

Water Authority of the Cayman Islands Annual Report --- 2016-2017



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MESSAGE FROM THE CHAIR



On behalf of the Board of the Water Authority of the Cayman Islands (the “Authority”), I am pleased to present the 2016/2017 Annual Report.

This Annual Report outlines the performance of the Authority during the 2016/2017 fiscal period and compares it to the planned performance documented in the Ownership Agreement for the Authority, or as amended through the supplementary appropriation process, and also against prior year performance. The requirement for an Annual Report is prescribed under section 52 of the Public Management and Finance Law (2013 Revision) (PMFL).

This report highlights the key strategic goals of the organisation, the achievements throughout the period and the plans for the upcoming financial period.

Having been part of the initial formation of the Authority in 1983, I am honoured to return almost 35 years later as Chairman of the Water Authority Board.

Since its inception, the Authority has worked to keep pace with the rapid economic growth and development of these islands and the

resulting need for increased water and wastewater infrastructure. From the widening of the Esterley Tibbetts Highway to the planned development of a boutique hotel on North Church Street, the pace of development shows no sign of slowing down and the Authority continues to meet the challenges associated with these large projects.

I am also proud of the Authority’s continued efforts to demonstrate corporate responsibility in the local community. In addition to raising money for a different local charity each year through the annual Project Angel Tree, the staff of the Authority are also regular participants in charitable walk/runs and routinely host dress down day fundraisers.

I would like to sincerely thank all Water Authority Board Members and, on behalf of the Board, to thank each and every staff member of the Water Authority for their continued hard work and organisational commitment. Thank you for helping to make 2016/2017 another successful period!

Water Authority Board Chair
Kearney Gomez, MBE, JP

MESSAGE FROM THE DIRECTOR



Having served as Director of the Authority since 2000, I am honoured to present the 2016/2017 Annual Report on behalf of the Authority's management team and staff. The Water Authority continues to shine, both in the Cayman Islands and beyond our borders, as an example of a well-managed utility that continues to deliver impressive results both in terms of revenue and service deliverables to our valued customers.

Water & Wastewater Operations

Over the past 18 months, the Authority's operations have continued to expand both in Grand Cayman, with the completion of several major water and wastewater projects, and Cayman Brac, where our New Works crew is working diligently on the Piped Water Expansion Project.

In the 2016/2017 period, the total number of active water service connections increased by 588 in Grand Cayman and by 51 in Cayman Brac.

Indeed, Phase II of the Piped Water Expansion Project in Cayman Brac saw the installation of approximately 8,450ft of pipeline installed along the main road and several side

roads between the West End Primary School to Faith Hospital.

The Authority's wastewater operations also continue to expand and a total of 44 new sewerage service connections were made during the last fiscal period.

Regulatory Changes

This fiscal period has also been one of change for the Authority: In May 2017, the Utility Regulation and Competition Office (OfReg) became the economic regulator of the water and wastewater sector in the Cayman Islands. Therefore, the Authority has relinquished its regulatory functions and is cooperating with OfReg to establish the appropriate regulatory framework.

Successful Audits – Laboratory, Finance

I am pleased to note that this Annual Report will highlight the dedication of our Laboratory Manager Marcela Martinez-Ebanks and her team for once again achieving a successful audit under the American Association for Laboratory Accreditation, as well as that of Financial Controller Lori Bergman and her team for achieving an unqualified financial audit report.

The Laboratory has maintained its international accreditation successfully since 2002 and the Authority was recognised in January, 2018, for achieving unqualified financial audit reports since 2014.

Community First – The WAC Way

As those who follow our quarterly newsletters and posts on social media will know, the Authority's Board and staff consistently give back to the local community through participation in charity athletic events, fundraising dress down days, and our annual

internal fundraising initiative – “Project Angel Tree”. The 2016 recipient of Project Angel Tree was the Lions Club of Cayman Brac’s “Kids Pantry Project”, which aims to provide nutritious snacks to children who would otherwise go hungry. The 2017 recipient of the funds was Meals on Wheels, which provides seniors, the homebound and the disabled with warm, nutritious meals.

I am pleased to note that the Authority also continued to expand its educational outreach by partnering with representatives from Cayman Water Co. to form a Joint Education Programme to bring a unique educational experience to large school groups who cannot be as easily accommodated with a physical tour of the Authority’s facilities.

The Authority’s staff also put together a team to compete in the Cayman Islands Little League Adult Coed Softball League for the first time. This staff-led initiative has helped foster unity, team spirit and healthy activity within the Authority!

Looking Ahead: 2018 & Beyond

Next year will mark the Authority’s 35th Anniversary of service to the Cayman Islands since it was established in 1983. This landmark milestone will offer us a unique perspective on the challenges and achievements of the last three-and-a-half decades.

Although much has been accomplished since the Water Authority was established so many years ago, there is still a great deal of work to be done to achieve the mission of providing the entire population of the Cayman Islands with pure, wholesome and affordable water. Our current project in Cayman Brac is estimated to take at least another 10 years to complete and, during that time, we must move ahead with plans

to introduce public water service to the residents of Little Cayman for the first time.

However, with the continued hard work of the Authority’s staff, the dedication of the Authority’s Board and management team, and the support of the Ministry of Education, Youth, Sports, Agriculture and Lands, I am confident that these lofty goals will be achieved.

As public servants, our primary loyalty will always be to the Caymanian people whom we serve. Water is life, sanitation is dignity, and we are proud to be providers of these essential services in the Cayman Islands.

Water Authority Director

Gelia Frederick-van Genderen, PhD



GENERAL INFORMATION

GENERAL INFORMATION



MISSION STATEMENT

The Authority's mission is:

- To ensure that the entire population of the Cayman Islands has access to a pure, wholesome and affordable supply of potable water.
- To protect and develop ground water 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.

GOVERNANCE

The Authority is a statutory authority that falls under the portfolio of the Ministry of Education, Youth, Sports, Agriculture & Lands (EYSAL).

As at 31 December 2017 the minister responsible for that portfolio is the Honourable Juliana O'Connor-Connolly, JP.

The Authority's operations are governed by the Water Authority Law, the Water Authority Regulations, the Water Collections and Treatment Law, and the Water (Production and Supply) Law.

The Authority operates under the guidance of a Cabinet appointed Board.

As of 22 May 2017, legislation came into force that made the Utility Regulation and Competition Office (OfReg) the economic regulator of the water and wastewater sector. Therefore, the Authority has relinquished its regulatory functions to OfReg. OfReg is also responsible for creating and implementing a regulatory framework to regulate the Authority.

SCOPE OF ACTIVITIES

The Water Authority of the Cayman Islands (the Authority) is a statutory body, wholly owned by the Government of the Cayman Islands (the "Government"), established on 01 January 1990, under the Water Authority Law (Law 18 of 1982), as amended.



Minister Juliana O'Connor-Connolly visits the Water Authority Lab.

The 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.

The Authority has a 10 Year Development Plan to predict and plan for expected growth and development. This plan is dynamic and modified with the changing needs of the islands.

MANAGEMENT DISCUSSION & ANALYSIS

INTRODUCTION

The past year has been a successful one for the Authority, strong performance over revenue streams, continued growth in the Cayman Islands. We provide safe, refreshing drinking water to over 18,000 customers and wastewater services to over 400 customers.

AUDIT POSITION

The Authority was honoured on 24 January 2018 by the Public Accounts Committee (PAC) for “demonstrating business excellence and the highest standards of ethical conduct and integrity responsibility” from the PAC and received commendation for receiving an unqualified audit opinion for 2015/16.

KPMG has been the main auditors for the last 6 audits, working together with the Office of the Auditor General (OAG) to jointly issue an audit report on the financial statements for the Authority. It is expected that future audits will be put out to competitive bid under the direction and control of the OAG.



The Authority was lauded by the PAC for receiving an unqualified audit report.

FINANCIAL POSITION

The Cayman Islands Government announced in 2015/2016 that the entire government organization will revert back to calendar years as the financial period, moving away from the July – June reporting period. To accommodate this directive the Authority has prepared 18-month financial reports, as shown in Appendix A.

The past 18-month period has been a successful one for the Authority, strong performance over revenue streams and continued growth in the Cayman Islands have allowed the Authority to operate independently without outside financial assistance. To effectively evaluate the operating performance of the Authority one needs to be cognitive of the effect on net income of the health and pension obligations, whilst valid expenses they need to be omitted from operational evaluation.

The Authority will draw on this financial strength in the years ahead as we proceed with some critical investments, most notably the expansion of the Cayman Brac water distribution system and planned works on the BWW (Bluff Water Works).

Sound financial stewardship of the Authority is essential to the islands. The ability to expand and enhance the infrastructure of the islands is integral to keep up with the rapidly growing population numbers and the continued economic growth. With the continued moratorium of external borrowing, as introduced by the Cayman Islands Government in 2010 the Authority relies on its strong cash position to be able to continue with scheduled capital projects.

