



The Water Authority of the Cayman Islands



Construction of North Side Reservoir June 2006

ANNUAL REPORT

For the 2005/06 Financial Year



**OWNERSHIP AGREEMENT
ANNUAL REPORT**

For

The Water Authority of the Cayman Islands

For the 2005/06 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 2006.

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 2005/06, 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 2005/06 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 4, 5 & 6 from Botanic Road to Further Road at a cost of \$0.8 million.

During the course of the year the Authority sold 2.7 million m³ of water (2004/05: 2.6 million m³) and processed 2.2 million m³ of wastewater (2004/05: 2.0 million m³) in Grand Cayman.

The Water Resources and Quality Control department continued to monitor the hurricane debris sites, including well drilling and collection of environmental samples to ensure quality of the islands ground water resources. In compliance with the Water Authority Regulations the Water Resources Department reviewed development applications, submitted through the Planning Department.

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, contributing \$50,000 to the government of the Cayman Islands and investing over \$5.3 million in capital infrastructure.

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 2005/06 financial year were as follows:

- Continue work on the North Side Water Works
- Commence development of water production plant to service the district of 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 2005/06 the Authority commenced preparation on the North Side site for development, hiring Scott's Equipment to clear the access road to the property and provide fill, drilled and installed a pilot well (services provided by Industrial Services) and formally engaged Polytron to initiate electrical design drawings for the construction of a pumping station (project to continue into 2006/07), at a total cost of \$177K.

Management at the Authority, under the approval of the Board, made a decision to postpone the review of the water / sewer rates.

During 2005/06 the Authority engaged the services of OBM, APEC Consulting (to complete the architectural and structural design for the new administration building, respectively) at a cost of \$13k.

4. Ownership Performance Targets

Financial Performance

Financial Performance Measure	2005/06 Actual \$	2005/06 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	21,447,391	18,533,786	2,913,605
Surplus/deficit from outputs	7,102,614	6,052,670	1,049,844
Other expenses	16,463,411	16,521,607	(58,196)
Net Surplus/Deficit	4,983,980	2,012,179	2,971,801
Total Assets	60,534,235	62,871,968	(2,337,733)
Total Liabilities	20,110,455	24,232,443	(4,121,988)
Net Worth	40,423,780	38,639,525	1,784,255
Cash flows from operating activities	4,666,378	3,724,677	941,701
Cash flows from investing activities	(5,269,848)	(7,389,468)	2,119,620
Cash flows from financing activities	(656,943)	3,778,774	(4,435,717)
Change in cash balances	(1,260,413)	113,984	(1,374,397)

Financial Performance Ratio	2005/06 Actual	2005/06 Budget (May 2005)	Annual Variance
Current Assets: Current Liabilities	1.35	0.87	0.48
Total Assets: Total Liabilities	3.01	2.6	0.41

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 based on management's estimates at that time. Budget revision figures, as shown in March 2006 showed an expected revenue figure of \$20 million, which is more in line with the actual 2005/06 figures. The Authority experienced a strong growth rate over 2004/05 (17%) 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 2005/06 budget process the Authority had planned to borrow over \$6.3 million in Long Term Debt, however only 23% of this planned borrowing took place, with Proceeds of Long Term Debt reduced to \$1.4 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 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 Statements.

With an increased revenue stream, strong cash management, prioritization of projects to complete, offset by reduced proceeds from long term debt 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 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 2005/06 fiscal period, as presented in the 2005/06 Ownership Agreement are taken from the 2005/06 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

Human Capital Measures	2005/06 Actual	2005/06 Budget	Annual Variance
Total full time equivalent staff	103	110	3
Staff turnover (%) Monthly Turnover Rate Calculation = # of Separations during the month / # of employees during the month * 100	14%	4%	10%
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

Physical Capital Measures	2005/06 Actual	2005/06 Budget (May 2005)	Annual Variance
Value of total assets (NBV of Fixed Assets, inclusive of CIP)	\$54,774,722	\$62,781,968	\$(8,007,246)
Asset replacements: total assets (Fixed Assets Purchased during the year / Total value of Assets)	8.8%	Not included in original submission	N/A
Book value of depreciated assets: initial cost of those assets (NBV of Depreciated assets / initial cost of those assets)	75%	Not Included in original submission	N/A
Depreciation: Cash flow on asset purchases	38.6%	Not Included in originally submission	N/A
Changes to asset management policies	None	None	

