



The Water Authority of the Cayman Islands



**Seaview Road entrance into East End (12" main) September 2004
Hurricane Ivan Damage**



New Grand Cayman Wastewater Treatment Works April 2005

ANNUAL REPORT

For the 2004/05 Financial Year



OWNERSHIP AGREEMENT ANNUAL REPORT

For

The Water Authority of the Cayman Islands

For the 2004/05 Financial Year

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1. Purpose

This annual report details the performance of The Water Authority of the Cayman Islands for the fiscal year ending 30 June 2005.

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 2004/05, 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 Water Authority of the Cayman Islands operated during the year.

Approved Nature and Scope of Activities

The Water 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

Subsequent to the start of the current fiscal period, the Cayman Islands, and the Water Authority 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 Water Authority sustained damage to its infrastructure, water distribution system and wastewater collection system. Management of the Water Authority worked together with Cambridge Horizon Consultants Inc. (CHCI) to secure interim financing of CI\$ 660,000 on the 9th of November 2004 to assist with the restoration of the Authority's assets. During the current fiscal period the Authority incurred expenses, net of an interim settlement of CI\$1.2 million. Throughout the entire recovery (14 September 2004 – 1 December 2005) expenses of \$2.6 million were incurred, \$2.2 million in direct relation to the insurance claim and an additional \$0.4 million in expenses that are not expected to be covered by the insurance claim. The Authority submitted a final claim in early December 2005 and received further compensation in the amount of \$0.9 million (\$2.2 million less interim payment of \$0.7 million and deductible of \$0.6 million).

On 24 November 2004 the Water Authority received a net payment of CI\$ 55,917 in full and final settlement of damage incurred to the fleet of vehicles as a result of Hurricane Ivan. In total 7 vehicles sustained flood damage and were subsequently written off, providing insurance proceeds of CI\$ 47,800 and 3 vehicles were identified as fixable and the Authority received a payment of CI\$ 8,200 to fix these vehicles.

As at 30 June 2005 management at the Water Authority deemed that although the Water Authority's infrastructure sustained damage, 100% of the revenue-producing customers have been reconnected and management does not deem that Ivan will have longstanding effects on the revenue producing capabilities of the Water Authority.

There was no damage of any significance to the Water Authority's Cayman Brac Operations, as the hurricane did not hit Cayman Brac.

As a result of Hurricane Ivan the Authority had to immediately re-prioritize previously scheduled projects in order to meet the immediate needs of the community, which was to restore water and wastewater service as soon as possible, congruent with the defined Mission Statement.

As a result of the devastation of the storm and the required restoration, the Authority was not able to meet all its originally defined objectives, as it took until February 2005 to complete all the necessary repairs to the water pipelines. Once this was complete the Authority was able to re-examine the original objectives for the 2004/05 fiscal period and allocated resources to the most urgent projects.

The Authority was able to extend the pipeline in the North Side, completing Phases 1,2 & 3 on North Side at a cost \$0.3 million.

During the course of the year the Authority sold 2.61 million m³ of water and processed 1.96 million m³ of wastewater in Grand Cayman.

The Water Resource and Quality Control Department worked closely with the Cayman Islands Recovery Operations (CIRO) on managing environmental conditions and Hurricane Debris sites. This department also took responsibility for the Hurricane Debris sites, established a monitoring programme to ensure the safety of the ground water and carried out extensive water quality monitoring of the water distribution system to ensure that the Authority provided potable water of the highest quality in the wake of Ivan.

In summary the Authority complied with the defined mission statement as detailed above by restoring water to the residents of the Cayman Islands quickly and efficiently after the destruction of Hurricane Ivan.

3. Strategic Goals and Objectives

Approved Strategic Goals and Objectives

The key strategic goals and objectives (from an ownership perspective) for The Water Authority - Cayman for the 2004/05 financial year were as follows:

- *Continue work on the North Side Water Works*
- *Commence development of water production plant to service the Eastern Districts*
- *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

Due to the impact of Hurricane Ivan on the Authority's operations, a significant number of objectives planned for 2004/05 have been postponed until 2005/06.

North Side Water Works – The Authority was able to finalize the purchase of a 44 acre property just off the Botanic Road to eventually house the water production, pumping and storage facilities to service the eastern and northern districts at a total purchase price of \$180,000 (deposit of \$18,000 paid in 2003/04 and balance of \$162,000 paid in 2004/05).

Water Production Plant to Service the North Side – This project was re-allocated to 2005/06 as a result of limited available resources after Hurricane Ivan.

Initiate Comprehensive Review of the Water / Sewer Rates – This project was put on hold in order to allocate in-house resources to higher priority projects.

Commence Construction of the Expanded Administrative Offices at Red Gate – The contract for professional design services for the extension (estimated 10,000 square feet) to the existing administration building was awarded to OBM Ltd. The conceptual design and preparation of the contract documents were completed and the construction documents were forwarded to the Planning Department prior to the hurricane. Subsequent to the storm event, modifications of the design to mitigate future damage were prepared by the Authority's engineers together with OBM Ltd.