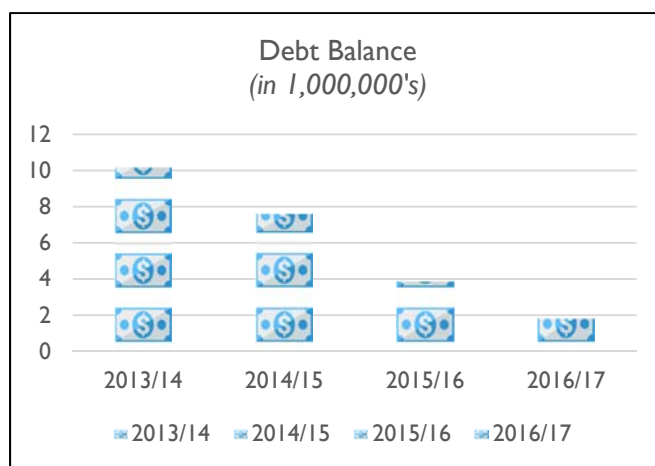
At the 270th Board meeting, held on 18 May 2016 the Board Members approved for the Water Authority to engage with actuaries to determine the defined benefit healthcare plan for members of the defined benefit pension plan, who previously based on their conditions of employment, would have been able to access post-retirement health benefits as central government.

Six-months later at the 275th Board meeting, held on 16 November 2016 the Authority was instructed by the Board to engage actuaries to determine the defined benefit healthcare liability for non-pension employees for the period ended 31 December 2017, providing a level of coverage for all employees. Both of these reports were commissioned via the Public Service Pension Board whom engaged Mercer on the Authority's behalf. Liability for the pension employee defined benefit healthcare plan was confirmed at \$5.6 million at 30 June 2016 and stayed steady at \$5.6 million at 31 December 2017. The non-pension health care was valued at \$12.5 million, both obligations are stated on the Statement of Financial Position as at 31 December 2017.

The Board of the Authority is committed to providing a level of post-retirement health care to all its employees, commissioning the reports and recognizing the full estimated liability during each financial period. These valuations are fluid and expected to fluctuate in each financial period as they are dependent on the group of eligible employees and on actuarial assumptions. Most notably in this financial period is remeasurement based on the effect of changes in economic assumptions, which has caused significant increased projections as the global market expects the interest rates to increase. There is also a reasonable expectation that with the aging workforce, increased number of eligible employees and rising costs of global healthcare that the liabilities will continue to grow.

Debt balances have continued to decrease during the period. There have been no new borrowings since June 2010 and existing debt is consistently being paid down. The only remaining loan at 31 December 2017 (\$1.8 million) will be re-paid in its entirety in June 2019.

During the period the Board approved dividend payments totalling \$250,000 (2016: \$100,000) to the Cayman Islands Government.



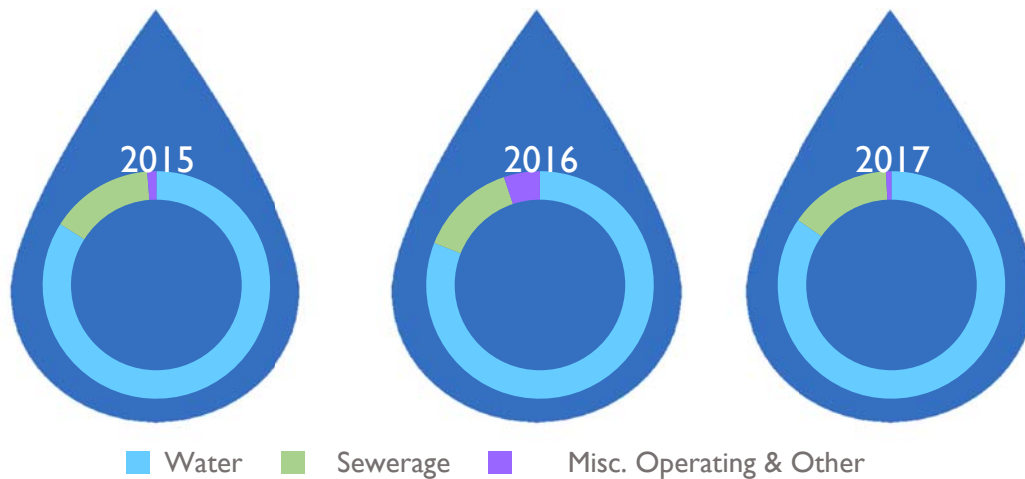
RESULTS FROM OPERATIONS

Total revenues of \$44.1 million in fiscal 2016/2017 (2016: 28.9 million) was derived from 3 main sources: Sale of potable water, treatment of wastewater and miscellaneous inclusive of royalties.

Water Revenue: The Authority collected nearly \$37.4 million in water revenue during the 18-month in the period (2016: \$24.5 million), of which 96.8% or \$36.2 million was generated on the island of Grand Cayman and the remaining 3.2% (\$1.2 million) was earned on the island of Cayman Brac

Wastewater Treatment: The Authority collected \$6.6 million in wastewater revenue in the 18-month period ending 31 December 2017 (2016: 4.3 million). The slight increase on pro-rated numbers is directly related to extensive development in or near the Camana Bay Establishment.

The structure of the revenue within the Authority remained relatively unchanged over the last 3 years, with the majority of the income continuing to come from the Water sales, followed by Sewerage fees.



Expenses and Net Income: Expenses, with close and prudent financial management stayed in line with prior years (pro-rated). The Authority is subject to rate variations by external vendors, the fuel expense fluctuations are integral to the production / distribution of water and treatment of wastewater. Under the Administrative category it is noted that legal and professional fees increased as the Authority engaged KPMG to conduct a 6-month audit and incurred legal fees for assistance with the introduction of the OfReg office.

It is expected that interest expense will continue to decrease as there have been no debt commitments since June 2010 and the last remaining loan will mature in June 2019.

A noteworthy inclusion in the 2016/2017 financial period was the formal recognition of the Non-pension Employee Defined Benefit Healthcare Plan for all staff members. As noted above in the management discussion a decision was made to value and include in the financial records the liability to provide post-retirement health care for all employees. This additional recognition of \$10.1 million, together with the fluctuations within the period for previously recorded liabilities of pension and health obligations has significantly impacted the net loss for the period, which directly contribute to the consecutive net losses of \$1.1 million (2017) and \$1.1 million (2016). An overall net impact of \$11.5 million (\$10.8 million in administration expenses and \$0.7 million in remeasurement adjustments) has correctly been recorded in the 2016/2017 financial accounts, and it is acknowledged that annual actuarial valuations of these liabilities will affect the comprehensive income/(loss) by the remeasurement amounts.

SUMMARISED STATEMENT OF OPERATIONS

REVENUES	01 JUL 2016 - 31 DEC 2017	01 JUL 2015 - 30 JUN 2016
Water Sales	37,345,047	24,499,468
Sewerage Fees & Septage Disposal	6,640,197	4,327,186
Miscellaneous Fees	133,834	58,968
Total Operating Revenue	44,119,078	28,885,622
OPERATING EXPENSES		
Water Production	9,699,592	6,833,885
Depreciation	5,628,452	4,237,139
Salaries and Wages	6,367,265	4,177,494
Repairs & Maintenance	2,426,529	1,830,171
Supplies & Utilities	2,568,848	1,632,491
Miscellaneous	395,254	287,306
Impairment	-	297,781
Total Operating Expenses	27,085,940	19,296,267
FINANCE COSTS	\$ 276,740	\$ 325,874
Gross Operating Profit		
OTHER INCOME	2,152,695	1,357,847
Operating Profit	18,909,093	10,621,328
ADMINISTRATIVE EXPENSES		
Non-pension employee healthcare benefits	10,145,000	-
Pension employee healthcare benefits cost	440,000	5,228,000
Defined benefit pension cost	248,000	202,000
Salaries, Training and Benefits	5,514,556	3,482,510
Insurance	991,924	743,214
Legal and Professional	538,809	273,637
Information Systems	456,662	304,240
Telephone and Utilities	581,964	382,130
Depreciation expense	202,266	134,598
Miscellaneous	920,493	921,497
Total Administrative Expenses	20,039,674	11,671,826
NET LOSS FOR THE PERIOD/YEAR	(1,130,581)	(1,050,498)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Remeasurement of defined benefit pension plan	1,132,000	(666,000)
Remeasurement of pension employee Healthcare	546,000	(438,000)
Remeasurement of pension employee healthcare	(2,360,000)	(438,000)
COMPREHENSIVE LOSS FOR THE PERIOD/YEAR	(1,812,581)	(2,154,498)



PRIORITIES & ACHIEVEMENTS

PRIORITIES & ACHIEVEMENTS

The following infographics summarise six strategic priorities that are vital to the Authority and to the customers within the Cayman Islands, as well as our progress over the last 18-months on achieving these strategic goals.

