 million dollars, an estimate which was later updated in the revised budget (March 2006) to a figure of \$2.4 million dollars, taking into consideration the increased elevation of the structure and the significant rise in world material prices. The final cost of the building is in line with the revised estimate as produced in March 2006.

*North Side Water Works Production and Pumping Facility* - The Authority made significant progress on the North Side Water Works Production and Pumping Facility and was able to award the contract for construction of the facilities to CMEC for \$0.7 million, however work on the project did not commence until January 2008 and therefore payment was not made in the 2006/07 fiscal period.

*North Side Water Supply Extension* – A second pipe laying crew was established in October 2006, to assist with the Authority's objective to extend the water distribution system throughout the islands. The budgeted figure as presented in the 2006/07 Ownership Agreement were presented based on the May 2005 estimates, an estimate that was subsequently increased to \$1.5 million in March 2006. Based on the updated figures, the Authority is in line with expected expenditure.

*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 The Authority is provided in the Appendix to this Ownership Agreement.

A summary of those is as follows.

Operating Statement	2006/7 Actual \$	2006/7 Budget \$	Annual Variance \$
Revenue	22,944,501	19,468,285	3,476,216
Operating Expenses	19,462,821	17,239,392	2,223,429
<i>Net Surplus/Deficit</i>	3,481,680	2,228,894	1,252,787

Balance Sheet	2006/7 Actual \$	2006/7 Budget \$	Annual Variance \$
Assets	67,014,201	70,605,698	(3,591,497)
Liabilities	23,158,741	29,837,280	(6,678,539)
<i>Net Worth</i>	43,855,460	40,768,418	3,087,041

Statement of Cash Flows	2006/7 Actual \$	2006/7 Budget \$	Annual Variance \$
Net cash flows from operating activities	7,141,041	4,132,225	3,008,816
Net cash flows from investing activities	(7,585,218)	(9,715,000)	2,129,782
Net cash flows from financing activities	1,871,434	5,418,802	(3,547,364)

### Explanation of Variances

#### *Operating Income:*

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

## 6. Other Financial Information

Detailed below is information about specific financial transaction required to be included in the Ownership Agreement by the Public Management and Finance Law (2005 Revision).

Transaction	2006/7 Actual \$	2006/7 Budget \$	Annual Variance \$
Equity Investments into The Water Authority of the Cayman Islands	Nil	Nil	N/A
Capital Withdrawals from The Water Authority of the Cayman Islands	Nil	Nil	N/A
Dividend or Profit Distributions to be made by The Water Authority of the Cayman Islands	\$50,000	\$50,000	\$ -
Government Loans to be made to The Water Authority of the Cayman Islands	Nil	Nil	N/A

Government Guarantees to be issued in relation to The Water Authority of the Cayman Islands	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	\$794,313	\$770,000	\$24,313
Remuneration Payments made to Senior Management	Same as Above	Same as Above	Same as Above

	2006/7 Actual	2006/7 Budget
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, this amount is drafted by Management, approved by the Board and submitted to Treasury. It is therefore reasonable that there is no variance in this number.

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 slightly higher than originally estimated (3%) and within expectation so no further analysis was performed.

\*\*\*\*\*

**Agreement**

We jointly agree that this Ownership Agreement accurately documents the ownership performance that the Water Authority of the Cayman Islands achieved for the 2006/07 financial year.

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

  
**Chairman of the Board**  
Mr. Brainard Walter, JP  
Date: 17 December 2008

<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)

**THE WATER AUTHORITY OF THE CAYMAN ISLANDS  
STATEMENT OF COMMITMENTS  
FOR THE YEAR ENDING 30 JUNE 2007**

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

**THE WATER AUTHORITY OF THE CAYMAN ISLANDS  
STATEMENT OF CONTINGENT LIABILITIES  
FOR THE YEAR ENDING 30 JUNE 2007**

**Summary of Quantifiable Contingent Liabilities**

	\$000
<b>Legal Proceedings and Disputes</b>	
None	n/a
None	n/a
<b>Total Legal Proceedings and Disputes</b>	n/a
<b>Other Contingent Liabilities</b>	
None	n/a
None	n/a
<b>Total Other Contingent Liabilities</b>	n/a