Major Capital Expenditure Projects (amount spent to 30 June 2006)	2005/06 Actual \$	2005/06 Budget (May 2005) \$	Annual Variance \$
Office Building	89,255	2,100,000	(2,010,745)
2004/05	77,109	-	77,109
2005/06	12,146	2,100,000	(2,087,854)
North Side Water Works – Production and Pumping Facilities	177,140	2,600,000	(2,422,860)
2004/05	-	-	-
2005/06	177,140	850,000	(2,422,860)
2006/07	N/A	1,750,000	N/A
North Side Water Supply Extension	831,662	1,530,000	(698,338)
2005/06	831,662	765,000	66,662
2006/07	N/A	765,000	N/A
Effluent Treatment	-	2,650,000	(2,650,000)
2005/06	-	-	-
2006/07	N/A	2,650,000	(2,650,000)

Risk Management

Key risks	Status of Risk	Actions taken during 2005/06 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	Limited to value of deductible

Explanation of Variances

Human Capital Measures:

The Authority had originally anticipated that the extension to the Administration Building would be complete during the fiscal period and set the budgeted figures on that, when the building was delayed so were the recruiting drives to fill the vacant / new positions required by the Authority and approved by the Board.

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 2004/05 the Administration building was originally estimated to cost approximately \$1.8 million dollars, an estimate which was later updated to \$2.1 million 2005/06 and later increased in the revised budget (March 2006) to a figure of \$2.4 million dollars, taking into consideration the modifications in design and the significant rise in world material prices. Due to delays in updating the drawings and the tendering process, construction of the new administration building did not start until August of 2006, which explains why the Authority was under budget in 2005/06.

North Side Water Works Production and Pumping Facility - The Authority made significant process on the design of the North Side Water Works site.

North Side Water Supply Extension – The Authority was in line with original estimates on progress to extend the distribution system into the North Side, completing Phases 4,5 & 6 on the North Side, from Botanic Road to Further Road.

Effluent Treatment – The Authority's plan in the third quarter of 2006/07 is to install a brackish water RO (Reverse Osmosis) plant and the associated facilities to treat effluent from the Wastewater Treatment plant for use as irrigation water, the construction of the facility was not scheduled to start in 2005/06.

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	2005/06 Actual \$	2005/06 Budget (May 2005) \$	Annual Variance \$
Revenue	21,447,391	18,533,786	2,913,605
Operating Expenses	16,463,411	16,521,608	(58,197)
<i>Net Surplus/Deficit</i>	4,983,980	2,012,179	2,971,801

Balance Sheet	2005/06 Actual \$	2005/06 Budget (May 2005) \$	Annual Variance \$
Assets	60,534,235	62,871,968	(2,337,733)
Liabilities	20,110,455	24,232,443	(4,121,988)
<i>Net Worth</i>	40,423,780	38,639,525	1,784,255

Statement of Cash Flows	2005/06 Actual \$	2005/06 Budget (May 2005) \$	Annual Variance \$
Net cash flows from operating activities	4,666,378	3,724,677	941,701
Net cash flows from investing activities	(5,269,848)	(7,389,468)	2,119,620
Net cash flows from financing activities	(656,943)	3,778,774	4,435,717

Explanation of Variances

Operating Income:

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).

Transaction	2005/06 Actual \$	2005/06 Budget (May 2005) \$	Annual Variance \$
Equity Investments into Water Authority - Cayman	Nil	Nil	N/A
Capital Withdrawals from Water Authority – Cayman	Nil	Nil	N/A
Dividend or Profit Distributions to be made by Water Authority – Cayman	\$50,000	\$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 ¹	Nil	Nil	N/A
Remuneration ² Payments made to Key Management Personnel	\$739,626	\$740,000	\$374
Remuneration Payments made to Senior Management	Same as Above	Same as Above	Same as Above

	2005/06 Actual (@ 30 June 2006)	2005/06 Budget
No of Key Management Personnel	8	9
No of Senior Management	8	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. The Deputy Director – Operations retired in May 2006, after which he was replaced by the Chief Operations Manager in early July 2006, which is why the Authority only had eight (8) Key Management Personnel at 30 June 2006, however that number jumped very quickly back to nine (9) in early July 2006.