4. Ownership Performance Targets

Financial Performance

Financial Performance Measure	2004/05 Actual \$	2004/05 Budget (April 2004) \$	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	18,240,829	17,239,731	1,001,098
Surplus/deficit from outputs (Gross Operating Surplus)	6,729,867	6,300,257	429,610
Other expenses	15,331,226	13,812,265	1,518,961
Net Surplus/Deficit (Net Income for the Year)	2,909,603	3,427,466	(517,863)
Total Assets	57,166,651	60,645,456	(3,478,805)
Total Liabilities	21,676,851	25,058,429	(3,381,578)
Net Worth	35,489,800	35,587,026	(97,226)
Cash flows from operating activities	4,124,640	5,296,797	(1,172,157)
Cash flows from investing activities	(2,349,795)	(7,893,596)	5,543,801
Cash flows from financing activities	(1,466,635)	2,617,059	4,083,694
Change in cash balances	308,210	20,260	287,950

Financial Performance Ratio	2004/05 Actual	2004/05 Budget (April 2004)	Annual Variance
Current Assets: Current Liabilities	1.10	0.88	0.22
Total Assets: Total Liabilities	2.64	2.40	0.24

Explanation of Variances

Financial Performances: Income Statement

Revenue figures as presented were prepared in April 2004 were conservative and could not forecast the affect that a natural disaster could have on the financial situation of the Authority. The Authority was able to re-connect 97% of customers within five weeks after the storm, after which customer were anxious to salvage whatever they could and water consumption resumed to normal levels very quickly after reconnection as residents cleaned / restored what they could. Despite the setback that Ivan generated, the Authority was still able to increase revenue by 3.4% over 2003/04.

There were costs included in Other Expenses that the Authority had no control over, for example, insurance deductible.

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

Financial Performances: Balance Sheet

The Authority strove to complete certain projects; however management was forced to evaluate projects taking into consideration the impact of Ivan. Consistent with the explanations provided in the following section, it is reasonable that the Authority's assets did not increase as expected, with the Extension to the Office Building not complete (\$1.7 million), the STW plant under budget (\$0.7 million) and both the water Supply and Wastewater Treatment projects delayed until future years (\$0.5 million and \$0.3 million respectively).

\$3.5 million of the above noted projects was expected to be paid for using traditional debt financing from external sources, however the Authority was able to finance the projects in house and therefore did not require outside financing. It is therefore reasonable that the liabilities of the Authority were also under budget.

Financial Performances: Cash Flow Statement

The cash position of the Authority was 14 times higher (1400%) than original expected, the majority of which is due to the fact that not all the capital projects were completed.

In Summary - The original projections for the 2004/05 fiscal period, as presented in the 2004/05 Ownership Agreement are taken from the 2004/05 original budget, produced in April 2004. The Authority's financial position is fairly consistent with that originally budgeted, even though tremendous setbacks were experienced as a result of Hurricane Ivan. The Authority was not able to complete all the capital projects it had originally planned, but was able to resume normal operations quickly and efficiently, thereby reducing the monetary impact of the storm on the financial position of the Authority.

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	2004/05 Actual	2004/05 Budget	Annual Variance
Total full time equivalent staff	98	110	12
Staff turnover (%) Monthly Turnover Rate Calculation = # of Separations during the month / # of employees during the month * 100	17%	4%	
Average length of service (In Years) Senior Management Professional Staff Administrative / Field Staff	9 Years 4 Years 6 Years	10 Years 7 Years 5Years	(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	2004/05 Actual	2004/05 Budget (April 2004)	Annual Variance
Value of total assets	\$57,166,651	\$60,645,456	\$(3,478,805)
Asset replacements: total assets (Fixed asset purchases during the year / total value of assets)	4.2%	Not Included in original submission	N/A
Net Book Value of depreciated assets: initial cost of those assets (NBV of assets / Cost of Assets)	75.9%	Not Included in original submission	N/A
Depreciation: Cash flow on asset purchases	78.4%	Not Included in original submission	N/A
Changes to asset management policies	None	None	

Major Capital Expenditure Projects (amount spent to 30 June 2005)	2004/05 Actual \$	2004/05 Budget (April 2004) \$	Annual Variance \$
Office Building		1,750,000	
2004/05	902	1,750,000	(1,749,098)
2005/06	N/A	N/A	N/A
2005/06	N/A	N/A	N/A
STW Plant – US\$ 17.2 million Project		1,500,000	
2004/05	796,226	1,500,000	(703,774)
2005/06	N/A	N/A	N/A
2005/06	N/A	N/A	N/A
Water Supply Distribution Projects		3,100,000	
2004/05	289,668	770,000	(480,332)
2005/06	N/A	1,500,000	N/A
2005/06	N/A	830,000	N/A
Wastewater Treatment and Collection	-	300,000	
2004/05	-	300,000	(300,000)
2005/06	N/A	N/A	N/A
2005/06	N/A	N/A	N/A

Risk Management

Key risks	Status of Risk	Actions taken during 2004/05 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:

After Hurricane Ivan the Authority did experience a number of employees unexpectedly submitting their resignations and seeking gainful employment elsewhere. The focus was to restore the island's water / wastewater infrastructure and normal operations, therefore some of these positions remained empty until the necessary resources could be allocated back to the recruitment process.