**Summary of Non-Quantifiable Contingent Liabilities**

None  
None

The Water Authority does not have any quantifiable Contingent Liabilities @ 30 June 2007; 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 2007**

*The Ministry of Communications, Works and Infrastructure*

**THE WATER AUTHORITY  
OF THE CAYMAN ISLANDS**

**FINANCIAL STATEMENTS  
For the Year Ended 30 June 2007**

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**Water Authority of the Cayman Islands  
Financial Statements  
30 June 2007**

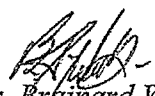
**STATEMENT OF RESPONSIBILITY FOR FINANCIAL STATEMENTS**

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.

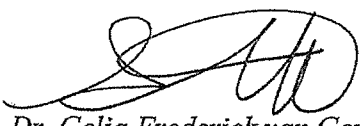
We accept responsibility for the accuracy and integrity of the financial information in these financial statements and their compliance with the Public Management and Finance Law, (2005 Revision).

To the best of my knowledge the statements are:

- (a) complete and reliable;
- (b) fairly reflect the financial position as at 30 June 2007 and performance for the financial year ended 30 June 2007; and
- (c) comply with generally accepted accounting practice.

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

Date: *Oct. 9, 2008*

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

Date: *Oct. 9, 2008*



*Cayman Islands*

*Water Authority of the Cayman Islands*

## **CERTIFICATE OF THE 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 2007, 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. 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 as of the date of incorporation. The Authority however is not able to quantify the liability as at 30 June 2007 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 2007, 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 \$1,305,000 (2006: \$850,000) to produce.



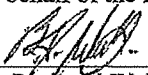
Dan Duguay, MBA, FCGA  
Auditor General

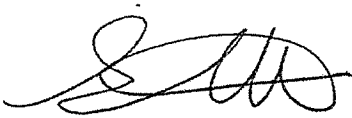
Cayman Islands  
9 October 2008

**Water Authority of the Cayman Islands**  
**Balance Sheets**  
As at 30<sup>th</sup> June 2007  
(Stated in Cayman Islands Dollars)

<b>CURRENT ASSETS</b>	<b>NOTES</b>	<b>2007</b>	<b>2006</b>
Cash on Hand		\$ 2,800	\$ 2,300
Cash at Bank		2,899,577	1,472,820
<b>Total Cash and Cash Equivalents</b>		<b>2,902,377</b>	<b>1,475,120</b>
Accounts Receivable	3	2,668,344	2,718,412
Inventory	4	805,881	653,425
Prepaid Expenses		477,647	912,556
<b>Total Current Assets</b>		<b>6,854,249</b>	<b>5,759,513</b>
<b>CURRENT LIABILITIES</b>			
Accounts Payable		1,389,509	1,072,425
Interest Payable		66,360	976
Past Service Pension Liability	9	708,000	148,463
Contract Retention Payable		260,619	3,412
Customer Deposits		967,357	880,357
Current Maturities on Long Term Liabilities	6	2,970,384	2,169,557
<b>Total Current Liabilities</b>		<b>6,362,229</b>	<b>4,275,190</b>
<b>NET CURRENT ASSETS</b>		<b>492,020</b>	<b>1,484,323</b>
<b>FIXED ASSETS</b>			
Land – Freehold		3,319,598	3,319,599
Buildings		2,327,575	2,382,340
Water Supply System		28,958,549	24,959,220
Sewerage System		20,394,492	20,259,029
Other Assets		1,882,544	1,669,137
Construction in Progress		3,277,194	2,185,397
<b>Total Fixed Assets</b>	5	<b>60,159,952</b>	<b>54,774,722</b>
<b>TOTAL NET ASSETS</b>		60,651,972	56,259,045
<b>LONG TERM LIABILITIES</b>	6	(16,796,512)	(15,835,265)
<b>NET ASSETS</b>		<b>43,855,460</b>	<b>40,423,780</b>
<b>EQUITY REPRESENTED BY:</b>			
Contributed Capital	7	1,085,223	1,085,223
Retained Earnings		42,770,237	39,338,557
<b>Total Equity</b>		<b>\$ 43,855,460</b>	<b>\$ 40,423,780</b>

