



The Water Authority of the Cayman Islands



Official Start of Phase 1 – North Side Water Supply Project November 2003

ANNUAL REPORT

For the 2003/04 Financial Year



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For

The Water Authority of the Cayman Islands

For the 2003/04 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 2004.

It includes information about the actual performance delivered during the year as compared to the planned performance as documented in the internal budget document as prepared by The Water Authority of the Cayman Islands (The Authority).

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

Throughout the 2003/04 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 island into areas such as the side roads in Gun Bay, John McLean Drive, main road between Frank Sound Junction and Botanic Road, Poindexter Road and phase 2 of the Linford Pierson Highway at a total combined cost of \$578,000.

To ensure that the population of the Cayman Islands had access to safe, efficient and affordable sewage treatment the Authority continued work on the new Wastewater Treatment Plant facility, spending \$8.4 million (59% of total project cost of \$14.2 million) in the twelve month period. Total expenditures to date on the project are 12.0 million.

During the course of the fiscal period The Authority sold 2.6 million m³ of water (2003: 1.2 million m³ for the 6 month period), which translates to approximately 7.1 million m³ / day as compared to 6.7 million m³ / day, and increase of approximately 4.3%. The Authority processed 2.0 million m³ of wastewater (2003: 0.95 million m³ for the six month period) in Grand Cayman. In Cayman Brac the amount of water sold in the 12 month period of 2003/04 was 0.08 million m³, compared to 0.04 million m³ in the 6 month period of 2003, which if extrapolated shows an increase of nil.

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 twelve month fiscal period the Authority had a positive net surplus and maintains its fiscal independence, contributing \$75,000 to the Government of the Cayman Islands and investing over \$9.8 million in capital infrastructure.

As at 30 June 2004, The Authority had a complement of 102 staff members, (30 June 2003: 98 staff members)

3. Strategic Goals and Objectives

Approved Strategic Goals and Objectives

The key strategic goals and objectives as outlined in the Revenue and Expenditure (June 2003) document for the twelve month period 1 July 2003 – 30 June 2004 were as follows:

- Commence professional design of extension of the Authority's administration building and preliminary preparation work.
- Continue work on the GCM WWTP (Grand Cayman Wastewater Treatment Plant)

Achievement during the Year

During the course of the twelve (12) month fiscal period the Authority successfully met the strategic Goals and Objectives.

Design for the extension to The Authority's administration building – the contract for the professional design services for the extension (estimated 10,000 square feet) was awarded to OBM Ltd. By 30 June 2004 the conceptual design and preparation of the contract documents were nearly complete. The cost of this project, to 30 June 2004 is \$76k, inclusive of OBM services, Lands and Survey expenses, a perimeter fence and miscellaneous other small expenditures.

Work continued on the GCM WWTP, with Phase I completed by 30 June 2004. Total expenditure of this project to 30 June 2004 is \$12.0 million, 7% of current expenditure spent in 2002 (\$0.8 million), 23% spent in 2003 (\$2.8 million) and the remaining 70% spent in 2003/04 (\$8.4 million). The entire project is expected to cost \$14.2 million (US\$17.2 million) and completed in 2004/05.

4. Ownership Performance Targets

Financial Performance

Financial Performance Measure	2003/04 Actual \$	2003/04 Budget (June 2003) \$	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	17,642,640	16,583,425	1,059,215
Surplus/deficit from outputs (Gross Operating Surplus)	7,453,229	6,320,406	1,132,823
Other expenses	12,336,277	13,037,043	(700,766)
Net Surplus/Deficit (Net Income for the Year)	5,306,363	3,546,382	1,759,981
Total Assets	55,995,246	60,061,639	(4,066,393)
Total Liabilities	23,265,049	27,269,055	(4,004,006)
Net Worth	32,730,197	32,792,584	(62,387)
Cash flows from operating activities	7,303,080	5,992,652	1,310,428