The turnover rate is significantly higher than originally estimated, primarily as a result 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 # of separations on a monthly basis, rather than offsetting these departures against new arrivals.

Major Capital Expenditure Projects:

Office Building – The Authority had tentatively been planning the extension to the existing Administration Building since 2002; with construction scheduled to commence in 2004/05. The natural disaster of Hurricane Ivan further delayed the progress of the building, as a decision was drafted by management and approved by the Board to modify the existing plans to incorporate knowledge received during the storm, i.e., to build approximately 2.5 feet higher than originally planned to minimize the risk of flooding. These modifications delayed the start of the project; therefore it is reasonable that the project was under budget, as it was not yet underway.

STW Plant – The contract to construct the Grand Cayman Wastewater Treatment Works (WWTW) was awarded to the lowest bidder, Hadsphatic International Ltd. and Wharton Smith Inc. as joint contractors in September 2002 for US\$ 17.2 million. In early July 2004, the wastewater was diverted to the new treatment works and decommissioning of the existing waste stabilisation ponds commenced, with completion estimated in October 2004. As a result of the damage that Hurricane Ivan did to the electrical components the project was slightly delayed, however it was completed within the fiscal period, with the new WWTW being officially commissioned in April 2005. The Authority spent \$220k internally and \$576k with external contractors in the fiscal period, net of insurance settlement figures. It is reasonable that the actual figures are less than budgeted as the entire project was 13.3% less than originally planned (US\$15.2million vs. US\$17.2 million).

Water Supply Distribution Projects – The Authority's original plan was to continue on the extension of the Water Supply distribution system into the district of North Side, however Hurricane Ivan dictated that resources were re-allocated to repair existing pipeline rather than install new pipeline, therefore it is reasonable that the Authority did not accomplish as much as originally expected within the fiscal period.

Wastewater Treatment and Collection – The Authority had originally planned to initiate the West Bay Road Slipline Rehabilitation Project in the 3rd quarter of 2004/05, however this project was not deemed an immediate priority and resources were rather allocated to the restoration of the existing infrastructure, therefore it is reasonable that no money was spent on this project during the fiscal period.

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	2004/05 Actual \$	2004/05 Budget (April 2004) \$	Annual Variance \$
Revenue	18,240,829	17,085,565	1,155,264
Operating Expenses	15,331,226	14,455,785	875,441
<i>Net Surplus/Deficit</i>	2,909,603	2,629,780	279,823

Balance Sheet	2004/05 Actual \$	2004/05 Budget (April 2004) \$	Annual Variance \$
Assets	57,166,651	60,645,455	(3,478,804)
Liabilities	21,676,851	25,058,429	(3,381,578)
<i>Net Worth</i>	35,489,800	35,587,026	(97,226)

Statement of Cash Flows	2004/05 Actual \$	2004/05 Budget (April 2004) \$	Annual Variance \$
Net cash flows from operating activities	4,124,640	5,296,797	(1,172,157)
Net cash flows from investing activities	(2,349,795)	(7,893,596)	5,543,801
Net cash flows from financing activities	(1,466,635)	2,617,059	4,083,694

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	2004/05 Actual \$	2004/05 Budget (April 2004) \$	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	\$150,000	\$150,000	\$ -
Government Loans to be made to Water Authority – Cayman	Nil	Nil	N/A
Government Guarantees to be issued in relation to Water	Nil	Nil	N/A

Authority – Cayman			
Related Party Payments (Non Remuneration) made to Key Management Personnel ¹	Nil	Nil	N/A
Remuneration ² Payments made to Key Management Personnel	\$714,789	\$727,000	\$(12,211)
Remuneration Payments made to Senior Management	See above	See Above	See Above

	2004/05 Actual (@ 30 June 2005)	2004/05 Budget
No of Key Management Personnel	9	9
No of Senior Management	9	9

Explanation of Variances

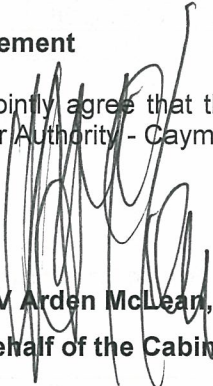
Transaction:

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 - Engineering, Deputy Director – Operations, Financial Controller, Customer Service Manager, Chief Human Resource Manager, Water Resources Engineer, Information Technology Manager and Operations Manager – CYB.

Agreement

We jointly agree that this Ownership Agreement accurately documents the ownership performance that Water Authority - Cayman achieved for the 2004/05 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)
(footnote continued)

Appendix: Financial Statements for the Year


THE WATER AUTHORITY OF THE CAYMAN ISLANDS STATEMENT OF RESPONSIBILITY FOR FINANCIAL STATEMENTS FOR THE YEAR ENDING 30 JUNE 2005

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 Public Management and Finance Law (2005 Revision).