On behalf of the Board on the 9<sup>th</sup> of Oct 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 2007  
(Stated in Cayman Islands Dollars)

<b>INCOME</b>	<u>Notes</u>	<u>2007</u>	<u>2006</u>
Gross Operating Revenue		\$ 21,662,265	\$ 20,366,248
Less: Operating Expenses		(14,792,711)	(13,263,634)
<b>Gross Operating Surplus for the Year</b>		<u>6,869,554</u>	<u>7,102,614</u>
Sundry Income		1,282,236	1,081,143
<b>Operating Surplus for Year</b>		<u>8,151,790</u>	<u>8,183,757</u>
<b>OTHER REVENUE / (EXPENSES)</b>			
Administrative Expenses		(4,394,934)	(3,805,159)
Insurance Settlement – WWTP	14	284,361	-
Hurricane Revenue (net of interim settlement)	13	-	605,382
Past Service Pension Expense	9	(559,537)	-
<b>Net Income for Year</b>		<u>3,481,680</u>	<u>4,983,980</u>
<b>Retained Earnings at the Beginning of the Year</b>		<u>39,338,557</u>	<u>34,404,577</u>
<b>Retained Earnings Before Contribution to Government</b>		42,820,237	39,388,557
Contribution to Government	8	(50,000)	(50,000)
<b>Retained Earnings at End of Year</b>		<u>\$ 42,770,237</u>	<u>\$ 39,338,557</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 2007  
(Stated in Cayman Islands Dollars)

	<u>2007</u>	<u>2006</u>
<b>OPERATING REVENUE</b>		
Water Sales	\$ 18,158,275	\$ 17,071,449
Sewerage Fees	2,923,234	2,793,920
Connection and Miscellaneous Fees	376,864	360,912
Septage Disposal	132,447	113,991
Agency Work	71,445	25,976
<b>Total Operating Revenue</b>	<u>21,662,265</u>	<u>20,366,248</u>
<b>SUNDRY INCOME</b>		
Royalties	1,145,400	998,624
Other	114,451	72,128
Statutory Licencing Fees	22,385	10,391
<b>Total Sundry Income</b>	<u>1,282,236</u>	<u>1,081,143</u>
<b>TOTAL REVENUE</b>	<u>\$ 22,944,501</u>	<u>\$ 21,447,391</u>

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 2007  
(Stated in Cayman Islands Dollars)

<b>OPERATING EXPENSES</b>	<b>NOTES</b>	<b>2007</b>	<b>2006</b>
Water Purchases		\$ 6,109,291	\$ 5,694,446
Depreciation Expense	5	2,121,451	1,897,716
Salaries		1,903,986	1,624,394
Wages		1,267,879	1,138,750
Repairs and Maintenance		928,016	693,267
Loan Interest		803,497	690,033
Supplies		792,687	533,801
Electricity		758,123	707,516
Miscellaneous		86,336	271,376
Land Lease Expense	10	12,335	12,335
Obsolete Inventory		9,110	-
<b>Total Operating Expenses</b>		<b>14,792,711</b>	<b>13,263,634</b>
<b>ADMINISTRATIVE EXPENSES</b>			
Salaries		1,458,132	1,328,408
Staff Training and Benefits		1,020,283	964,104
Insurance		642,325	559,920
Telephone and Utilities		282,625	231,967
Miscellaneous		247,775	192,222
Depreciation Expense	5	172,084	136,350
Licenses and Dues		125,664	78,390
Information Systems		106,875	65,968
Repairs and Maintenance		85,798	52,164
Office and Lab Supplies		87,192	77,091
Loan Interest		51,240	45,917
Audit Fees		46,711	33,000
Bad Debt Expense		32,000	25,000
Legal Fees		31,154	9,926
Office Rental		5,076	4,732
<b>Total Administrative Expenses</b>		<b>4,394,934</b>	<b>3,805,159</b>
<b>TOTAL OPERATING AND ADMINISTRATIVE EXPENSES</b>		<b>\$ 19,187,645</b>	<b>\$ 17,068,793</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 2007**  
**(Stated in Cayman Islands Dollars)**