Agreement

We jointly agree that this Ownership Agreement accurately documents the ownership performance that the Water Authority of the Cayman Islands achieved for the 2005/06 financial year.


Hon V Arden McLean, JP
 on behalf of the Cabinet


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

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

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

THE WATER AUTHORITY OF THE CAYMAN ISLANDS

STATEMENT OF COMMITMENTS FOR THE YEAR ENDING 30 JUNE 2006

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

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

THE WATER AUTHORITY OF THE CAYMAN ISLANDS STATEMENT OF CONTINGENT LIABILITIES FOR THE YEAR ENDING 30 JUNE 2006

Summary of Quantifiable Contingent Liabilities

	\$000
Legal Proceedings and Disputes	
Item 1 description	n/a
Item 2 description	n/a
Total Legal Proceedings and Disputes	n/a
Other Contingent Liabilities	
Item 1 description	n/a
Item 2 description	n/a
Total Other Contingent Liabilities	n/a

Summary of Non-Quantifiable Contingent Liabilities

Item 1 description
Item 2 description

The Water Authority does not have any quantifiable Contingent Liabilities @ 30 June 2006, 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 2006

The Ministry of Communications, Works and Infrastructure

THE WATER AUTHORITY
OF THE CAYMAN ISLANDS

FINANCIAL STATEMENTS
For the Year Ended 30 June 2006

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**Water Authority of the Cayman Islands
Financial Statements
30 June 2006**

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 2006 and performance for the financial year ended 30 June 2006; and
- (c) comply with generally accepted accounting practice.



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

Date: 17 Jan. 2007



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

Date: 17 Jan. 2007



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 financial statements of the Water Authority of the Cayman Islands for the year ended 30 June 2006 as set out on pages 5 to 19 in accordance with the provisions of Section 17(1) of the Water Authority Law (1996 Revision), and Section 52(3) of the Public Management and Finance Law (2005 Revision).

Respective Responsibilities of Management and the Auditor General

These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on the financial statements based on my audit.

Basis of Opinion


My examination was made in accordance with International Standards on Auditing which require that I plan and perform my audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As disclosed in Note 9 of the financial statements, pension contributions for eligible employees of the Authority are paid to the Public Services Pension Fund which is administered by the Public Service Pensions Board. Prior to 1 January 2000, the scheme underlying the Fund was a defined benefit scheme. With effect from 1 January 2000, the Fund has both a defined benefit and a defined contribution element. In March 2005, the Honourable Financial Secretary of the Cayman Islands, instructed the Authority to recognize its own portion of the past service pension liability as of the date of incorporation. The Authority however is not able to quantify the liability as a current actuarial valuation has not been done. 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 \$148,463 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 2006, 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 \$850,000 (2005: \$910,000).



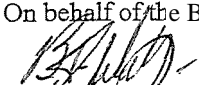
Dan Duguay, MBA, CGA
Auditor General

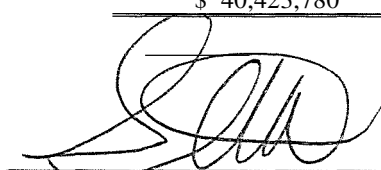
Cayman Islands
17 January 2007

Water Authority of the Cayman Islands
Balance Sheets
As at 30th June 2006
(Stated in Cayman Islands Dollars)