To the best of our knowledge the financial statements are:

- (a) complete and reliable;
- (b) fairly reflect the financial position as at 30 June 2005 and performance for the year ended 30 June 2005
- (c) comply with generally accepted accounting practice.



Mr Brainard Walter, JP
Chairman
On behalf of the Board

21 December 2005

**THE WATER AUTHORITY OF THE CAYMAN ISLANDS
STATEMENT OF COMMITMENTS
FOR THE YEAR ENDING 30 JUNE 2005**

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 17 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 2005**

Summary of Quantifiable Contingent Liabilities

	\$000
Legal Proceedings and Disputes	n/a
None	n/a
Non	n/a
Total Legal Proceedings and Disputes	n/a

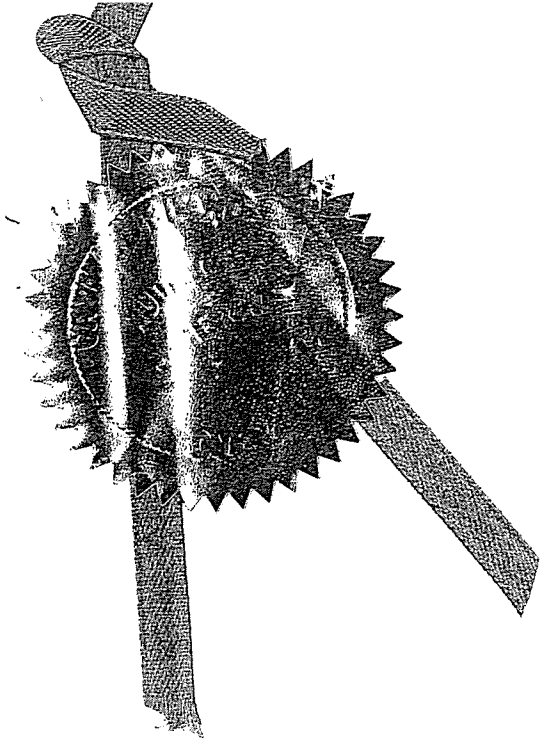
Other Contingent Liabilities

None	n/a
None	n/a
Total Other Contingent Liabilities	n/a

Summary of Non-Quantifiable Contingent Liabilities

None
None

The Water Authority does not have any quantifiable Contingent Liabilities @ 30 June 2005; please refer to the attached financial statements and accompanying notes.



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

June 30, 2005

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The Ministry of Community Services, Youth, Sports and Gender Affairs

**THE WATER AUTHORITY
OF THE CAYMAN ISLANDS**

**FINANCIAL STATEMENTS
For the Year Ended 30 June 2005**

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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 twelve-month period ended 30 June 2005 as set out on pages 3 to 18 in accordance with the provisions of Section 17(1) of the Water Authority Law (1996 Revision), and Section 51(3) of the Public Management and Finance Law (2003 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.

Opinion

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Water Authority of the Cayman Islands as at 30 June 2005, and the results of its operations and its cash flows for the twelve-month period then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion we draw your attention to two other matters 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 \$910,000 to produce which would have resulted in approximate revenue of \$2.5 million if sold. The other matter is in relation to section 44 of the Water Authority Regulations (1999 Revision), where the Authority shall recoup the costs related to fluctuations in electricity rates through the Energy Adjustment Factor (EAF). We calculated a loss of revenue from EAF fees not collected for three months to be \$34,000, which when extrapolated over one year is estimated to be \$138,000.

Dan Duguay

Dan Duguay, MBA, CGA
Auditor General

Cayman Islands
21 December 2005

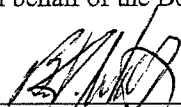
Water Authority of the Cayman Islands

Balance Sheets

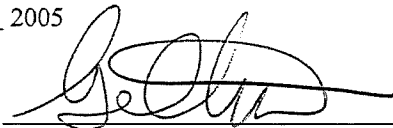
As at 30th June 2005

(Stated in Cayman Islands Dollars)

CURRENT ASSETS	NOTES	2005	2004
Cash on Hand		\$ 2,200	\$ 2,050
Cash at Bank		2,733,333	2,425,273
Total Cash and Cash Equivalents		2,735,533	2,427,323
Accounts Receivable	3	2,180,389	1,975,712
Inventory	4	636,334	440,067
Prepaid Expenses		75,455	96,421
Total Current Assets		5,627,711	4,939,523
CURRENT LIABILITIES			
Accounts Payable		1,456,324	1,357,252
Government Contribution Payable	8	375,000	225,000
Loans Payable		93,408	322,097
Past Service Pension Liability		148,463	-
Contract Retention Payable		636,875	1,179,699
Customer Deposits		798,627	774,900
Customer Deposits on Construction Contract		23,327	23,327
Current Maturities on Long Term Liabilities		1,573,018	3,412,179
Total Current Liabilities		5,105,042	7,294,454
NET CURRENT ASSETS (LIABILITIES)		522,669	(2,354,931)
FIXED ASSETS			
Land – Freehold		3,319,599	3,157,599
Buildings		2,437,103	2,467,184
Water Supply System		23,772,758	23,920,286
Sewerage System		20,796,404	7,053,331
Other Assets		925,798	847,284
Construction in Progress		287,278	13,610,039
Total Fixed Assets	5	51,538,940	51,055,723
TOTAL NET ASSETS		52,061,609	48,700,792
LONG TERM LIABILITIES	6	(16,571,809)	(15,970,595)
NET ASSETS		35,489,800	32,730,197
EQUITY REPRESENTED BY:			
Contributed Capital	7	1,085,223	1,085,223
Retained Earnings		34,404,577	31,644,974
Total Equity		\$ 35,489,800	\$ 32,730,197