STRATEGIC PRIORITIES



GCM - Maintain Water Production, Capacity, Distribution & Storage

- Water Production: Assume daily operations control over all RO plants.
- Extend new infrastructure into required areas and repair and maintain existing infrastructure.

GCM - Maintain Adequate Infrastructure to Operate Efficiently

- Fleet Management.
- Continuous upgrades and extensions as necessary.



Maintain Financial Integrity

- Adequate income and cash reserves to continue to be self-sufficient.
- Ability to self-finance all capital and operational expenditures.
- Ensure compliance with PMFL in regards to the preparation of audited financial statements.



CYB - Water Distribution Extension and Bluff Water Works Facility

- Provide access to piped water to 80% of the residents of the Brac by 2030.
- Develop the Bluff Water Works Facility to better serve the residents of Cayman Brac.



WASTEWATER - Improve Integrity of Existing Collection System and Future Extensions

- Maintain existing system.
- Provide service to new subdivisions.



Statutory Requirements

- Representation on advisory boards, protecting the islands' natural resources.
- Active participation in HDMI - Hurricane Committee.
- Develop and maintain groundwater management strategies.

STRATEGIC ACHIEVEMENTS CONT.



GCM - Maintain Water Production, Capacity, Distribution & Storage

- Lower Valley: Supplied and installed new submersible pumps
- Red Gate Site: Awarded the contract to construct a new water distribution pumping station to Island Builders
- Installed approximately 0.5 mile of pipeline extensions.
- Installed 289 new water service connections.

GCM - Maintain Adequate Infrastructure to Operate Efficiently

- GCM: Changed out ____ meters.
- Maintained a fleet of over 100 pieces of equipment.
- Initiated the purchase of a new Water Tanker Truck for the Brac.



Maintain Financial Integrity

- Maintained strong sales and cash flows.
- Paid off outstanding loans in the amount of CI\$2.1 million.



CYB - Water Distribution Extension and Bluff Water Works Facility

- Extension: Approximately 1,000m of 200mm pipe and 800m of 400mm pipe was installed on Phase II (east of West End Primary School).
- Installed 100 new water service connections.
- Site Preparation: Cleared and filled 11,365m² of land, leaving indigenous trees and a vegetation buffer of approximately 30m.



Statutory Requirements

- Transferred responsibility for licencing plumbers to Planning Department.
- Maintained A2LA Accreditation since 2002.
- Coordinated licencing of quarries, canals, abstraction and disposal wells.
- Economic regulation of water and wastewater sector transferred to OfReg.

WASTEWATER - Improve Integrity of Existing Collection System and Future Extensions

- Replace Sewer Force Main: Installed 4,300 linear feet of 24" nominal diameter High Density Polyethylene (HDPE) pipe between the main sewage pumping station on West Bay Road and the Authority's Grand Cayman Wastewater Treatment Plant.
- New Lift Stations for Crystal Harbour: Wastewater pumps, pump control panels and ancillary electrical and mechanical equipment were installed in two pump station structures to accommodate the recently completed portions of Crystal Harbour.



Over the 18-month fiscal period, the Authority has made significant strides in terms of the strategic priorities listed in the 2015/2016 Annual Report, particularly as it concerns the Piped Water Expansion Project in Cayman Brac and maintaining water production, capacity, distribution and storage in Grand Cayman.

In August 2017, the Authority sent a new water tanker truck to Cayman Brac, bringing the total number of water tankers on the island to seven. The truck, which has a carrying capacity of 4,000 US gallons, was purchased to ensure the Authority can meet the demands of the Cayman Brac Sports & Hurricane Complex until the piped water supply extends to the complex.

In September 2017, the Authority completed Phase II of the Piped Water Expansion Project which extended the mainline from the West End Primary School to Faith Hospital. The Authority's team then commenced work to install an additional 6,650ft of pipelines along Ryan's Drive, Stake Bay Road, Hideaway Link, Kirkconnell Street, Harold Drive and Sheldons Way.

Over the next two years, the Authority is set to invest an additional \$6.7m in Cayman Brac to further expand the existing pipeline and construct a new water production, storage and pumping facility located on the Bluff at a higher elevation to ensure its reliable long-term operation and improve security of the island's water supply.

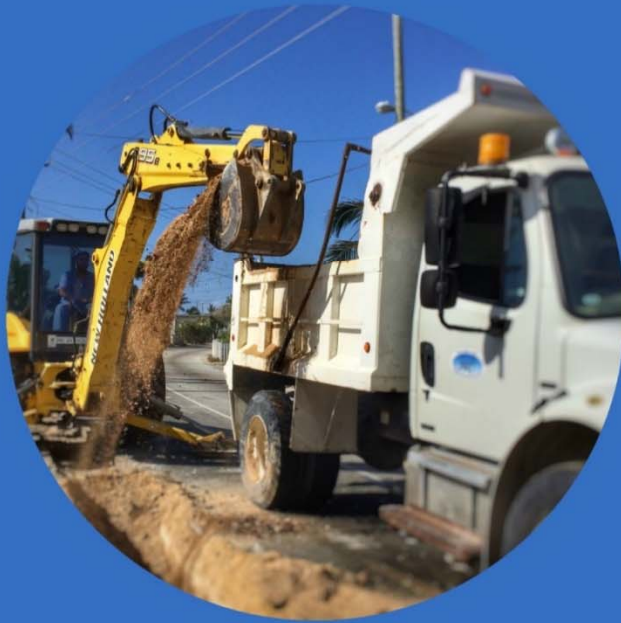
In October 2017, the Authority announced a public tender to invite eligible contractors to construct a new water reservoir at the Red Gate Water Works. Once completed, this tank will add another 2 million US gallons (7,570 m³) to the Authority's current storage capacity of 14.2 million US gallons.

In addition, the Engineering Department completed Phase II of its assessment of the more

than 500 manholes throughout the West Bay Beach Sewerage System in March, 2017. This extensive project saw the Engineering team design and build a special rig to inspect the manholes safely using a GoPro camera. The 360° footage obtained using the purpose-built GoPro rig informed the manhole rehabilitation project.

BY THE NUMBERS





FUTURE PROJECTS

FUTURE PROJECTS



GCM - Maintain Adequate Infrastructure to Operate Efficiently

- File Storage Building.
- Miscellaneous water extensions, system connections etc.



GCM - Maintain Water Production, Capacity, Distribution & Storage

- Additional Reservoir at the Red Gate Water Works.



CYB - Water Distribution Extension and Bluff Water Works Facility

- Water Distribution Extension.
- Bluff Water Works Site Development.



Maintain Financial Integrity

- Continue to operate in a fiscally responsible manner.
- Adhere to the guidelines and policies as set out by the Ministry of Finance.



WASTEWATER - Improve Integrity of Existing Collection System and Future Extensions

- Automatic Transfer Switches.
- Manhole rehabilitation.
- CCTV Contract - Phase II.



Statutory Requirements

- Continued presence on local committees (HMCI, Waste to Energy, etc.)
- Advise Cabinet on water concessions.
- Foster and maintain a professional relationship with OfReg.



Work continues in the Brac.

Brac Piped Network Expansion

The Authority's New Works team reached Faith Hospital in 2017 and work is now being undertaken to connect customers to the new pipeline. The Authority also continues to make preparations for the future Bluff Water Works.

Sewerage System Expansion

In order to accommodate the recently approved NCB boutique hotel development on North Church Street, the Authority is preparing to expand its main sewer pipeline into George Town.



REGULATORY & STATUTORY

REGULATORY & STATUTORY

Lab Accreditation Renewed

Following another successful audit by the American Association for Laboratory Accreditation, Water Authority – Cayman Laboratory's ISO/IEC 17025 Accreditation was recently renewed.



The Authority's Laboratory staff.

The Laboratory has maintained its accreditation since 2002, when it became the first laboratory in the Caribbean specialising in water and wastewater analysis to be internationally accredited by the A2LA. The Laboratory carries out quality control testing of the Authority's potable water supplies and the treated effluent of the wastewater treatment plant. It also provides testing services to Government agencies, the private sector, and the general public.

The A2LA accreditation was approved until November 2019, following which the Authority will undergo another external audit to continue the accreditation.

The Authority is in the early stages of exploring the possibility of expanding the accreditation further. If added, it is anticipated

that these parameters would become part of the Lab's scope in 2021.

OWTS Certification Course Launched

The Authority launched a new Onsite Wastewater Treatment System (OWTS) Certification Course aimed at local operators and maintenance technicians in order to establish a local base-line standard of service through training and certification.



Onsite Wastewater Inspector-Trainer Trenton Forman discusses an OWTS unit.

The course is based on an established, credible curriculum tailored to conditions in Cayman. A requirement of the certification is that the technicians earn a number of Continuing Education Units (CEUs) every year to maintain their Certification. CEU topics and presentations will be developed to broaden the range and depth of their training while addressing local issues.

The first group of professionals to be certified through the course received their certificates on 31 October 2017.