Cash flows from investing activities	(9,974,649)	(13,699,466)	3,694,817
Cash flows from financing activities	3,167,121	9,578,834	(6,411,713)
Change in cash balances	495,552	1,872,019	1,376,467

Financial Performance Ratio	2003/04 Actual \$	2003/04 Budget (June 2003) \$	Annual Variance
Current Assets: Current Liabilities	0.68	0.97	(0.29)
Total Assets: Total Liabilities	2.41	2.20	0.21

Explanation of Variances

Budgeted revenue figures as presented were prepared in June 2003 and were a fairly accurate reflection of actual figures, with an increase of 6% reflected.

The Authority's surplus from outputs was 18% higher than budgeted, primarily due to decreased expenses (5.4%), most notably the decrease in expected loan interest paid (\$264k) and personnel costs (\$480k).

An increase of 49% in Net Surplus figures over budgeted figures is a reflection of slightly stronger than anticipated sales figures and strong financial management.

Financial Performances: Balance Sheet

During the course of the 2003/04 budget process the Authority had planned to borrow over \$14.5 million in Long Term Debt, however only 53% of this planned borrowing took place, with Proceeds of Long Term Debt reduced to \$7.7 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 large budgeted projects not taking place in the original time frame of 2003/04. For example, the West Bay Sliplining Project (\$290k), only \$8.4 million spent on the WWTPW as compared to \$8.7million budgeted, the water storage tank at Red Gate was postponed to future years (\$755k), and most notably the extension to the office building, budgeted at \$980k, however did not happen in the 2003/04 fiscal period. The Authority's original plan to complete these projects was ambitious considering the limited available resources (both internal and external).

Although the budgeted cash position did not increase as much as expected, this position is reasonable as The Authority did not borrow the amount originally expected. The strong year end cash position of \$2.4 million allows The Authority future flexibility to complete required projects with minimal injection of traditional debt financing.

In Summary - The original projections for the 2003/04 fiscal period, as presented in the June 2003 document entitled "01 July 2003 - 30 June 2004, Estimates of Revenue and Expenditure" were consistent with that of the final performance of the Authority for the same period. The Authority is in a stronger financial position than originally budgeted, primarily as a result of moderate 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:

Ratios are consistent with the explanations as noted above.

Risk Management

Key risks	Status of Risk	Actions taken during 2003/04 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

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 and underground pipework) 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.

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	2003/04 Actual \$	2003/04 Budget (June 2003) \$	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	75,000	-	\$75,000
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	637,327	N/A	N/A
Remuneration Payments made to Senior Management	See above	See Above	See Above

	2003/04 Actual (@ 30 June 2004)	2003/04 Budget
No of Key Management Personnel	9	9
No of Senior Management	9	9

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)

Explanation of Variances

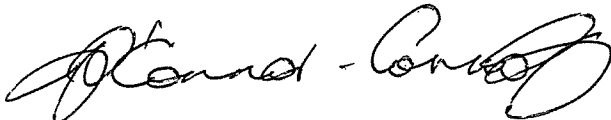
Transaction:

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 for the twelve month period is nine (9); The Director, Deputy Director, Engineering Manager, Water Operations Manager, Waste Water Operations Manager, Financial Controller, Customer Service 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 2003/04 financial year.



Hon Juliana O'Connor-Connolly
on behalf of the Cabinet



Chairman of the Board
Mr James Gill

Date: 17 August 2009

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

**THE WATER AUTHORITY
OF THE CAYMAN ISLANDS**

**FINANCIAL STATEMENTS
For the 12 Months Ended 30 June 2004**

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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 2004 as set out on pages 3 to 19 in accordance with the provisions of Section 17(1) of the Water Authority Law (1996 Revision), and Section 45(1) of the Public Finance and Audit Law (1997 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 2004, and the results of its operations and its cash flows for the twelve-month period then ended in accordance with International Financial Reporting Standards.