On behalf of the Board on the 21 of December 2005


 Mr. Brajvard Walter
 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 2005
(Stated in Cayman Islands Dollars)

INCOME	Notes	2005	2004
Gross Operating Revenue		\$ 17,419,108	\$ 16,794,105
Less: Operating Expenses		(10,689,241)	(9,340,876)
Gross Operating Surplus for the Year		6,729,867	7,453,229
Sundry Income		821,721	848,535
Operating Surplus for Year		7,551,588	8,301,764
OTHER EXPENSES			
Administrative Expenses		(3,263,272)	(2,995,401)
Hurricane Expenses (net of interim settlement)	12	(1,230,250)	-
Past Service Pension Liability	9	(148,463)	-
Net Income for Year		2,909,603	5,306,363
Retained Earnings at the Beginning of the Year		31,644,974	26,488,611
Retained Earnings Before Contribution to Government		34,554,577	31,794,974
Contribution to Government	8	(150,000)	(150,000)
Retained Earnings at End of Year		\$ 34,404,577	\$ 31,644,974

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 2005
(Stated in Cayman Islands Dollars)

OPERATING REVENUE	<u>2005</u>	<u>2004</u>
Water Sales	\$ 14,316,022	\$ 13,750,673
Sewerage Fees	2,672,312	2,698,046
Connection and Miscellaneous Fees	321,639	264,977
Septage Disposal	108,919	70,566
Agency Work	216	9,843
Total Operating Revenue	<u>17,419,108</u>	<u>16,794,105</u>
SUNDRY INCOME		
Royalties	710,689	778,883
Other	84,109	59,861
Statutory Licencing Fees	26,923	9,791
Total Sundry Income	<u>821,721</u>	<u>848,535</u>
TOTAL REVENUE	<u>\$18,240,829</u>	<u>\$ 17,642,640</u>

The accompanying notes form an integral part of these financial statements

Water Authority of the Cayman Islands
Statement of Expenses
For the 12 Month Period Ended 30th June 2005
(Stated in Cayman Islands Dollars)

OPERATING EXPENSES	NOTES	2005	2004
Water Purchases		\$ 4,695,588	\$ 4,075,366
Depreciation Expense	5	1,708,355	1,377,531
Salaries		1,433,832	1,380,589
Wages		900,292	893,032
Repairs and Maintenance		558,898	464,015
Electricity		474,440	335,700
Loan Interest		466,663	338,212
Supplies		382,220	419,670
Miscellaneous		56,618	44,426
Land Lease Expense	10	12,335	12,335
Total Operating Expenses		10,689,241	9,340,876
ADMINISTRATIVE EXPENSES			
Salaries		1,338,646	1,319,065
Staff Training and Benefits		922,207	763,734
Insurance		242,496	173,202
Telephone and Utilities		185,851	195,303
Miscellaneous		163,124	145,541
Depreciation Expense	5	139,425	150,296
Licenses and Dues		58,668	60,446
Bad Debt Expense		56,000	23,000
Office and Lab Supplies		54,616	49,848
Audit Fees		40,186	52,362
Loan Interest		31,479	23,487
Repairs and Maintenance		24,625	32,144
Office Rental		3,603	3,600
Legal Fees		2,346	3,373
Total Administrative Expenses		3,263,272	2,995,401
TOTAL OPERATING AND ADMINISTRATIVE EXPENSES		\$ 13,952,513	\$ 12,336,277

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 2005
(Stated in Cayman Islands Dollars)