Plumber Licencing

The Plumber’s Examination Board (PEB) was historically responsible for the licensing of plumbers. With the recent legislative changes that made OfReg the regulator of the water and wastewater sector, section 70 (1) (n) of the Water Authority Law (2011 Revision), which had provided the Authority the mandate to licence plumbers was repealed.

The Authority subsequently worked with the Department of Planning to transition the licensing of plumbers to the Planning Department, with the total of 171 active plumbers accounts successfully transferred effective 1 September 2017. The licences were administratively current to 31 December 2017.

Long standing members who served on the Board were Mr James Merren, Mr Victor Yates and Mr James Smith.



Water Resources Engineer Hendrik-Jan van Genderen (L) and Planning Department Director Haroon Pandohie.

Freedom of Information

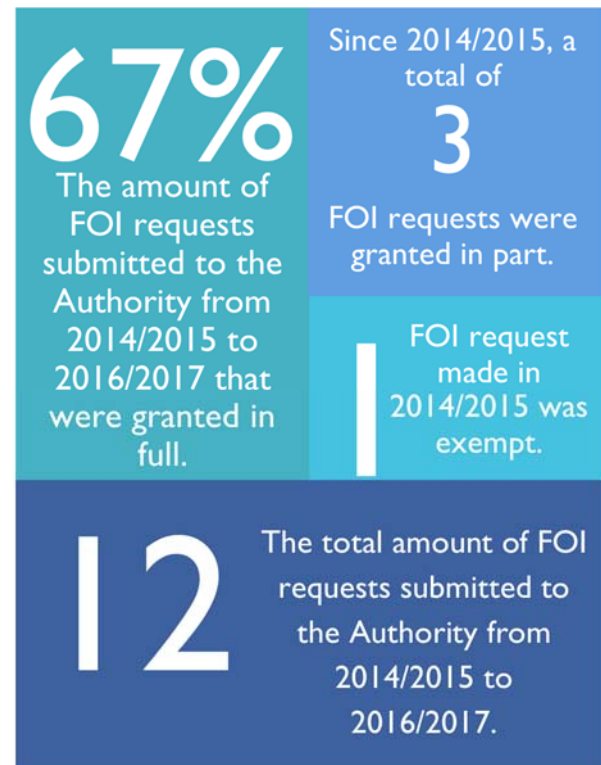
The Authority has a full time Information Manager whose primary responsibility is to manage the records of the Authority and to

respond to any FOI requests received by the Authority.

In November 2016, the Information Commissioner’s Office (ICO) evaluated the websites of 89 public authorities to determine if the internet is being effectively used to promote transparency and disseminate information to the public under the Freedom of Information Law. The ICO ranked the authorities from ‘1’ to ‘5’ (‘1’ being “excellent”; ‘5’ being “poor”) and the Water Authority was one of only two authorities to receive a ‘1’ ranking.

The ICO noted that: “The Water Authority has maintained their number 1 position since 2011. Their website not only outlines the FOI processes well, but also provides an updated publication scheme and disclosure log.”

BY THE NUMBERS





HUMAN RESOURCES & ADMINISTRATION

HUMAN RESOURCES & ADMINISTRATION

The Authority is organised as follows:



OUR PEOPLE: HIGHLIGHTS FROM THE YEAR

Chairman's Award Recipients

The Chairman's Award is a prestigious award given on an annual basis to one employee, or group of team members who have shown exemplary service, nominated by the Senior Management Team and approved by the Chairman. In December 2016 this award was issued to Corporate Communications Officer Hannah Reid and in December 2017 this award was issued to Onsite Wastewater Inspector-Trainer, Trenton Forman.

Ms. Reid was nominated for her organisational commitment and for her hard work on a number of projects including: updating the Authority's website, maintaining customer awareness of Engineering/Operations work, heading up school visits, promoting the Authority's Annual Scholarship, and adding new elements to Geology Education Week.



Former Board Chairman Lemuel Hurlston, JP, presents the Chairman's Award to Ms Reid.

Mr. Forman was nominated for his instrumental role in meeting a major milestone in the Onsite Wastewater Management Programme: Certification Training for Onsite

Wastewater Treatment System Service Providers. He presented courses developed in-house with Catherine Crabb and Kodie Scott, with guidance from Ron Trygar of the University of Florida's Training Research Education for Environmental Occupations.

The first graduates of the programme received their certificates of completion on 31 October 2017.



Dr. Frederick-van Genderen presents the Chairman's Award to Mr. Forman.

BY THE NUMBERS

133

The total number of persons employed by the Authority.

CI\$154,000

The total amount invested in staff training over the 2016/17 period.

97%

The percentage of Caymanian staff members.

Water Authority Represented Around the World

During the 2016/2017 period, the Water Authority was represented at various conferences around the world by its staff members.

Water Authority Director Dr. Gelia Frederick-van Genderen is a member of the Global Water Leaders Group which brings together the CEOs of water utilities and agencies to address the world's water issues.

In November 2017, Dr. Frederick-van Genderen was invited to present at a panel discussion on disaster management as part of the American Water Summit 2017 – Proactive Partnerships conference in Austin, TX. Dr. Frederick-van Genderen's presentation was titled "Major Hurricane Disaster – Cayman Islands Experience" and focused on the lessons learned from Hurricane Ivan in 2004 and how the country moved forward in building resilience to mitigate infrastructure damage in the future.



Dr. Frederick-van Genderen speaks at the 2017 American Water Summit.

Dr. Frederick-van Genderen also attended the Global Water Summit in Madrid, Spain, from 23-26 April 2017, as a Global Water Leader from

the Caribbean. The theme for the event was "Intelligent Synergies". The Director participated in several specialised workshops that focused on the digital revolution and how utility business models are evolving because of this; developing and maintaining robust water tariffs; and, on models for water access and sanitation developed by the Global Water Leaders Group with members of the World Economic Forum's Global Agenda Council for Water.

Laboratory Manager Marcela Martinez-Ebanks presented a report titled "Laboratory Best Practices – The Cayman Islands Experience" at the Caribbean Water & Sewerage Association (CAWASA) Water Operator's Conference held 29-30 June 2017, in Dominica. Ms Martinez-Ebanks' presentation focused on the Authority Laboratory's experience and practices as an accredited water and wastewater lab.

Corporate Communications Officer Hannah Reid represented the Water Authority at World Water Week in Stockholm, Sweden, in both 2016 and 2017 as a Junior Rapporteur. At the 2016 World Water Week Closing Ceremony, Ms Reid was chosen to present the findings of the Economic Team on behalf of the Junior Rapporteurs.



Ms. Reid and the Economic Junior Rapporteur team at World Water Week.

SCHOLARSHIP & INTERNSHIP OPPORTUNITIES

2017 Scholarship Recipient

In December, 2017, the Authority proudly announced Pierre Ordonez as the 2017 recipient of the Authority's Annual Scholarship.

Mr Ordonez has spent the past three summers as an intern with the Water Authority and remained with the Authority on a temporary contract as of September 2017 as Student Engineering Assistant. In this role, Mr Ordonez worked primarily with the Wastewater Treatment team maintaining and operating the Authority's state-of-the-art Wastewater Treatment Plant.

In January 2018, Mr Ordonez will commence a Bachelor's Degree in Civil Engineering at Kansas State University.



From left, Deputy Director Tom Van Zanten, Mr. Ordonez, Pierre Ordonez, Mrs. Ordonez and Dr. Frederick-van Genderen.

Summer Work Experience Programme

The Authority's summer work experience programme is consistently popular with students seeking to gain work experience. The students work in a variety of departments throughout the Authority's Grand Cayman and Cayman Brac operations, including Water Resources & Quality Control, Information Systems, Customer Service, Building & Equipment, etc.

In addition to the summer work experience programme, the Authority also continued its regular support of the Cayman Islands Further Education Centre by taking on several students who worked part-time for the Authority to gain hands-on work experience.

BY THE NUMBERS

36

The total number of summer interns in 2016/2017.

4

Scholarship recipients are still active in their studies.

Since 2006/2007, the Authority has awarded

11

scholarships.

CI\$445,000

The total amount invested in scholarship recipients since 2006/2007.

COMMUNITY OUTREACH & EDUCATION

Careers Expo & CIFEC Careers Fair

The Authority continues to be a regular sponsor of the Cayman Islands Chamber of Commerce's Careers, Education & Training Expo. As in past years, in 2016/2017 the Authority used this popular event as an opportunity to engage with local students directly to promote both its scholarship and work experience programme.

The Authority also attended the CIFEC Careers Fair to promote these opportunities and seek resumes from students



interested in working part time with the Authority as part of their programme.

Social Media Outreach

Although the Authority began its first foray into the world of social media in 2015, the Authority's social media accounts have truly begun to take on a life of their own in 2016 and 2017.

The Authority has an active social media presence on the following sites: Facebook, Instagram, LinkedIn, Twitter, Google+ and YouTube.