CURRENT ASSETS	<u>NOTES</u>	<u>2006</u>	<u>2005</u>
Cash on Hand		\$ 2,300	\$ 2,200
Cash at Bank		1,472,820	2,733,333
Total Cash and Cash Equivalents		1,475,120	2,735,533
Accounts Receivable	3	2,718,412	2,180,389
Inventory	4	653,425	636,334
Prepaid Expenses		912,556	75,455
Total Current Assets		<u>5,759,513</u>	<u>5,627,711</u>
CURRENT LIABILITIES			
Accounts Payable		1,072,425	1,456,324
Government Contribution Payable	8		375,000
Loans Payable		976	93,408
Past Service Pension Liability	9	148,463	148,463
Contract Retention Payable		3,412	636,875
Customer Deposits		880,357	798,627
Customer Deposits on Construction Contract			23,327
Current Maturities on Long Term Liabilities	6	2,169,557	1,573,018
Total Current Liabilities		<u>4,275,190</u>	<u>5,105,042</u>
:NET CURRENT ASSETS		<u>1,484,323</u>	<u>522,669</u>
FIXED ASSETS			
Land - Freehold		3,319,599	3,319,599
Buildings		2,382,340	2,437,103
Water Supply System		24,959,220	23,772,758
Sewerage System		20,259,029	20,796,404
Other Assets		1,669,137	925,798
Construction in Progress		2,185,397	287,278
Total Fixed Assets	5	<u>54,774,722</u>	<u>51,538,940</u>
TOTAL NET ASSETS		56,259,045	52,061,609
LONG TERM LIABILITIES	6	(15,835,265)	(16,571,809)
NET ASSETS		<u>40,423,780</u>	<u>35,489,800</u>
EQUITY REPRESENTED BY:			
Contributed Capital	7	1,085,223	1,085,223
Retained Earnings		39,338,557	34,404,577
Total Equity		<u>\$ 40,423,780</u>	<u>\$ 35,489,800</u>

On behalf of the Board on the 17 of Jun. 2007


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 30th June 2006
(Stated in Cayman Islands Dollars)

INCOME	<u>2006</u>	<u>2005</u>
Gross Operating Revenue	\$ 20,366,248	\$ 17,419,108
Less: Operating Expenses	<u>(13,263,634)</u>	<u>(10,689,241)</u>
Gross Operating Surplus for the Year	7,102,614	6,729,867
Sundry Income	1,081,143	821,721
Operating Surplus for Year	<u>8,183,757</u>	<u>7,551,588</u>
OTHER REVENUE / (EXPENSES)		
Administrative Expenses	(3,805,159)	(3,263,272)
Hurricane Revenue / (Expenses) (net of interim settlement)	12 605,382	(1,230,250)
Past Service Pension Liability	9	<u>(148,463)</u>
Net Income for Year	4,983,980	2,909,603
Retained Earnings at the Beginning of the Year	34,404,577	31,644,974
Retained Earnings Before Contribution to Government	39,388,557	34,554,577
Contribution to Government	8 <u>(50,000)</u>	<u>(150,000)</u>
Retained Earnings at End of Year	<u>\$ 39,338,557</u>	<u>\$ 34,404,577</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 30th June 2006
(Stated in Cayman Islands Dollars)

OPERATING REVENUE	<u>2006</u>	<u>2005</u>
Water Sales	\$ 17,071,449	\$ 14,316,022
Sewerage Fees	2,793,920	2,672,312
Connection and Miscellaneous Fees	360,912	321,639
Septage Disposal	113,991	108,919
Agency Work	25,976	216
Total Operating Revenue	<u>20,366,248</u>	<u>17,419,108</u>
SUNDRY INCOME		
Royalties	998,624	710,689
Other	72,128	84,109
Statutory Licencing Fees	10,391	26,923
Total Sundry Income	<u>1,081,143</u>	<u>821,721</u>
TOTAL REVENUE	<u>\$ 21,447,391</u>	<u>\$ 18,240,829</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 30th June 2006
(Stated in Cayman Islands Dollars)

OPERATING EXPENSES	NOTES	2006	2005
Water Purchases		\$ 5,694,446	\$ 4,695,588
Depreciation Expense	5	1,897,716	1,708,355
Salaries		1,624,394	1,433,832
Wages		1,138,750	900,292
Electricity		707,516	474,440
Repairs and Maintenance		693,267	558,898
Loan Interest		690,033	466,663
Supplies		533,801	382,220
Miscellaneous		271,376	56,618
Land Lease Expense	10	12,335	12,335
Total Operating Expenses		13,263,634	10,689,241
 ADMINISTRATIVE EXPENSES			
Salaries		1,328,408	1,338,646
Staff Training and Benefits		964,104	922,207
Insurance		559,920	242,496
Miscellaneous		258,190	163,124
Telephone and Utilities		231,967	185,851
Depreciation Expense	5	136,350	139,425
Licenses and Dues		78,390	58,668
Office and Lab Supplies		77,091	54,616
Repairs and Maintenance		52,164	24,625
Loan Interest		45,917	31,479
Audit Fees		33,000	40,186
Bad Debt Expense		25,000	56,000
Legal Fees		9,926	2,346
Office Rental		4,732	3,603
Total Administrative Expenses		3,805,159	3,263,272
 TOTAL OPERATING AND ADMINISTRATIVE EXPENSES		 \$ 17,068,793	 \$ 13,952,513