In rendering my certificate on the financial statements of the Water Authority of the Cayman Islands, I have relied on the work carried out on my behalf by a public accounting firm who performed their work in accordance with International Standards on Auditing.

Handwritten signature of Dan Duguay in black ink.

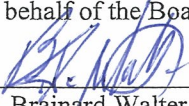
Dan Duguay, MBA, CGA
Auditor General


19 January 2005

Water Authority of the Cayman Islands
Balance Sheets
 As at 30th June 2004 and 2003
 (Stated in Cayman Islands Dollars)

CURRENT ASSETS	NOTES	2004	2003
Cash on Hand		\$ 2,050	\$ 1,950
Cash at Bank		2,425,273	1,929,821
Total Cash and Cash Equivalents		2,427,323	1,931,771
Accounts Receivable	4	1,975,712	1,715,589
Inventory	5	440,067	360,441
Prepaid Expenses		96,421	79,096
Total Current Assets		4,939,523	4,086,897
CURRENT LIABILITIES			
Accounts Payable		1,357,252	1,274,401
Government Contribution Payable	11	225,000	225,000
Loans Payable		321,783	239,136
Contract Retention Payable		1,179,699	374,114
Interest Payable	6	314	61,954
Customer Deposits		774,900	739,100
Customer Deposits on Construction Contract		23,327	23,327
Customer Project Loans	7	-	36,632
Current Maturities on Long Term Liabilities		3,412,179	4,546,897
Total Current Liabilities		7,294,454	7,520,561
NET CURRENT LIABILITIES		(2,354,931)	(3,433,664)
FIXED ASSETS			
Land – Freehold		3,157,599	3,139,599
Buildings		2,467,184	2,519,119
Water Supply System		23,920,286	23,606,565
Sewerage System		7,053,331	7,187,873
Other Assets		847,284	1,070,362
Construction in Progress		13,610,039	5,085,383
Total Fixed Assets	8	51,055,723	42,608,901
TOTAL NET ASSETS		48,700,792	39,175,237
LONG TERM LIABILITIES	9	(15,970,595)	(11,601,403)
NET ASSETS		32,730,197	27,573,834
EQUITY REPRESENTED BY:			
Contributed Capital	10	1,085,223	1,085,223
Retained Earnings		31,644,974	26,488,611
Total Equity		\$ 32,730,197	\$ 27,573,834

On behalf of the Board on the 19 of Jan. 2005


 Mr. Brainard 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 12 Month Period Ended 30th June 2004 and the 6 Month Period Ended 30th June 2003
(Stated in Cayman Islands Dollars)

INCOME	<u>Notes</u>	<u>2004</u>	<u>2003</u>
Gross Operating Revenue		\$ 16,794,105	\$ 7,881,238
Less: Operating Expenses		(9,340,876)	(4,447,055)
Gross Operating Surplus for the Year (period)		7,453,229	3,434,183
Sundry Income		848,535	410,541
Operating Surplus for Year (period)		8,301,764	3,844,724
OTHER EXPENSES			
Administrative Expenses		(2,995,401)	(1,509,060)
Net Income for Year (period)		5,306,363	2,335,664
Medical Expense Adjustment	9ciii	-	91,632
Net Income for the Year (period) after Medical Expense Adjustment		5,306,363	2,427,296
Retained Earnings at the Beginning of the Year (period)		26,488,611	24,136,315
Retained Earnings Before Contribution to Government		31,794,974	26,563,611
Contribution to Government	11	(150,000)	(75,000)
Retained Earnings at End of Year (period)		\$ 31,644,974	\$ 26,488,611

The accompanying notes form an integral part of these financial statements

Water Authority of the Cayman Islands

Statement of Income

For the 12 Month Period Ended 30th June 2004 and the 6 Month Period Ended 30th June 2003

(Stated in Cayman Islands Dollars)