Page	Total Page Likes
YOU 1  Water Authority - Cayman	1.5K 
2  C3 Pure Fibre	1.3K 
3  Caribbean Utilities Com...	644 

As of the end of 2017, the Authority's Facebook page had 1,403 Likes, a number which continues to grow and outpace similar pages for local businesses (see screenshot from Facebook Insights above).

Educational Tours & Joint Education Programme with Cayman Water Co.

The Authority offers educational tours of its water and wastewater facilities for students and educators from local schools. Between 2016 – 2017, the Authority hosted approximately 14 school groups in addition to launching a Joint Education Programme with Cayman Water Co. to deliver presentations directly to local schools.

The Joint Education Programme was launched in late 2016 and the Authority's Corporate Communications Officer has been working with representatives from Cayman Water Co. to promote this alternative educational experience to educators with large school groups who cannot be as easily accommodated with a physical tour of the Authority's facilities.



Laboratory Technician Jerry Banks leads a tour of the Authority's Laboratory.

Geology Education Week

In 2016/2017, the Authority hosted its 4th and 5th Annual Geology Education Week events. This annual educational programme includes geology lessons for students at local high schools, including Layman E. Scott High School in Cayman Brac, as well as a Professional Development Day for educators and other professionals that includes visits to sites of geological significance in Grand Cayman.

Once again, geologist Dr. Brian Jones returned to the Cayman Islands for the 2016 Geology Education Week to share his decades of experience and expertise with local students and educators.

In 2016, the programme was expanded to include an artistic element that members of the public could enjoy in the form of a temporary exhibition in the Authority's lobby of local artist Horacio Esteban's Caymanite sculptures and geology-themed photographs.



Mr. Esteban installs one of his sculptures in the Authority's Lobby.

Unfortunately, in 2017, Dr. Jones was unable to attend Geology Education Week due to unforeseen personal circumstances. Although

this resulted in the Authority having to cancel its planned geology education lessons with local schools, the Authority pressed ahead with its plans to engage the public through an Instagram competition and a display of photographs in the Authority's lobby.

Using the hashtag #caymanrocks, the public was invited to showcase images of their favourite places of local geological significance for the chance to win a gift basket filled with Water Authority-branded giveaways and a CI\$50 Water Authority gift certificate. The winner of the competition was chosen by the public during a voting period from 20 -31 October 2017.

This was the Authority's first Instagram competition and it received approximately 30 entries.

Hurricane Preparedness Outreach

The Authority also used its growing social media influence to spread hurricane preparedness tips through its #SurvivalTipSaturday campaign on Instagram and Facebook. This was combined with a series of videos on YouTube (achieving over 20k viewers) and additional tips broadcast on Radio Cayman.



WAC Staff Step Up To Bat

In 2016/2017, the Authority's staff organised a team to play in the Cayman Islands Little League Adult Coed Softball League. The initiative was spearheaded by Graduate Engineer – Environmental Jodiann Jackson and immediately proved extremely popular with staff from across all Departments within the Authority.

The softball team helped foster a sense of team spirit and organisational pride for those who participated. The Authority's staff expect to continue to form teams for future seasons.



The Water Authority's Adult Coed Softball League team after their first win of the season.



FINANCIALS

**THE WATER AUTHORITY
OF THE CAYMAN ISLANDS**

FINANCIAL STATEMENTS
31 December 2017

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Water Authority of the Cayman Islands
STATEMENT OF RESPONSIBILITY FOR FINANCIAL STATEMENTS
31 December 2017

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 (2017 Revision)* and reference to *Section 17(1)* of the Water Authority Law (1996 Revision). The financial statements comply with International Financial Reporting Standards.

We accept responsibility for the accuracy and integrity of the financial information in these financial statements and their compliance with the *Public Management and Finance Law (2017 Revision)*.

As Chairman, Director and Financial Controller, we are responsible for establishing; and have established and maintained a system of internal controls designed to provide reasonable assurance that the transactions recorded in the financial statements are authorised by law, and properly record the financial transactions of the Water Authority of the Cayman Islands.

As Chairman, Director and Financial Controller, we are responsible for the preparation of the Water Authority of the Cayman Islands financial statements and for the judgements made in them.

The financial statements present fairly the statement of financial position, statement of comprehensive loss, statement of changes in shareholder's equity, and statement of cash flows as at and for the 18 month period ended 31 December 2017.

To the best of our knowledge we represent that these financial statements are:

- (a) complete and reliably reflect the financial transactions of the Water Authority of the Cayman Islands as at and for the 18 month period ended 31 December 2017;
- (b) fairly reflect the financial position as at 31 December 2017 and comprehensive loss as at and for the 18 month period ended 31 December 2017; and
- (c) comply with International Financial Reporting Standards adopted by International Accounting Standards Board.

The Office of the Auditor General conducts an independent audit and jointly expresses an opinion on the accompanying financial statements. The Office of the Auditor General and its agent have been provided access to all the information necessary to conduct an audit in accordance with International Standards on Auditing.



Mr. Kearney Gomez

Chairman
Water Authority of the Cayman Islands



Dr. Gelia Frederick-van Genderen

Director
Water Authority of the Cayman Islands

Ms. Lori Bergman



Financial Controller
Water Authority of the Cayman Islands

Independent Auditors' Report to the Shareholder and Members

Opinion

We have audited the financial statements of The Water Authority of the Cayman Islands (the "Water Authority"), which comprise the statement of financial position as at 31 December 2017, the statements of comprehensive loss, changes in shareholder's equity and cash flows for the period from 1 July 2016 to 31 December 2017, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Water Authority as at 31 December 2017 and its financial performance and its cash flows for the period from 1 July 2016 to 31 December 2017 in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Water Authority in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Cayman Islands and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Restrictions on Distribution or Use

This report is prepared for and only for the Shareholder and Members of the Water Authority in accordance with the terms of an engagement letter dated 21 November 2017, and for no other purpose. We do not accept or assume any liability or duty of care for any other purpose or to any other person to whom this report is shown or into whose hands it may come.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Water Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Water Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Water Authority's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Independent Auditors' Report to the Shareholder and Members (continued)

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Water Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Water Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Water Authority to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We have undertaken the audit in accordance with the provisions of Section 60(1)(a)(ii) of the Public Management and Finance Law (2017 Revision). We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG

30 April 2018



Sue Winspear
Auditor General

30 April 2018



KPMG
PO Box 493
Century Yard
Grand Cayman KY1-1106
CAYMAN ISLANDS

Telephone: +1 345 949-4800
Fax: +1 345 949-7164
Internet: www.kpmg.ky



Office of the Auditor General
3rd Floor, Anderson Square
64 Shedden Road
PO Box 2583
Grand Cayman KY1-1103

Tel: 345-244-3211
Fax: 345-945-7738

E-mail: auditorgeneral@oag.gov.ky
Internet: www.auditorgeneral.gov.ky

Water Authority of the Cayman Islands
Statement of Financial Position
As at 31 December 2017
(Stated in Cayman Islands dollars)

	Note	31 December 2017	30 June 2016
Assets			
<i>Non-current assets</i>			
Property, plant and equipment	5	65,471,822	67,017,504
Total non-current assets		65,471,822	67,017,504
<i>Current assets</i>			
Cash and cash equivalents		19,048,777	10,131,592
Accounts receivable, net	3	3,195,784	3,516,116
Inventory, net	4	1,279,718	1,323,330
Prepaid expenses		131,713	188,921
Total current assets		23,655,992	15,159,959
Total assets		89,127,814	82,177,463
Liabilities and shareholder's equity			
Liabilities			
<i>Non-current liabilities</i>			
Loans payable	6,8	613,344	2,338,584
Employee pension benefits, net	9(a)	2,515,000	3,399,000
Pension employee healthcare benefits, net	9(c)	5,560,000	5,666,000
Non-pension employee healthcare benefits, net	9(d)	12,505,000	-
Total non-current liabilities		21,193,344	11,403,584
<i>Current liabilities</i>			
Accounts payable		1,280,959	1,591,128
Contract retention payable		64,674	172,503
Customer deposits		1,382,971	1,322,790
Loans payable	6,8	1,168,679	1,587,690
Total current liabilities		3,897,283	4,674,111
Total liabilities		25,090,627	16,077,695
Shareholder's equity			
Contributed capital	7	236,000	236,000
Retained earnings		63,801,187	65,863,768
Total shareholder's equity		64,037,187	66,099,768
Total Liabilities and shareholder's equity		89,127,814	82,177,463

On behalf of the Board on 30 April 2018.



Chairman



Director



Financial Controller

The accompanying notes form an integral part of these financial statements.