CASH FLOW FROM OPERATING ACTIVITIES	NOTES	2005	2004
Net Income for Year		\$ 2,909,603	\$ 5,306,363
Adjustments to Reconcile Net Income to Net Cash Provided by:			
Operating Activities			
Depreciation		1,847,780	1,527,827
Gain on Sale of Fixed Assets		18,798	-
Interest Expense		498,142	361,699
		<u>5,274,323</u>	<u>7,195,889</u>
Net Change in Working Capital			
Interest Paid		(498,143)	(423,339)
Accounts Receivable		(204,677)	(260,123)
Inventory		(196,267)	(79,626)
Prepaid Expense		20,966	(17,325)
Accounts Payable		99,072	82,851
Contract Retention Payable		(542,824)	805,585
Past Service Pension Liability		148,463	-
Customer Deposits		23,727	35,800
Customer Project Loans		-	(36,632)
Net Cash Provided by Operating Activities		<u>4,124,640</u>	<u>7,303,080</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Cost of Fixed Assets Purchased		(15,678,830)	(1,449,993)
Proceeds from Sale of Fixed Assets		6,274	-
Construction in Progress		13,322,761	(8,524,656)
Net Cash Used by Investing Activities		<u>(2,349,795)</u>	<u>(9,974,649)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds of Long Term debt		1,662,698	7,685,247
Repayment of Long Term Debt		(2,900,644)	(4,450,773)
Loans Payable		(228,689)	82,647
Contribution to Government		-	(150,000)
Net Cash Used by Financing Activities		<u>(1,466,635)</u>	<u>3,167,121</u>
Net Increase in Cash and Cash Equivalents During the Year		308,210	495,552
Cash and Cash Equivalents at the Beginning of the Year		2,427,323	1,931,771
Cash and Cash Equivalents at End of Year		<u>\$ 2,735,533</u>	<u>\$ 2,427,323</u>

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 2005
(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 2005, the Water Authority had 98 employees (30 June 2004: 102 employees). The Water Authority is located at 13 G Red Gate Road, P.O. Box 1104 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 12 month period Ended 30th June 2005
(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, which consist of consumable spares is accounted for on the first-in, first-out basis, and is stated at the lower of cost and net realizable value. 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.

For the 12-month period ended 30 June 2004 the Water Authority changed its accounting policy with respect to the treatment of water inventory at year-end. In previous periods the Water Authority did not recognise this asset in the financial statements. The Water Authority will continue to recognize the value of the asset, calculated as the cost of water plus chemicals multiplied by the volume of water.

(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

For the purpose of the Statement of Cash Flows, 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 12 month period Ended 30th June 2005
(Stated in Cayman Island Dollars)

2. Significant Accounting Policies (continued)

(i) Employees benefits

- (i) During the previous fiscal period ended 30 June 2004 the Water Authority changed its accounting policy and recognizes accrued employee benefits at year-end. The Water Authority will continue to recognize this liability, calculated as the value of vacation days owed to employees at year-end.
- (ii) 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 12 month period Ended 30th June 2005
(Stated in Cayman Island Dollars)

3. Accounts Receivable

	<u>2005</u>	<u>2004</u>
Trade Receivables	\$ 2,510,435	\$ 2,259,189
Non Trade Receivables	150,028	140,597
Provision for Bad Debts	(480,074)	(424,074)
	\$ 2,180,389	\$ 1,975,712

4. Inventory

	<u>2005</u>	<u>2004</u>
Water Supply and Sewerage Materials	\$ 595,987	\$ 399,298
Water Inventory	41,399	41,821
Provision for Obsolete Inventory	(1,052)	(1,052)
	\$ 636,334	\$ 440,067

5. Fixed Assets

	<u>Cost</u>	<u>Freehold Land</u>	<u>Buildings</u>	<u>Water Supply</u>	<u>Sewerage</u>	<u>Other Assets</u>	<u>Construction In Progress</u>	<u>Total</u>
At 30 June 2004		3,157,599	2,714,012	31,160,793	11,476,961	3,505,191	13,610,039	65,624,595
Additions		162,000	-	25,342	59,263	510,306	1,619,280	2,376,191
Disposals		-	-	-	-	(72,640)	-	(72,640)
Transfers between fixed assets		-	24,199	780,373	14,137,469	-	(14,942,041)	-
At 30 June 2005		3,319,599	2,738,211	31,966,508	25,673,693	3,942,857	287,278	67,928,146
Accumulated Depreciation								
At 30 June 2004		-	246,828	7,240,507	4,423,630	2,657,907	-	14,568,872
Charge for Year		-	54,280	953,243	453,659	386,598	-	1,847,780
Disposals		-	-	-	-	(47,568)	-	(47,568)
Capitalized during construction		-	-	-	-	20,122	-	20,122
At 30 June 2005		-	301,108	8,193,750	4,877,289	3,017,059	-	16,389,206
Net Book Value								
At 30 June 2004		\$ 3,157,599	\$ 2,467,184	\$ 23,920,286	\$ 7,053,331	\$ 847,284	\$ 13,610,039	\$ 51,055,723
At 30 June 2005		\$ 3,319,599	\$ 2,437,103	\$ 23,772,758	\$ 20,796,404	\$ 925,798	\$ 287,278	\$ 51,538,940

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the 12 month period Ended 30th June 2005
(Stated in Cayman Island Dollars)

5. Fixed Assets (continued)

a) Sewage Treatment Works Upgrade

In August 1998 the Authority invited bids for the provision of general, mechanical and electrical engineering services in connection with a planned upgrade to the West Bay Beach Sewage Treatment Works. The consultant engineers originally estimated the cost of the upgrade at CI\$ 10.6 million, however after reviewing tenders submitted, the estimate was increased to CI\$ 14.3 million. The Authority successfully negotiated with FirstCaribbean International Bank (Cayman) Limited for CI\$ 3.7 million in additional financing. Government gave approval for the Authority to enter into a US\$ 12.8 million loan agreement with FirstCaribbean in September 2000 and an additional US\$ 4.4 million in September 2002 to finance the project. The original loan agreement was signed with FirstCaribbean in December 2000, with the amendment signed in June 2002. Prior to obtaining the loan, the Authority had financed the cost of the wastewater treatment works project from revenue. See Note 6 (a) for the terms of the loan.