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 30th June 2006
(Stated in Cayman Islands Dollars)

	<u>2006</u>	<u>2005</u>
CASH FLOW FROM OPERATING ACTIVITIES		
Net Income for Year	\$ 4,983,980	\$ 2,909,603
Adjustments to Reconcile Net Income to Net Cash Provided by:		
Operating Activities		
Depreciation	2,034,066	1,847,780
Gain on Sale of Fixed Assets		18,798
Interest Expense	735,950	498,142
	7,753,996	5,274,323
Net Change in Working Capital		
Interest Paid	(736,444)	(498,143)
Accounts Receivable	(538,023)	(204,677)
Inventory	(17,091)	(196,267)
Prepaid Expense	(837,101)	20,966
Accounts Payable	(383,899)	99,072
Contract Retention Payable	(633,463)	(542,824)
Past Service Pension Liability		148,463
Customer Deposits	81,730	23,727
Customer Deposits on Construction Contracts	(23,327)	
Net Cash Provided by Operating Activities	4,666,378	4,124,640
CASH FLOW FROM INVESTING ACTIVITIES		
Cost of Fixed Assets Purchased	(3,371,729)	(15,678,830)
Proceeds from Sale of Fixed Assets		6,274
Construction in Progress	(1,898,119)	13,322,761
Net Cash Used by Investing Activities	(5,269,848)	(2,349,795)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds of Long Term Debt	1,400,425	1,662,698
Repayment of Long Term Debt	(1,540,430)	(2,900,644)
Loans Payable	(91,938)	(228,689)
Contribution to Government	(425,000)	
Net Cash Used by Financing Activities	(656,943)	(1,466,635)
Net (Decrease)/Increase in Cash and Cash Equivalents During the Year	(1,260,413)	308,210
Cash and Cash Equivalents at the Beginning of the Year	2,735,533	2,427,323
Cash and Cash Equivalents at End of Year	\$ 1,475,120	\$ 2,735,533

The accompanying notes form an integral part of these financial statement

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the Year Ended 30th June 2006
(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 2006, the Water Authority had 103 employees (30 June 2005: 98 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	15 - 50 Years
Other Assets	5 - 10 Years

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the Year Ended 30th June 2006
(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 30th June 2006
(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 30th June 2006
(Stated in Cayman Island Dollars)

3.	Accounts Receivable		<u>2006</u>	<u>2005</u>				
	Trade Receivables		\$ 2,993,044	\$ 2,510,435				
	Non Trade Receivables		230,442	150,028				
	Provision for Bad Debts		(505,074)	(480,074)				
			<u>\$ 2,718,412</u>	<u>\$ 2,180,389</u>				
4.	Inventory		<u>2006</u>	<u>2005</u>				
	Water Supply and Sewerage Materials		\$ 607,607	\$ 595,987				
	Water Inventory		46,870	41,399				
	Provision for Obsolete Inventory		(1,052)	(1,052)				
			<u>\$ 653,425</u>	<u>\$ 636,334</u>				
5.	Fixed Assets							
		Freehold		Construction				
	Cost	Land	Buildings	Water Supply	Sewerage	Other Assets	In Progress	Total
	At 30 June 2005	3,319,599	2,738,211	31,966,508	25,673,693	3,942,857	287,278	67,928,146
	Additions			755,108	32,485	1,047,795	3,472,772	5,308,160
	Disposals							
	Transfers between fixed assets			1,426,611	148,042		(1,574,653)	
	At 30 June 2006	<u>3,319,599</u>	<u>2,738,211</u>	<u>34,148,227</u>	<u>25,854,220</u>	<u>4,990,652</u>	<u>2,185,397</u>	<u>73,236,306</u>
	Accumulated Depreciation							
	At 30 June 2005		301,108	8,193,750	4,877,289	3,017,059		16,389,206
	Charge for Year		54,763	995,257	717,902	266,144		2,034,066
	Disposals							
	Capitalized during construction					38,312		38,312
	At 30 June 2006		<u>355,871</u>	<u>9,189,007</u>	<u>5,595,191</u>	<u>3,321,515</u>		<u>18,461,584</u>
	Net Book Value							
	At 30 June 2005	<u>\$ 3,319,599</u>	<u>\$ 2,437,103</u>	<u>\$ 23,772,758</u>	<u>\$ 20,796,404</u>	<u>\$ 925,798</u>	<u>\$ 287,278</u>	<u>\$ 51,538,940</u>
	At 30 June 2006	<u>\$ 3,319,599</u>	<u>\$ 2,382,340</u>	<u>\$ 24,959,220</u>	<u>\$ 20,259,029</u>	<u>\$ 1,669,137</u>	<u>\$ 2,185,397</u>	<u>\$ 54,774,722</u>