Water Authority of the Cayman Islands
Statement of Comprehensive Loss
For the Period Ended 31 December 2017
(Stated in Cayman Islands dollars)

	Note	31 December 2017 (18 months)	30 June 2016 (12 months)
Operating Revenue			
Water sales		37,345,047	24,499,468
Sewerage fees		6,429,482	4,191,076
Septage disposal		210,715	136,110
Agency work		102,984	38,428
Connection and miscellaneous fees		30,850	20,540
Total operating revenue		44,119,078	28,885,622
Operating Expenses			
Water purchases and production		9,699,592	6,833,885
Depreciation expense	5,11	5,628,452	4,237,139
Salaries		4,538,133	2,896,704
Repairs and maintenance		2,426,529	1,830,171
Wages		1,829,132	1,280,790
Electricity		1,433,954	996,183
Supplies		1,134,894	636,308
Miscellaneous		376,752	274,971
Land lease expense		18,502	12,335
Impairment of property, plant and equipment	5	-	297,781
Total operating expenses		27,085,940	19,296,267
Finance Costs			
Loan interest		276,740	325,874
Gross operating profit		16,756,398	9,263,481
Other Income			
Royalties		1,926,518	1,255,379
Other		177,655	79,429
Statutory licencing fees		45,209	21,073
Interest income		3,313	1,966
Total other income		2,152,695	1,357,847
Operating Profit		18,909,093	10,621,328

(continued)

The accompanying notes form an integral part of these financial statements.

Water Authority of the Cayman Islands
Statement of Comprehensive Loss (continued)
For the Period Ended 31 December 2017
(Stated in Cayman Islands dollars)

	Note	31 December 2017 (18 months)	30 June 2016 (12 months)
Administration Expenses			
Non-pension employee healthcare benefits cost	9(d)	10,145,000	-
Salaries	8	3,156,144	2,082,271
Staff training and benefits		2,358,412	1,400,239
Insurance		991,924	743,214
Telephone and utilities		581,964	382,130
Legal and professional fees		538,809	273,637
Miscellaneous		485,911	291,599
Information systems		456,662	304,240
Pension employee healthcare benefits cost	9(c)	440,000	5,228,000
Defined benefit pension cost	9(a)	248,000	202,000
Repairs and maintenance		219,590	184,145
Depreciation expense	5	202,266	134,598
Licenses and dues		140,085	125,822
Office and lab supplies		68,787	35,287
Office rental		6,120	3,600
Bad debt expense		-	281,044
Total administration expenses		20,039,674	11,671,826
Net loss for the period/year		(1,130,581)	(1,050,498)
Other Comprehensive Loss			
Remeasurements of defined benefit pension plan	9(a)	1,132,000	(666,000)
Remeasurements of pension employee healthcare plan	9(c)	546,000	(438,000)
Remeasurements of non-pension employee healthcare plan	9(d)	(2,360,000)	-
		(682,000)	(1,104,000)
Comprehensive loss for the period/year		(1,812,581)	(2,154,498)

The accompanying notes form an integral part of these financial statements.

Water Authority of the Cayman Islands
Statement of Changes in Shareholder's Equity
For the Period Ended 31 December 2017
(Stated in Cayman Islands dollars)

	Note	31 December 2017 (18 months)	30 June 2016 (12 months)
Contributed Capital			
Balance at beginning of period/year	7	236,000	236,000
Retained Earnings			
Balance at beginning of period/year		65,863,768	68,118,266
Net loss for the period/year		(1,130,581)	(1,050,498)
Other comprehensive loss for the period/year		(682,000)	(1,104,000)
Contribution to Government	8	(250,000)	(100,000)
Balance at end of period/year		63,801,187	65,863,768
Total Shareholder's Equity		64,037,187	66,099,768

The accompanying notes form an integral part of these financial statements.

Water Authority of the Cayman Islands
Statement of Cash Flows
For the Period Ended 31 December 2017
(Stated in Cayman Islands dollars)

	Note	31 December 2017 (18 months)	30 June 2016 (12 months)
Cash flows from operating activities			
Net loss for the period/year		(1,130,581)	(1,050,498)
Adjustments to reconcile net loss for the period/year to net cash generated by operating activities:			
Depreciation expense	5	5,830,718	4,371,737
Impairment of property, plant and equipment		-	297,781
Add/(deduct) net changes in non-cash operating balances:			
Accounts receivable, net		320,332	292,518
Inventory, net		43,612	(12,182)
Prepaid expenses		57,208	180,765
Accounts payable		(310,169)	(1,003,896)
Contract retention payable		(107,829)	79,145
Customer deposits		60,181	105,111
Employee pension benefits, net		248,000	202,000
Pension employee healthcare benefits, net		440,000	5,228,000
Non-pension employee healthcare benefits, net		10,145,000	-
Net cash generated by operating activities		15,596,472	8,690,481
Cash flows from investing activities			
Property, plant and equipment purchased	5	(4,285,036)	(5,137,364)
Net cash used in investing activities		(4,285,036)	(5,137,364)
Cash flows from financing activities			
Repayment of loans payable		(2,144,251)	(6,310,398)
Contribution to Government	8	(250,000)	(100,000)
Net cash used in financing activities		(2,394,251)	(6,410,398)
Net increase/(decrease) in cash and cash equivalents during period/year		8,917,185	(2,857,281)
Cash and cash equivalents at beginning of period/year		10,131,592	12,988,873
Cash and cash equivalents at end of period/year		19,048,777	10,131,592
Supplemental disclosure for cash flow information:			
Cash paid during the period/year for interest		(276,740)	(325,874)
Cash received during the period/year for interest		-	1,966

The accompanying notes form an integral part of these financial statements.

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the Period Ended 31 December 2017

1. Establishment and Principal Activities

The Water Authority of the Cayman Islands (the “Water Authority”) is a statutory body, wholly owned by the Government of the Cayman Islands (the “Government”), established on 1 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.

During the period the Regulatory responsibility previously held by the Water Authority was transitioned to OfReg. The Water Authority still maintain control of certain statutory functions.

The Public Authorities Law, 2017 came into force on 01 June 2017. The purpose of the Law is to provide uniform regulation of the management and governance of public authorities.

As at 31 December 2017, the Water Authority had 133 employees (30 June 2016: 126 employees). The Water Authority is located at 13G Red Gate Road, P.O. Box 1104, KY1-1102, George Town, Grand Cayman, Cayman Islands.

2. Significant Accounting Policies

(a) Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) and interpretations adopted by the International Accounting Standards Board (“IASB”).

(b) Basis of preparation and reporting period

The financial statements of the Water Authority are prepared on the accrual basis under the historical cost basis.

The Public Management and Finance Law (Amendment) Law, 2015 section 2(c) was passed on 15 October 2015 to reflect a change in the annual reporting date from 30 June to 31 December. The reporting period is for the 18 months commencing 1 July 2016 and ending 31 December 2017.

(c) Functional and presentation currency

These financials are presented in Cayman Islands dollars (CI\$), which is the Water Authority’s functional currency. All information has been rounded to the nearest dollar.

(d) Property, plant and equipment

(i) Recognition and measurement:

Items of property, plant and equipment are stated at cost less accumulated depreciation and any net accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the assets. The cost of self-constructed assets includes the cost of materials, direct labour and related costs to put the assets into service and capitalised borrowing costs. Certain costs capitalised within self-constructed assets are based on management’s estimate of the actual amounts directly attributable to the self-constructed asset.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment, and is recognised net within other income/other expenses in the statement of comprehensive loss.

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the Period Ended 31 December 2017

2. Significant Accounting Policies (continued)

(d) Property, plant and equipment (continued)

(ii) Subsequent costs:

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of an item if it is probable that the future economic benefits embodied within the part will flow to the Water Authority and its cost can be measured reliably. The costs of day-to-day servicing of property, plant and equipment such as maintaining underground piping are recognised in the statement of comprehensive loss as incurred.

(iii) Depreciation:

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed. If a component has a useful life that is different from the remainder of the asset, that component is depreciated separately.

Depreciation is charged to the statement of comprehensive loss on a straight-line basis over the useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

The estimated useful lives are as follows:

Buildings	50 years
Water and sewerage systems	8 to 50 years
Other assets	3 to 10 years

(iv) Construction in progress:

Construction in progress represents property, plant and equipment projects which are not yet completed at the period end date. Upon completion, the construction in progress is transferred to the relevant category of property, plant and equipment and depreciation commences when the asset is available for use.

(e) Foreign currency translation

Assets and liabilities denominated in currencies other than Cayman Islands dollars are translated at exchange rates in effect at the fiscal period end date. Revenue and expense transactions denominated in currencies other than Cayman Islands dollars are translated at exchange rates at the date of those transactions. Gains and losses arising on translation are included in the statement of comprehensive loss.

(f) Use of estimates and judgement

The preparation of the financial statements in accordance with IFRS requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Actual amounts may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period of the revision and future years, where applicable.

Judgments made by management in the application of IFRS that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next financial year are discussed below:

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the Period Ended 31 December 2017

2. Significant Accounting Policies (continued)

(f) Use of estimates and judgement (continued)

(i) Allowance for impairment losses on receivables

In determining amounts recorded for impairment losses in the financial statements, management makes judgments regarding indicators of impairment, that is, whether there are indicators that suggest there may be a measurable decrease in the estimated future cash flows from receivables, for example, default and adverse economic conditions. Management also makes estimates of the likely estimated future cash flows from impaired receivables as well as the timing of such cash flows.