In November 2002 the Water Authority started construction on the Sewerage Treatment Plant, see note 6 a) iii), which was anticipated to be completely operational, and under the control of the Authority, by October 2004. The Authority suffered a temporary setback on the completion of the project due to Hurricane Ivan, but the plant was able to accept and treat sewage in December 2004. The plant was substantially complete at 30 June 2005 and no significant expenses are expected subsequent to year-end.

b) Construction in Progress

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

	2005	2004
1. Sewer in Crystal Harbour	146,655	91,773
2. Extension to existing Administration Building	77,110	76,208
3. Site investigation for possible Eastern Site	39,457	19,062
4. Frank Sound Estates – Managed Contract	10,775	-
5. Construction of Booster Station at Shamrock Road	7,956	7,956
6. Red Gate Site – Water Storage Tanks	4,920	-
7. Meter Testing Room	254	-
8. West Bay Slipling Project	151	151
9. Contractor services relating to the 2.5 MGD upgrade of the West Bay Beach Sewage Treatment Works. See also Note 9	-	12,087,333
10. Engineering services, subsoil investigations and site preparation for subsoil investigations relating to the 2.5 Millions of US Gallons per day (MGD) upgrade of the West Bay Beach Sewage Treatment Works.	-	1,190,407
11. North Side water supply extension	-	131,374
12. Agricola Road supply extension	-	5,775
	\$ 287,278	\$13,610,039

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the 12 month period Ended 30th June 2005
(Stated in Cayman Island Dollars)

6. Long Term Liabilities

LONG TERM LIABILITIES

(Interest Rate)	Current	1-2 yrs	2-5 yrs	5+ yrs	2005	2004
a) First Caribbean International Bank (Cayman) Limited						
(i) Water Supply and Sewerage	-	-	-	-	-	1,318,827
(ii) Administration Building Loan (4.8%)	106,458	212,916	319,374	278,763	917,511	985,515
(iii) Waste Water Treatment Works Loan						
LIBOR note # 107762 (4.1%)	-	500,000	-	-	500,000	500,000
LIBOR note # 10013845 (4.2%)	536,049	1,072,098	1,608,147	8,031,064	11,247,358	9,939,062
b) Caribbean Development Bank Water Supply (6.0%)	154,938	149,866	-	-	304,804	459,741
c) Cayman Islands Government						
(i) Grand Cayman (0%)	210,894	421,788	632,682	1,855,598	3,120,962	3,331,856
(ii) Cayman Brac (8.0%)	70,200	140,400	105,300	-	315,900	386,100
d) Capital Contribution Loan (0%)	-	-	-	-	-	6,400
e) Ocean Conversion (Cayman) Ltd.						
(i) Red Gate (5.0%)	121,335	-	-	-	121,335	465,171
(ii) North Sound (0%)	373,144	952,954	290,859	-	1,616,957	1,990,102
Total Long Term Liabilities:					18,144,827	19,382,774
Less Current Maturities:					(1,573,018)	(3,412,179)
					\$ 16,571,809	\$ 15,970,595

- a) (i) The FirstCaribbean loan represents a financing package of US\$ 22,350,000, which includes a US\$ 500,000 overdraft facility. The total package refinanced previous Barclays Bank and Caribbean Development Bank loans, and provided funding for the Bodden Town Water Supply project and Lower Valley Reservoir and Pumping Station project. The loan is provided at an interest rate of 1% over London Interbank Offered Rate (LIBOR) and is repayable, on a monthly basis, over a ten year period, which commenced on the 1st of March 1995. Monthly payments are due as follows:

1995 – November 1997 US\$ 200,000
November 1997 – 2004 US\$ 275,000

The FirstCaribbean loan is held in the name of the Water Authority and is secured by a guarantee by the Cayman Islands Government.

- (ii) On 17th August 1998 FirstCaribbean approved a credit facility of C\$ 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.

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the 12 month period Ended 30th June 2005
(Stated in Cayman Island Dollars)

6. Long Term Liabilities (continued)

- (iii) 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 (FCIB) and the Authority amended the Deed of Agreement dated December 29, 2000 and agreed to syndicate 1/3rd of the credit facility to Scotiabank and Trust (Cayman) Ltd. with the security being identical to FCIB. 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 2005, 78% (US\$ 10,430,000) of the loan balance was held with FCIB and 22% (US\$ 3,030,000) 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.