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the Year Ended 30th June 2006
(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:

	2006	2005
1. Two 2 million US gallon water storage tanks	1,354,507	
2. West Bay Beach Pump Rehabilitation – Managed Contract	252,665	
3. North Side Water Works Site Preparation	216,597	39,457
4. Esterley Tibbetts - Managed Contract	105,641	
5. Extension to existing Administration Building	89,257	77,110
6. North Side water supply extension	72,834	
7. Construction of Booster Station at Shamrock Road	54,004	7,956
8. Modifications to WWTP store room	24,115	
9. Meter Testing Room	13,152	254
10. Cayman Brac Reverse Osmosis Plant	2,474	
11. West Bay Sliplining Project	151	151
12. Sewer in Crystal Harbour		146,655
13. Frank Sound Estates - Managed Contract		10,775
14. Red Gate Site – Water Storage Tanks		4,920
	\$ 2,185,397	\$287,278

6. Long Term Liabilities

LONG TERM LIABILITIES

(Interest Rate)	Current	1-2 yrs	3-5 yrs	5+ yrs	2006	2005
a) First Caribbean International Bank (Cayman) Limited						
(i) Administration Building Loan (6.0%)	100,906	201,812	302,718	208,896	814,332	917,511
(ii) Waste Water Treatment Works Loan						
LIBOR note # 107762 (6.14%)		500,000			500,000	500,000
LIBOR note # 10013845 (6.16%)	1,170,933	2,341,866	3,512,799	4,403,919	11,429,517	11,247,358
b) Caribbean Development Bank Water Supply (6.0%)	149,866				149,866	304,804
c) Cayman Islands Government						
(i) Grand Cayman (0%)	210,894	421,788	632,682	1,644,704	2,910,068	3,120,962
(ii) Cayman Brae (8.0%)	70,200	140,400	35,100		245,700	315,900
d) Ocean Conversion (Cayman) Ltd.						
(i) Red Gate (5.0%)						121,335
(ii) North Sound (0%)	466,758	948,132	467,548	72,901	1,955,339	1,616,957
					18,004,822	18,144,827
					(2,169,557)	(1,573,018)
					\$ 15,835,265	\$ 16,571,809

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the Year Ended 30th June 2006
(Stated in Cayman Island Dollars)

6. Long Term Liabilities (continued)

- a) (i) On 17th August 1998 FirstCaribbean approved a credit facility of CI\$ 1,600,000 for the new 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 14th 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 2006, 75% (US\$ 10,283,153) of the loan balance was held with FCIB and 25% (US\$ 3,391,790) with Scotiabank.

- 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.

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the Year Ended 30th June 2006
(Stated in Cayman Island Dollars)

6. Long Term Liabilities (continued)

- 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 1st of April 1995.
- d) The Water Authority contracted with Ocean Conversion (Cayman) Ltd. ("OCL") on the 17th 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 a duration of seven years.

On 26th October 2001 the Authority signed a contract with OCL to expand the Red Gate Reverse Osmosis Plant to a production capacity of 3,000 cubic meters per day. The cost of the expansion to the Authority was CI\$ 2,612,006, plus additional monthly operating fees. The plant expansion 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 a duration of seven years.

On the 1st 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 a duration of seven years.

OCL holds both the Lower Valley and North Sound buildings, 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 2006 \$0 (2005:\$0) of the overdraft facility was being utilized.