Historical loss experience is applied where indicators of impairment are not observable on individual significant receivables with similar characteristics, such as credit risks.

(ii) Valuation of long lived assets

The Water Authority performs impairment testing when circumstances indicate that there may be impairment for long-lived assets. Management judgment is involved in determining if there are circumstances indicating that testing for impairment is required and in determining the grouping of assets to identify their Cash Generating Units (“CGU”) for purposes of impairment testing.

The Water Authority assesses impairment by comparing the recoverable amount of a long-lived asset, CGU or CGU group to its carrying value. The recoverable amount is defined as the higher of: (i) value in use; or (ii) fair value less cost to sell. The determination of the recoverable amount involves Management judgment and estimation.

(iii) Valuation of employee benefit plans

The cost of pensions and other retirement and healthcare benefits earned by employees is actuarially determined using the projected unit credit method prorated on service and Management’s best estimate of expected plan investment performance, salary escalation, rates of inflation, retirement ages of employees and mortality rates. Discount rates used in actuarial calculations are based on market yields on high quality bonds (consistent with the term of the benefit obligation) and can have a material effect on the amount of plan liabilities and service costs. Management employs external experts to advise the Water Authority when deciding upon the appropriate estimates to use to value employee benefit plan obligations and expenses. To the extent that these estimates differ from those realised, employee benefit plan assets and liabilities and comprehensive loss will be affected.

(iv) Depreciation and amortization

The Water Authority’s property and equipment is depreciated and amortised on a straight-line basis, taking into account the expected useful lives of the assets and residual values. Changes to these estimates may affect the carrying value of these assets, net loss and comprehensive loss.

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the Period Ended 31 December 2017

2. Significant Accounting Policies (continued)

(f) Use of estimates and judgement (continued)

(v) Self-constructed assets

Included within plant, property and equipment are self-constructed assets for which costs are based on directly attributable inputs and allocations of costs incurred to bring the assets to the location and condition necessary for its intended use. Allocations of costs include estimates for fuel and costs for equipment usage.

(g) Interest expense

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of loan interest, except where interest incurred on a qualifying asset is capitalised. The interest expense of loan payments is recognised in the statement of comprehensive loss using the effective interest rate and or straight line method as appropriate.

(h) Revenue recognition

The Water Authority bills its customers monthly for water consumed, sewerage and other services. Revenue derived from such sources is recorded as income when accrued.

(i) Operating lease

Operating lease payments are recognised as an expense in the statement of comprehensive loss on a straight-line basis over the lease term.

(j) Financial instruments

(i) Financial assets

The Water Authority initially recognises loans and receivables on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Water Authority becomes a party to the contractual provisions of the instrument.

The Water Authority derecognises a financial asset when the Water Authority's contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Water Authority is recognised as a separate allocated asset or liability.

Loans and receivables:

Loans and receivables comprising accounts receivable are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the Period Ended 31 December 2017

2. Significant Accounting Policies (continued)

(j) Financial instruments (continued)

Cash and cash equivalents:

Cash and cash equivalents comprise cash, bank balances and short term deposits with original maturities of three months or less.

(ii) Financial liabilities

All financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Water Authority becomes a party to the contractual provisions of the instrument.

The Water Authority derecognizes financial liabilities when the Water Authority's contractual obligations are discharged, cancelled or expire.

The Water Authority classifies financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

Financial liabilities comprise loans payable, accounts payable, contract retention payable and customer deposits.

(iii) Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount presented in the Water Authority's statement of financial position when, and only when, the Water Authority has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

(iv) Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Water Authority measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, then the Water Authority establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models.

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the Period Ended 31 December 2017

2. Significant Accounting Policies (continued)

(j) Financial instruments (continued)

(v) Fair value measurement (continued)

Fair value hierarchy

The Water Authority measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. The carrying amounts of financial assets and financial liabilities are considered to closely approximate fair value due to their short term nature.

As at 31 December 2017 and 30 June 2016, the carrying amount of cash and cash equivalents, accounts receivable, accounts payable, contract retention payable and customer deposits 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.

The loans payable are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the Period Ended 31 December 2017

2. Significant Accounting Policies (continued)

(k) Inventory

Inventory consists of consumable spares and water. Consumable spares are accounted for on the first-in, first-out basis. Water inventory is calculated at the cost of water plus chemicals multiplied by the volume of water. Inventories are valued at the lower of cost and net realisable value.

(l) Employee Benefit Plans

The Water Authority provides post-employment benefits through a defined benefit pension plan, a defined contribution pension plan, and defined benefit healthcare plans. In addition, during the period ended 31 December 2017 the Authority has established a non-pension employee healthcare benefits plan.

(i) Defined benefit plans (defined benefit pension plan; pension employee healthcare plan; and non-pension employee healthcare plan)

The Water Authority's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior period, discounting that amount and deducting any fair value of any plan assets.

The cost of the defined benefit plans earned by employees are actuarially determined using the projected unit credit method prorated on service and Management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees, and mortality rates. When the calculation results in a net benefit asset, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liabilities, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive loss. The net interest expense on the net defined benefit liabilities for the period is determined by applying the discount rates used to measure the defined benefit obligations at the beginning of the annual period to the net defined benefit liabilities, taking into account any changes in the net defined benefit liabilities during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in the statement of comprehensive loss.

The Water Authority's net obligation in respect of the defined benefit pension plan is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods. To calculate the estimated amount for the pension obligation, the years of service and estimated salary upon retirement have been used.

The Water Authority's net obligation in respect of the healthcare plans is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods. To calculate the estimated amount for the healthcare obligation, the years of service limit of 10 years and estimated health insurance premiums have been used.

The discount rates used to value the defined benefit obligations is based on a yield of high quality corporate bonds, in the same currency in which the benefits are expected to be paid and with terms to maturity that, on average, match the terms of the defined benefit obligations.

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the Period Ended 31 December 2017

2. Significant Accounting Policies (continued)

(l) *Employee Benefit Plans (continued)*

(ii) *Defined contribution plans*

The Water Authority's obligations for contributions to defined contribution pension plans are recognised in the statement of comprehensive loss in the periods during which services are rendered by employees.

(m) *New standards and interpretations not yet adopted*

A number of new standards, amendments to standards and interpretations are not yet effective for the period ended 31 December 2017, and have not been applied in preparing these financial statements. None of these will have an effect on the financial statements of the Water Authority, with the exception of:

- IFRS 15, *Revenue from contracts with Customers*, establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018. The extent of the impact of adoption of amendments to IFRS 15 has not yet been determined.
- IFRS 9, *Financial Instruments*, published on 12 November 2009 as part of phase I of the IASB's comprehensive project to replace IAS 39, deals with classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard is effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The extent of the impact of adoption of amendments to IFRS 9 has not yet been determined.
- IFRS 16, *Leases supersedes IAS 17 Leases*, brings leases onto the statement of financial position, changes how to define leases and determines how lease liabilities are measured. The Company has yet to perform a full assessment of the impact on net results and net asset. The standard is effective for annual periods beginning on or after 1 January 2019. The extent of the impact of adoption of amendments to IFRS 16 has not yet been determined.

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the Period Ended 31 December 2017

3. Accounts Receivable, net

	31 December 2017	30 June 2016
	(18 months)	(12 months)
Trade Receivables	4,627,361	4,793,595
Other Receivables	488,090	642,188
Allowance for Doubtful Accounts	(1,919,667)	(1,919,667)
	CI\$ 3,195,784	3,516,116

4. Inventory, net

	31 December 2017	30 June 2016
	(18 months)	(12 months)
Water Supply and Sewerage Materials	1,222,279	1,261,037
Water Inventory	73,300	78,154
Provision for Obsolete Inventory	(15,861)	(15,861)
	CI\$ 1,279,718	1,323,330

5. Property, plant and equipment

The following projects classified as construction in progress are included in property, plant and equipment:

	31 December 2017	30 June 2016
	(18 months)	(12 months)
1. Grand Cayman – WBSS – Pipeline Install	809,947	-
2. Cayman Brac – Site Preparation	546,287	546,287
3. Grand Cayman - Red Gate Pumping Station	-	326,818
4. Cayman Brac – Distribution Extension	105,801	253,378
5. Grand Cayman – Linford Pierson	243,376	-
6. Grand Cayman – Red Gate Pump House Control Panel	-	42,982
7. Cayman Brac – Upgrade to Water Distribution Pumps	13,327	13,327
8. Grand Cayman – Esterley Tibbetts	243,189	-
9. Grand Cayman – Upgrade on Prospect point Road	26,315	-
10. Grand Cayman - District Metering Vaults	6,465	6,465
	CI\$ 1,994,707	1,189,257

The Water Authority's desalination plants operate under a number of finance lease agreements. At 31 December 2017, the carrying amount of leased plant, included in Water Supply assets, was CI\$7,984,675 (30 June 2016: CI\$8,602,102). The finance lease agreement between the Water Authority and Ocean Conversion (Cayman) Limited relating to the North Sound Plant expired in 2014. On 11 April 2017 approval was obtained from the Central Tenders Committee for the extension of the operating agreement relating to the North Sound production plant and Red Gate RO Plant to 01 April 2018 and 01 July 2018, respectively.