OPERATING REVENUE	<u>2004</u>	<u>2003</u>
Water Sales	\$ 13,750,673	\$ 6,412,686
Sewerage Fees	2,698,046	1,315,373
Connection and Miscellaneous Fees	264,977	116,945
Septage Disposal	70,566	31,066
Agency Work	9,843	5,168
Total Operating Revenue	<u>16,794,105</u>	<u>7,881,238</u>
 SUNDRY INCOME		
Royalties	778,883	359,927
Other	59,861	34,498
Statutory Licencing Fees	9,791	14,489
Interest Earned	-	1,627
Total Sundry Income	<u>848,535</u>	<u>410,541</u>
 TOTAL REVENUE	<u>\$ 17,642,640</u>	<u>\$ 8,291,779</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 2004 and the 6 Month Period Ended 30th June 2003
(Stated in Cayman Islands Dollars)

OPERATING EXPENSES	NOTES	2004	2003
Water Purchases		\$ 4,075,366	\$ 1,861,418
Depreciation Expense	8	1,377,531	777,680
Salaries		1,380,589	629,581
Wages		893,032	419,846
Repairs and Maintenance		464,015	135,244
Supplies		419,670	260,480
Loan Interest		338,212	166,576
Electricity		335,700	161,792
Miscellaneous		44,426	28,271
Land Lease Expense	13	12,335	6,167
Total Operating Expenses		9,340,876	4,447,055
ADMINISTRATIVE EXPENSES			
Salaries		1,319,065	623,366
Staff Training and Benefits		763,734	336,081
Telephone and Utilities		195,303	95,592
Insurance		173,202	67,857
Depreciation Expense	8	150,296	78,804
Miscellaneous		145,541	86,669
Licenses and Dues		60,446	27,441
Audit Fees		52,362	27,163
Office and Lab Supplies		49,848	65,314
Repairs and Maintenance		32,144	13,310
Loan Interest		23,487	19,532
Bad Debt Expense		23,000	64,883
Office Rental		3,600	1,800
Legal Fees		3,373	1,248
Total Administrative Expenses		2,995,401	1,509,060
TOTAL OPERATING AND ADMINISTRATIVE EXPENSES		\$ 12,336,277	\$ 5,956,115

The accompanying notes form an integral part of these financial statements

Water Authority of the Cayman Islands
Statement of Cash Flows

For the 12 Month period Ended 30th June 2004 and the 6 Month Period Ended 30th June 2003
(Stated in Cayman Islands Dollars)

CASH FLOW FROM OPERATING ACTIVITIES	<u>NOTES</u>	<u>2004</u>	<u>2003</u>
Net Income for Year (period)		\$ 5,306,363	\$ 2,335,664
Adjustments to Reconcile Net Income to Net Cash Provided by:			
Operating Activities			
Depreciation		1,527,827	856,484
Interest Earned		-	(1,627)
Interest Expense		361,699	186,108
		<hr/>	<hr/>
		7,195,889	3,376,629
 Net Change in Working Capital			
Interest Paid		(423,339)	(159,321)
Accounts Receivable		(260,123)	143,420
Inventory		(79,626)	18,409
Prepaid Expense		(17,325)	(21,365)
Accounts Payable		82,851	700,864
Contract Retention Payable		805,585	275,654
Customer Deposits		35,800	13,489
Customer Project Loans		(36,632)	(312)
		<hr/>	<hr/>
Net Cash Provided by Operating Activities		7,303,080	4,347,467
 CASH FLOW FROM INVESTING ACTIVITIES			
Interest Received		-	1,627
Cost of Fixed Assets Purchased		(1,449,993)	(644,414)
Construction in Progress		(8,524,656)	(2,961,303)
		<hr/>	<hr/>
Net Cash Used by Investing Activities		(9,974,649)	(3,604,090)
 CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds of Long Term debt		7,685,247	1,937,189
Repayment of Long Term Debt		(4,450,773)	(2,024,216)
Loans Payable		82,647	7,827
Contribution to Government		(150,000)	-
		<hr/>	<hr/>
Net Cash Used by Financing Activities		3,167,121	(79,200)
 Net Increase in Cash and Cash Equivalents During the Year (period)		495,552	664,177
Cash and Cash Equivalents at the Beginning of the Year (period)		1,931,771	1,267,594
		<hr/>	<hr/>
Cash and Cash Equivalents at End of Year (period)		\$ 2,427,323	\$ 1,931,771