	<u>2007</u>	<u>2006</u>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net Income for Year	\$ 3,481,680	\$ 4,983,980
Adjustments to Reconcile Net Income to Net Cash Provided by:		
Operating Activities		
Depreciation	2,293,536	2,034,066
Interest Earned	(93,551)	-
Interest Expense	854,737	735,950
	<u>6,536,402</u>	<u>7,753,996</u>
Net Change in Working Capital		
Interest Paid	(789,352)	(736,444)
Accounts Receivable	50,067	(538,023)
Inventory	(152,456)	(17,091)
Prepaid Expense	434,910	(837,101)
Accounts Payable	157,726	(383,899)
Contract Retention Payable	257,207	(633,463)
Past Service Pension Liability	559,537	-
Customer Deposits	87,000	81,730
Customer Deposits on Construction Contracts	-	(23,327)
<b>Net Cash Provided by Operating Activities</b>	<u>7,141,041</u>	<u>4,666,378</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Cost of Fixed Assets Purchased	(6,586,971)	(3,371,729)
Interest Received	93,551	-
Construction in Progress	(1,091,798)	(1,898,119)
<b>Net Cash Used by Investing Activities</b>	<u>(7,585,218)</u>	<u>(5,269,848)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds of Long Term debt	3,872,005	1,400,425
Repayment of Long Term Debt	(2,109,931)	(1,540,430)
Loans Payable	159,360	(91,938)
Contribution to Government	(50,000)	(425,000)
<b>Net Cash Used by Financing Activities</b>	<u>1,871,434</u>	<u>(656,943)</u>
Net (Decrease)/Increase in Cash and Cash Equivalents During the Year	1,427,257	(1,260,413)
Cash and Cash Equivalents at the Beginning of the Year	1,475,120	2,735,533
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 2,902,377</u>	<u>\$ 1,475,120</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 2007**  
(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 2007, the Water Authority had 115 employees (30 June 2006: 103 employees). The Water Authority is located at 13 G 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 2007  
(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 2007**  
(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 2007**  
**(Stated in Cayman Island Dollars)**

**3. Accounts Receivable**

	<u>2007</u>	<u>2006</u>
Trade Receivables	\$ 2,946,257	\$ 2,993,044
Non Trade Receivables	243,380	230,442
Provision for Bad Debts	(521,293)	(505,074)
	\$ 2,668,344	\$ 2,718,412

**4. Inventory**

	<u>2007</u>	<u>2006</u>
Water Supply and Sewerage Materials	\$ 768,122	\$ 607,607
Water Inventory	46,870	46,870
Provision for Obsolete Inventory	(9,111)	(1,052)
	\$ 805,881	\$ 653,425

**5. Fixed Assets**

	Freehold Land	Buildings	Water Supply	Sewerage	Other Assets	Construction In Progress	Total
At 30 June 2006	\$ 3,319,599	\$ 2,738,211	\$ 34,148,227	\$ 25,854,220	\$ 4,990,652	\$ 2,185,397	\$ 73,236,306
Additions	-	-	1,450,505	5,413	690,777	5,629,687	7,776,382
Disposals	-	-	-	-	-	-	-
Transfers between fixed assets	-	-	3,663,223	874,667	-	(4,537,890)	-
	3,319,599	2,738,211	39,261,955	26,734,300	5,681,429	3,277,194	81,012,688
At 30 June 2007							
<b>Accumulated Depreciation</b>							
At 30 June 2006	-	355,871	9,189,007	5,595,191	3,321,515	-	18,461,584
Charge for Year	-	54,764	1,114,399	744,615	379,757	-	2,293,535
Disposals	-	-	-	-	-	-	-
Capitalized during construction	-	-	-	-	97,617	-	97,617
	-	410,635	10,303,406	6,339,806	3,798,889	-	20,852,736
At 30 June 2007							
<b>Net Book Value</b>							
At 30 June 2006	\$ 3,319,599	\$ 2,382,340	\$ 24,959,220	\$ 20,259,029	\$ 1,669,137	\$ 2,185,397	\$ 54,774,722
At 30 June 2007	\$ 3,319,599	\$ 2,327,576	\$ 28,958,549	\$ 20,394,494	\$ 1,882,540	\$ 3,277,194	\$ 60,159,952