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the Year Ended 30th June 2006
(Stated in Cayman Island Dollars)

7. Contributed Capital

Contributed capital of \$ 1,085,223 (2005: 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 \$ 436,031 (2005: \$ 435,569).
2. The Authority recognized contributions to Government relating to the year ended 30 June 2006 of \$ 50,000 (2005: \$ 150,000).
3. Government Contribution Payable \$ nil (2005: \$ 375,000).

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 Water'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) Public Service Pensions 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 April 2003, the Pensions Fund management advised that it was agreed that the unfunded past service liability would remain a central liability of the Government. Accordingly, as of that date, there was no requirement for the Authority to recognize any unfunded past service liability in its financial statements. An adjustment of \$148,463 was made to the financial statements in 2002 to recognize the past service liability now being the responsibility of Government and not the Authority.

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.

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the Year Ended 30th June 2006
(Stated in Cayman Island Dollars)

The most current figure that the Authority has of its potential unfunded past service liability is \$148,463, which was the balance outstanding as at 31st December 2001. This amount may or may not reflect the unfunded past service liability as at 30th June 2006. No further actuarial valuation has been completed since 1st January 2002 incorporating the new method of calculating the past service liability for the Authority as stated in the letter from the Financial Secretary.

- (i) A reconciliation of assets and liabilities recognised in the balance sheet:
- | | |
|---|-------------|
| Present value of the defined benefit obligations that are partly funded - | \$1,193,000 |
| The fair value of the plan assets at the 1 st January 1999 - | 861,882 |
- (ii) The amount included in the fair value of the plan assets: Nil
- (iii) The reconciliation showing movement of past service liability during the period:
- | | |
|--|------------------|
| As per 1999 Financial Statements | 58,937 |
| Plus: Reconciliation of 1998 PSL Contribution | 61,211 |
| Plus: Understatement of PSL advised in error by PSPB | 87,252 |
| Less: PSL contribution paid in the fiscal year 2000 | <u>(58,937)</u> |
| Balance at 31 st December 2001 | <u>\$148,463</u> |
- (iv) The total expenses recognised in the income statement:
- | | |
|---|-----------|
| Current service cost in the fiscal year 2005-06 | \$ 54,972 |
| PSL had no cost in the fiscal year 2001 | 0 |
- (v) Return on plan assets: Not known
- (vi) Principal actuarial assumptions:
- | |
|---|
| Discount Rate – 8% |
| Expected rate of return on plan assets - 8% |
| Expected rate of salary and pension increase – 3% and 2% respectively |
| Retirement age – 55 years |

b) Other Pension 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 2005-06 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 15 (2005: 16) and the total employees enrolled in the defined contribution plan with British Caymanian Pension is 88 (2005: 82).

The total amount recognised as a pension expense for the 12 months ended 30th June 2006, inclusive of both the Public Service Pensions Fund and British Caymanian, was \$ 240,807 (2005: \$ 224,331).

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.

Water Authority of the Cayman Islands
Notes to the Financial Statements
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11. 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.

12. Hurricane Ivan

During the 2004/05 fiscal period the Cayman Islands suffered damage as a result of a strong category 4 Hurricane that passed over the island on the 11th and 12th of September 2004. The majority of the restoration was complete during 2004/05 however the final insurance claim was not finalized until March 2006.

During the restoration period (14th of September 2004 - 1st March 2006) the Authority documented total expenses of CIS 2,709,218 and together with the consultants, Cunningham Lindsey (previously Cambridge Horizon) agreed on adjustments of CIS 1,121,661 and received and finalized an unrestricted settlement of CIS 1,587,557 with British Caymanian Insurance. This settlement figure takes into consideration adjustments of the deductible (CIS 642,244), adjustments by British Caymanian Insurance (\$47,872), extra expenses not covered by insurance (CIS 417,795) and an estimate received to restore the building at the Sewage Treatment works (CIS 13,750) that did not meet the deductible for the site.

The Authority received two unrestricted settlement payments of CIS 1,587,557 from British Caymanian in full and final settlement of the property claim, one on the 9th of November 2004 in the amount of CIS 660,000 and one on the 31st of March 2006 in the amount of CIS 927,557.

During the current fiscal period the Authority shows an income amount of CIS 605,383 (Expense in 2004/05: CIS 1,230,250). This figure is reflective of an income amount of CIS 871,274 (CIS 927,557 less Professional Loss Management Fee of CIS 56,283) and related expenses of CIS 265,891.