The accompanying notes form an integral part of these financial statements

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the 12 Month Period Ended 30th June 2004
(Stated in Cayman Island Dollars)

1. Change of fiscal period

In 2003 the fiscal period for the Water Authority of the Cayman Islands ("the Water Authority") was changed so that the fiscal year ends on 30 June each year to match a similar change in the fiscal period of the Government of the Cayman Islands. Thus, the period presented for 30 June 2004 is for 12 months; however the prior years figures are for the six months ending 30 June 2003, which are therefore not comparable.

2. Establishment and Principal Activity

The Water Authority is a statutory body 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 2004, the Water Authority had 102 employees (30 June 2003: 98 employees). The Water Authority is located at 13 G Red Gate Road, P.O. Box 1104 George Town, Grand Cayman, Cayman Islands.

3. 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 2004
(Stated in Cayman Island Dollars)

3. 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 has now decided to recognize the asset, calculated as the cost of water plus chemicals multiplied by the volume of water. This change in accounting policy was accounted for prospectively as it was not considered a material change.

(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 2004
(Stated in Cayman Island Dollars)

3. Significant Accounting Policies (continued)

(i) Employees benefits

- (i) For the twelve-month period ended 30 June 2004 the Water Authority changed its accounting policy with respect to the recognition of accrued employee benefits at 30 June 2004. In previous periods the Water Authority did not recognise this liability in the financial statements. The Water Authority has now decided to recognize this liability, calculated as the value of vacation days owed to employees at 30 June 2004. This change in accounting policy was accounted for prospectively as it was not considered a material change.
- (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.

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4. Accounts Receivable		<u>30 June 2004</u>	<u>30 June 2003</u>
	Trade Receivables	\$ 2,259,189	\$ 2,039,619
	Non Trade Receivables	140,597	99,693
	Provision for Bad Debts	(424,074)	(423,723)
		<u>\$ 1,975,712</u>	<u>\$ 1,715,589</u>
5. Inventory		<u>30 June 2004</u>	<u>30 June 2003</u>
	Water Supply and Sewerage Materials	\$ 399,298	\$ 369,022
	Water Inventory	41,821	-
	Provision for Obsolete Inventory	(1,052)	(8,581)
		<u>\$ 440,067</u>	<u>\$ 360,441</u>
6. Interest Payable		<u>30 June 2004</u>	<u>30 June 2003</u>
	On Customer Deposits	\$ -	\$ 32,912
	Loan Interest Payable	314	29,042
		<u>\$ 314</u>	<u>\$ 61,954</u>

Section 9 of the Water Authority Regulations, 1988 specified that interest be calculated on customers' deposits at the rate of 5% per annum from the date of payment of the deposits, and the interest earned shall be added to the customers' deposits. This section of the Regulations was revoked on the 8th of February 1994. Interest payable on customer deposits has been calculated only on deposits which were taken before the 8th of February 1994 and which the Authority held on the date of these financial statements. Interest has been accrued up until the date on which the Regulation was revoked. During the current fiscal period interest on customer deposits was paid out.

7. Customer Project Loans

Customer project loans represented balances outstanding at the period-end in respect of funds collected from private individuals to carry out capital works in the South Sound area of George Town in 1989. These funds are interest free and are repayable by way of a 10% rebate on the individual's annual water consumption charges. During the current fiscal period these outstanding balances were repaid to the individual customers, either by credit to their current water accounts, or by cheque.