**Water Authority of the Cayman Islands**  
**Notes to the Financial Statements**  
**For the Year Ended 30<sup>th</sup> June 2007**  
(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:

	<u>2007</u>	<u>2006</u>
1. Extension to existing Administration Building	2,451,002	89,257
2. North Side water supply extension	381,920	72,834
3. North Side Water Works Site Preparation	281,174	216,597
4. WWTP Retaining Wall and Fence	106,964	-
5. Red Gate Site – Storm water pump station	23,062	-
6. Water supply extension – Airport	15,406	-
7. Meter Testing Room	14,744	13,152
8. Emergency Generator – Pump Station # 1	2,544	-
9. West Bay Beach – Extension to Renaissance	279	-
10. Pond Sediment Removal Contract	99	-
11. Two 2 million US gallon water storage tanks	-	1,354,507
12. West Bay Beach Pump Rehabilitation – Managed Contract	-	252,665
15. Esterley Tibbetts – Managed Contract	-	105,641
16. Construction of Booster Station at Shamrock Road	-	54,004
18. Modifications to WWTP store room	-	24,115
19. Cayman Brac Reverse Osmosis Plant	-	2,474
20. West Bay Sliplining Project	-	151
	<u>\$ 3,277,194</u>	<u>\$ 2,185,397</u>

**6. Long Term Liabilities****LONG TERM LIABILITIES****(Interest Rate)**

	Current	1-2 yrs	3-5 yrs	5+ yrs	<u>2007</u>	<u>2006</u>
a) First Caribbean International Bank (Cayman) Limited						
(i) Administration Building Loan (6.43%)	104,049	208,098	312,147	88,180	712,474	814,332
(ii) Waste Water Treatment Works Loan						
LIBOR note # 107762 (6.35%)	-	-	501,000	-	501,000	500,000
LIBOR note # 10013845 (6.26%)	1,813,408	3,626,816	4,902,723	-	10,342,947	11,429,517
(iii) New Administration Building Loan (6.26%)	101,110	202,220	303,330	1,814,840	2,421,500	-
b) Caribbean Development Bank Water Supply (6.0%)	19,705	-	-	-	19,705	149,866
c) Cayman Islands Government						
(i) Grand Cayman (0%)	210,894	421,788	632,682	1,433,810	2,699,174	2,910,068
(ii) Cayman Brac (8.0%)	70,200	105,300	-	-	175,500	245,700
d) Ocean Conversion (Cayman) Ltd.						
(i) Lower Valley – Second Expansion (0.41667%)	98,333	212,016	307,114	-	617,463	1,243,813
(ii) North Sound – Original (0%)	372,935	497,247	-	-	870,182	711,526
(iii) North Sound – Expansion (0.41667%)	179,750	387,560	658,915	180,726	1,406,951	-

**Water Authority of the Cayman Islands**  
**Notes to the Financial Statements**  
**For the Year Ended 30<sup>th</sup> June 2007**  
(Stated in Cayman Island Dollars)

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

	2007	2006
Total Long Term Liabilities:	19,766,896	18,004,822
Less Current Maturities:	(2,970,384)	(2,169,557)
	\$ 16,796,512	\$ 15,835,265

- 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 Works 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 1/3rd 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 2007, 77% (US\$ 9,510,818) of the loan balance was held with FCIB and 23% (US\$ 2,875,946) 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 is 1 July 2006 to 30 June 2007 during which the loan will be 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 2007**  
(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 the next two fiscal periods. 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 2007 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 is to be repaid over 15 years at variable interest rates of 5.5% to 7.5%. Repayment commenced on the water supply loan in quarterly instalments in March 1992. The principal repayments currently being made on this loan are approximately US\$ 46,250 each quarter, plus interest.