- c) (i) The Cayman Islands Government loaned the Authority CIS 4,822,349 for the development of the facilities in Grand Cayman. The loan is interest free and is being repaid in quarterly instalments of CIS 48,223 over a period of twenty-five years which commenced on the 1st of April 1995. This loan was increased in February 1997 by CIS 450,000 in exchange for a 1.3-acre parcel of land at Red Gate that was sold to the Water Authority by the Cayman Islands Government for the purpose of constructing the Administration Building. The increased portion of the loan was formalised on 27th December 2001. It is interest free and is being repaid by an initial instalment of CIS 90,000 and annual instalments thereafter of CIS 18,000 over a period of 20 years.
- (ii) The Cayman Islands Government loaned the Authority CIS 1,053,000 for the development of the facilities in Cayman Brac. The loan attracts interest at a fixed rate of 8% per annum and is repayable in quarterly instalments of CIS 17,550 over a period of 15 years which commenced on the 1st of April 1995.

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the 12 month period Ended 30th June 2005
(Stated in Cayman Island Dollars)

6. Long Term Liabilities (continued)

- d) The capital contribution loan represents the cost of certain capital work carried out in 1991 and funded by a customer to facilitate the Water Authority to construct a pipeline through a third party's property to provide the water connection to the customer concerned. The cost of this work was CI\$ 64,000. In 1995 management agreed to repay the loan in ten annual instalments of CI\$ 6,400 each. This loan is interest free and the first instalment was made on the 1st of June 1995.

- e) 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.

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.

7. Contributed Capital

Contributed capital of \$ 1,085,223 (2004: \$ 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).

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the 12 month period Ended 30th June 2005
(Stated in Cayman Island Dollars)

- (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 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 December 2001 | <u>\$148,463</u> |
- (iv) The total expenses recognised in the income statement:
- | | |
|---|-----------|
| Current service cost in the fiscal year 2004-05 | \$ 63,107 |
|---|-----------|
- (iv) PSL had no cost in the fiscal year 2001 Nil
- (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 2004-05 the Authority and its employees paid 5% and 5% respectively of salary contributions.

The total amount recognised as a pension expense for the 12 months ended 30 June 2004, inclusive of both the Public Service Pensions Fund and British Caymanian, was \$ 224,331 (2004: \$ 222,029).

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
For the 12 month period Ended 30th June 2005
(Stated in Cayman Island Dollars)

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 \$ 435,569 (2004: \$ 435,569)
2. The Authority recognized contributions to Government relating to the twelve months ended 30 June 2005 of \$ 150,000 (2004: \$ 150,000).
3. Government Contribution Payable \$ 375,000 (2004: \$ 225,000)

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 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) 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. Management of the Pension Plan confirmed in 2004-05 that the contribution rate is 12.26%.

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 current figure that the Authority has of its potential unfunded past service liability is \$148,463, which may or may not reflect the unfunded past service liability as at 30 June 2005. The unfunded past service liability amount of \$148,463 is once again recognized in the financial statements of the Authority, which was the balance outstanding as at 31 December 2001. A further actuarial valuation assessment effective 1 January 2002 has been completed, but has not been approved by Cabinet within the Cayman Islands Government. No further actuarial valuation has been completed since 1 January 2002 incorporating the new method of calculating the past service liability for the Authority as stated in the letter from the Financial Secretary.

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the 12 month period Ended 30th June 2005
(Stated in Cayman Island Dollars)

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

Subsequent to the start of the current fiscal period, the Cayman Islands, and the Water Authority 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 Water Authority sustained damage to its infrastructure, water distribution system and wastewater collection system. Management of the Water Authority worked together with Cambridge Horizon Consultants Inc. (CHCI) to secure interim financing of CI\$ 660,000 on the 9th of November 2004 to assist with the restoration of the Authority's assets. During the current fiscal period the Authority incurred expenses, net of an interim settlement, of CI\$ 1,230,250. Throughout the entire recovery (14 September 2004 to 1 December 2005) expenses of CI\$ 2,640,000 were incurred, CI\$ 2,222,000 in direct relation to the insurance claim and an addition CI\$ 418,000 in expenses that are not expected to be covered by the claim. The Authority expects to submit a final claim in early December 2005 and is expecting a further insurance cheque for approximately CI\$ 920,000, (CI\$ 2,222,000 less interim payment of CI\$ 660,000 and deductible of CI\$ 642,000).

On 24 November 2004 the Authority received a net payment of CI\$ 55,917 in full and final settlement of damage incurred to the fleet of vehicles as a result of Hurricane Ivan. In total 7 vehicles sustained flood damage and were subsequently written off, providing insurance proceeds of CI\$ 47,800 and 3 vehicles were identified as fixable and the Authority received a payment of CI\$ 8,200 to fix these vehicles.

As at 30 June 2005 management at the Authority deemed that although the Authority's infrastructure sustained damage, 100% of the revenue-producing customers have been reconnected and management does not deem that Ivan will have longstanding effects on the revenue producing capabilities of the Authority.