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8. Fixed Assets

Cost	Freehold Land	Buildings	Water Supply	Sewerage	Other Assets	Construction In Progress	Total
At 30 June 2003	3,139,599	2,711,713	29,942,772	11,411,779	3,335,232	5,085,383	55,626,478
Additions	18,000	-	15,065	6,690	169,959	9,788,403	9,998,117
Disposals	-	-	-	-	-	-	-
Transfers between fixed assets	-	2,299	1,202,956	58,492	-	(1,263,747)	-
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
Accumulated Depreciation							
At 30 June 2003	-	192,594	6,336,207	4,223,906	2,264,870	-	13,017,577
Charge for Year	-	54,234	904,300	199,724	369,569	-	1,527,827
Disposals	-	-	-	-	-	-	-
Capitalized during construction	-	-	-	-	23,468	-	23,468
At 30 June 2004	-	246,828	7,240,507	4,423,630	2,657,907	-	14,568,872
Net Book Value							
At 30 June 2003	<u>\$ 3,139,599</u>	<u>\$ 2,519,119</u>	<u>\$ 23,606,565</u>	<u>\$ 7,187,873</u>	<u>\$ 1,070,362</u>	<u>\$ 5,085,383</u>	<u>\$ 42,608,901</u>
At 30 June 2004	<u>\$ 3,157,599</u>	<u>\$ 2,467,184</u>	<u>\$ 23,920,286</u>	<u>\$ 7,053,331</u>	<u>\$ 847,284</u>	<u>\$ 13,610,039</u>	<u>\$ 51,055,723</u>

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. A part of the existing works would be decommissioned in the fourth quarter of 2003. 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 getting the loan, the Authority had financed the cost of the wastewater treatment works project from revenue. See Note 9 (a) for the terms of the loan.

b) Accelerated Depreciation – Sewage Treatment

In 2000 there was an assessment of the extent of accelerated depreciation required in future years, to write-down part of the capitalized cost of the existing sewerage system by the prospective 2003 decommissioning date. The total amount of accelerated depreciation to be recognized in 2000, 2001, 2002 and 2003 was \$ 844,709. The accumulated accelerated depreciation was completely recognised by 30 June 2003 and therefore no accelerated depreciation was recognized in the 30 June 2004 financial statements (2003: \$ 120,673).

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8. Fixed Assets (continued)

The water supply system and sewerage system includes the cost of mechanical and electrical equipment, and machinery. Other assets include the costs of tools and equipment, office furniture and equipment, and vehicles.

c) Construction in Progress

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

	2004	2003
1. Contractor services relating to the 2.5 MGD upgrade of the West Bay Beach Sewage Treatment Works. See also Note 9	\$ 12,087,333	\$ 3,569,654
2. 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	969,057
3. North Side water supply extension	131,374	-
4. Sewer in Crystal Harbour	91,773	-
5. Extension to existing Administration Building	76,208	-
6. Site investigation for possible Eastern Site	19,062	7,719
7. Construction of Booster Station at Shamrock Road	7,956	4,875
8. Agricola Road supply extension	5,775	-
9. West Bay Slipling Project	151	-
10. East End water supply Extension	-	220,479
11. Cayman Brac Plant upgrade	-	153,759
12. Construction of Frenchman's Drive	-	149,317
13. Construction of the Crewe Road By-Pass	-	10,523
	<u>\$ 13,610,039</u>	<u>\$ 5,085,383</u>