The CDB loan is in the name of the Cayman Islands Government and is lent to the Water Authority. The Water Authority is responsible for all interest and principal repayments on this loan.

- c)(i) The Cayman Islands Government loaned the Authority CI\$ 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 CI\$ 48,223 over a period of twenty-five years which commenced on the 1st of April 1995. This loan was increased in February 1997 by CI\$ 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 27th December 2001. It is interest free and is being repaid by an initial instalment of CI\$ 90,000 and annual instalments thereafter of CI\$ 18,000 over a period of 20 years.
- (ii) The Cayman Islands Government loaned the Authority CI\$ 1,053,000 for the development of the facilities in Cayman Brac. The loan attracts interest at a fixed rate of 8% per annum and is repayable in quarterly instalments of CI\$ 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 CI\$ 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 CI\$ 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 CI\$ 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 2007**  
(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 CI\$ 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 CI\$ 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 CI\$ 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 CI\$ 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 CI\$ 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 CI\$ 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 2007 \$nil (2006: \$nil) of the overdraft facility was being utilized.

**7. Contributed Capital**

Contributed capital of \$ 1,085,223 (2006: \$ 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 Board of Directors. 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 \$ 411,255 (2006: \$ 436,031).
2. The Authority recognized contributions to Government relating to the year ended 30 June 2007 of \$ 50,000 (2006: \$ 50,000).
3. Government Contribution Payable \$ nil (2006: \$ nil).



**Water Authority of the Cayman Islands**  
**Notes to the Financial Statements**  
**For the Year Ended 30<sup>th</sup> June 2007**  
(Stated in Cayman Island Dollars)

**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	<u>(708,000)</u>	<u>(610,000)</u>	<u>(573,000)</u>

No valuation was done as at 30 June 2007 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	<u>2,210</u>	<u>2,872</u>

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	<u>1,543</u>	<u>1,774</u>

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>

As a result of the past service liability not being fully recognized in the past years due to delays in the actuarial valuations, there was an increase of \$559,537 to the Past Service Pension Liability. This amount was recognized as an expense in the Statement of Net Income & Retained Earnings as at 30 June 2007.

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	<u>141</u>	<u>145</u>

The total amount recognised as a pension expense during 2007 was \$47,572 (2006: \$54,972), 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 2007.

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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 C\$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 2006-07 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 (2006: 15) and the total employees enrolled in the defined contribution plan with British Caymanian Pension is 103 (2006: 88).

The total amount recognised as a pension expense for the 12 months ended 30<sup>th</sup> June 2007, inclusive of both the Public Service Pensions Fund and British Caymanian, was \$ 271,538 (2006: \$ 240,807).

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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 expects at this time the Plant will need refurbishment to continue to produce water efficiently and at a high quality of standard.

**12. Financial Instruments**

Credit risk. Credit risk is the risk that one party to a transaction will fail to discharge an obligation and cause the other party to incur a financial loss. Concentrations of credit risk relate to groups of customers or counterparties that have similar economic or industry characteristics that cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions

Financial assets that potentially subject the Authority to credit risk consist principally of, trade receivables, and other receivables. Credit risk with respect to these receivables is limited because the Authority has a policy in place that is monitored by management on a consistent basis to ensure the timely collection of receivables. Accordingly, the Authority has no significant concentrations of credit risk.

Interest rate price 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.

Interest rate cash flow risk. The Authority also has loans with a local financial institution with a floating interest rate that coincides with the market rate.

Fair values. 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.

**13. Hurricane Ivan**

During the previous fiscal period the Authority showed an income amount of CI\$ 605,383, which is reflective of an income amount of CI\$ 871,274 (CI\$ 927,557 less Professional Loss Management Fee of CI\$ 56,283) and related expenses of CI\$ 265,891.

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**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 –US\$ 327,235 (CIS 284,361) in full and final settlement of the claim.

**15. Corresponding Information**

Certain balances have been reclassified to conform to the current year's financial presentation.