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9. Long Term Liabilities

		2004					
LONG TERM LIABILITIES (Interest Rate)		Current	1-2 yrs	2-5 yrs	5+ yrs	2004	2003
a)	First Caribbean International Bank (Cayman) Limited						
(i)	Water Supply and Sewerage (2.3%)	1,318,827	-	-	-	1,318,827	4,003,600
(ii)	Administration Building Loan (2.6%)	122,749	245,498	368,247	249,021	985,515	1,111,226
(iii)	Waste Water Treatment Works Loan						
	LIBOR note # 107762 (2.2%)	-	500,000	-	-	500,000	500,000
	LIBOR note # 107763 (2.4%)	811,653	1,623,307	2,434,960	5,069,142	9,939,062	2,690,459
b)	Caribbean Development Bank Water Supply (6.0%)	154,475	305,266	-	-	459,741	614,216
c)	Cayman Islands Government						
(i)	Grand Cayman (0%)	210,894	421,788	632,682	2,066,492	3,331,856	3,542,750
(ii)	Cayman Brac (8.0%)	70,200	140,400	175,500	-	386,100	456,300
d)	Capital Contribution Loan (0%)	6,400	-	-	-	6,400	12,800
e)	Ocean Conversion (Cayman) Ltd.						
(i)	Red Gate (5.0%)	343,836	121,335	-	-	465,171	853,704
(ii)	North Sound (0%)	373,145	746,288	870,669	-	1,990,102	2,363,245
		Total Long Term Liabilities:				19,382,774	16,148,300
		Less Current Maturities:				(3,412,179)	(4,546,897)
						<u>\$ 15,970,595</u>	<u>\$ 11,601,403</u>

- 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.

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9. 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.

- b) The Caribbean Development Bank (CDB) water supply loan is to be repaid over 15 years at variable interest rates of 5.5% to 7.5%. Repayment commenced on the water supply loan in quarterly instalments in March 1992. The principal repayments currently being made on this loan are approximately US\$ 46,250 each quarter, plus interest.

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

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

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9. Long Term Liabilities (continued)

- (iii) The loan payable to the Cayman Islands Government was for medical expenses in respect of injuries incurred by a cyclist in 1991 for which the Water Authority had previously assumed liability. This loan was forgiven by the Cayman Islands Government in 2003 and removed from the accounting records of both the Government and the Water Authority.
- 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.

10. Contributed Capital

Contributed capital of \$ 1,085,223 (2003: \$ 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 8).

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11. 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 (2003: \$ 298,785)
2. The Authority recognized contributions to Government relating to the twelve months ended 30 June 2004 of \$ 150,000 (2003: \$ 75,000).
3. Government Contribution Payable \$ 225,000 (2003: \$ 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 12 the Authority and its eligible employees paid contributions to the Public Service Pensions Fund during the year.

12. Pensions

a) Public Service Pensions Plan

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. Pensions management confirmed in 2003 that the contribution rate is 12.26%.

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 2003-04 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 \$ 222,029 (2003: \$ 105,538).

13. 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.

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14. Commitment

Commitment at 30 June 2004 is as follows:

Authorised and Contracted	Cost Incurred to 30 June 2004	Estimated Cost to Completion	Total Cost
Grand Cayman Waste Water Treatment Plant	12,087,333	2,288,427	14,375,760
	<u>\$ 12,087,333</u>	<u>\$ 2,288,427</u>	<u>\$14,375,760</u>

In November 2002 the Water Authority started construction on the Sewerage Treatment Plant, see note 9 a) iii), and is anticipated to be operational by August 2004.

15. 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 9.

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.

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16. Subsequent Event

Subsequent to the balance sheet date of 30 June 2004, 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. Although there is no detailed estimate of the cost of the damages at this time for the Water Authority, it is estimated by management that damage to insurable assets may be CI\$ 3.0million. The costs of insurable damages are anticipated to be covered by insurance less deductible. The underground water mains and sewers are not insured and also sustained damage, management estimates the cost of damage to the water supply and sewerage systems to be CI\$ 0.8 million.

On 2 November 2004 the Water Authority, under the direction of the Board of Directors, engaged Cambridge Horizon Consultants Inc. (CHCI) to assist with the insurance claim. CHCI will represent the Authority with the insurance company on a contingency fee basis.

Revenue for the first two months after the Hurricane was slightly above budget forecast, however as economic conditions may take several months to have a definitive effect, management of the Water Authority remains cautious regarding future revenue predictions at this stage.