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the Period Ended 31 December 2017

5. Property, plant and equipment (continued)

	<u>31 December 2017</u> <u>(18 months)</u>						
	Freehold Land	Buildings	Water Supply	Sewage	Other Assets	Construction in Progress	Total
Cost							
Balance at beginning of period	3,555,599	5,650,711	69,780,751	29,750,987	7,319,878	1,189,257	117,247,183
Additions	-	-	30,935	-	1,026,237	3,227,864	4,285,036
Disposals	-	-	-	(31,770)	(117,808)	-	(149,578)
Transfers between fixed assets	-	-	2,422,414	-	-	(2,422,414)	-
Balance at end of period	<u>3,555,599</u>	<u>5,650,711</u>	<u>72,234,100</u>	<u>29,719,217</u>	<u>8,228,307</u>	<u>1,994,707</u>	<u>121,382,641</u>
CI\$							
Accumulated Depreciation							
Balance at beginning of period	-	1,321,283	28,392,861	14,249,135	6,266,400	-	50,229,679
Depreciation expense	-	169,830	3,861,322	1,265,474	534,092	-	5,830,718
Disposals	-	-	-	(31,770)	(117,808)	-	(149,578)
Balance at end of period	<u>-</u>	<u>1,491,113</u>	<u>32,254,183</u>	<u>15,482,839</u>	<u>6,682,684</u>	<u>-</u>	<u>55,910,819</u>
CI\$							
Net Book Value at 31 December 2017							
CI\$	<u>3,555,599</u>	<u>4,159,598</u>	<u>39,979,917</u>	<u>14,236,378</u>	<u>1,545,623</u>	<u>1,994,707</u>	<u>65,471,822</u>
(18 months)							

During the period ended 31 December 2017, the Water Authority identified projects to be repaired which resulted in a net impairment loss of CI\$Nil (30 June 2016: CI\$297,781) that was recorded against the plant and equipment assets. The total cost of the refurbishments and replacement were CI\$Nil (30 June 2016: CI\$2,032,316).

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the Period Ended 31 December 2017

5. Property, plant and equipment (continued)

	<u>30 June 2016</u> <u>(12 months)</u>						
	Freehold Land	Buildings	Water Supply	Sewage	Other Assets	Construction in Progress	Total
Cost							
Balance at beginning of year	3,555,599	5,650,711	67,785,896	28,470,401	7,109,239	225,040	112,796,886
Additions	-	-	19,660	100,012	268,710	4,748,982	5,137,364
Disposals	-	-	(416,167)	(212,829)	(58,071)	-	(687,067)
Transfers between fixed assets	-	-	2,391,362	1,393,403	-	(3,784,765)	-
Balance at end of year CI\$	<u>3,555,599</u>	<u>5,650,711</u>	<u>69,780,751</u>	<u>29,750,987</u>	<u>7,319,878</u>	<u>1,189,257</u>	<u>117,247,183</u>
Accumulated Depreciation							
Balance at beginning of year	-	1,208,269	25,496,836	13,563,392	5,978,733	-	46,247,230
Depreciation expense	-	113,014	3,109,245	814,311	335,167	-	4,371,737
Disposals	-	-	(213,220)	(128,568)	(47,500)	-	(389,288)
Balance at end of year CI\$	<u>-</u>	<u>1,321,283</u>	<u>28,392,861</u>	<u>14,249,135</u>	<u>6,266,400</u>	<u>-</u>	<u>50,229,679</u>
Net Book Value at 30 June 2016 CI\$ (12 months)	<u>3,555,599</u>	<u>4,329,428</u>	<u>41,387,890</u>	<u>15,501,852</u>	<u>1,053,478</u>	<u>1,189,257</u>	<u>67,017,504</u>

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the Period Ended 31 December 2017

6. Loans payable

	Date of Loan	Loan Amount	Original Loan Term** (Years)	Interest Rate		Current	1-2 yrs	TOTAL	
				Rate	At period End			<u>31 December 2017</u> <u>(18 months)</u>	<u>30 June 2016</u> <u>(12 months)</u>
Ocean Conversion (Cayman) Ltd.* (OCL)									
North Side – Original	Jul 2009	9,176,442	10	6.50%	6.50%	1,168,679	613,344	1,782,023	3,399,069
Red Gate – Upgrade	Jul 2010	3,063,816	7	6.50%	6.50%	-	-	-	527,205
Totals						<u>1,168,679</u>	<u>613,344</u>	<u>1,782,023</u>	<u>3,926,274</u>
Less current loans payable								(1,168,679)	(1,587,690)
Non-current loans payable							CIS 613,344	CIS 2,338,584	

(*) = refer to note 5

(**) = Commitments per period are based on loan repayment schedules with respective entities and institutions.

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the Period Ended 31 December 2017

6. Loans payable (continued)

The Water Authority has an overdraft facility at 4.25% interest per annum with First Caribbean International Bank in the amount of CI\$416,000 (30 June 2016: CI\$416,000). At 31 December 2017, CI\$Nil (30 June 2016: CI\$Nil) of the overdraft facility was being utilised.

7. Contributed capital

The Government provided 12.58 acres of land on Cayman Brac to the Water Authority of the Cayman Islands during the 2009/10 fiscal period at no cost. The fair market value at the time of transfer was CI\$236,000, which has been recorded as contributed capital in the statement of financial position.

8. Related Party Transactions

The Government of the Cayman Islands appoints the Chairman and Members to the Water Authority's Governing Board who collectively received CI\$21,100 (30 June 2016: CI\$15,800) relating to their services rendered during the period ended 31 December 2017. The following transactions occurred during the period between the Water Authority and the Government of the Cayman Islands.

1. The Water Authority paid a contribution to the Government in the amount of CI\$250,000 (30 June 2016: CI\$100,000).
2. The remuneration of directors and other members of key management personnel for the 18-months ended 31 December 2017 was CI\$1,390,551 (30 June 2016: CI\$936,185). This amount entirely pertains to short-term employee benefits, namely salary, medical insurance and pension contributions. No loans were issued to key management personnel during the period (30 June 2016: CI\$Nil). There were 7 personnel categorised in 2017 broken down as 6 key management personnel and 1 Director (30 June 2016: 6 key management personnel and 1 Director).

During the period, the Water Authority provided, at no charge to the Government of the Cayman Islands, 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 Water Authority does not estimate the value of these services provided to the Government of the Cayman Islands.

9. Employee Benefits

a) Defined Benefit Pension Plan

The Public Services Pension Plan is managed by the Government of the Cayman Islands 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 plans as needed. The current number of active employees enrolled under the defined benefit plan is 4 (30 June 2016: 5).

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the Period Ended 31 December 2017

9. Employee Benefits (continued)

a) Defined Benefit Pension Plan (continued)

The Water Authority recognises the defined benefit pension plan as a net liability in its statement of financial position once the actuarial valuations are completed. For the defined net pension liability the Water Authority has recognised the actuarial liability since its date of establishment in 1990.

The most recent actuarial valuation for IAS 19 reporting was conducted on 9 March 2018 using data as at 31 December 2017. Management use this as best estimate to record the defined benefit pension plan and the profit and loss charges associated with the plan's participation as at and for the 18 month period ended 31 December 2017.

The actuarial position is as follows:

	31 December 2017	30 June 2016
	CI\$000's	CI\$000's
Defined benefit obligation	(3,329)	(5,217)
Fair value of plan assets	814	1,818
Net liability at end of period/year	<u>(2,515)</u>	<u>(3,399)</u>

The present value of the funded obligation changes as follows:

	31 December 2017	30 June 2016
	CI\$000's	CI\$000's
Defined benefit obligation at beginning of period/year	5,217	4,284
Current service cost	121	107
Interest cost	215	203
Transfer between other Participating employers	(1,206)	-
Plan participant contributions	26	23
Benefit payments from plan	-	(70)
Remeasurements	(1,044)	670
Defined benefit obligation at end of period/year	<u>3,329</u>	<u>5,217</u>

The fair value of the plan assets during the period/year changed as follows:

	31 December 2017	30 June 2016
	CI\$000's	CI\$000's
Fair value of plan at beginning of period/year	1,818	1,753
Interest income	61	84
Employer contributions	27	24
Plan participant contributions	26	23
Transfer between other Participating employers	(1,206)	-
Benefits paid by plan	-	(70)
Remeasurements	88	4
Fair value of plan at end of period/year	<u>814</u>	<u>1,818</u>

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the Period Ended 31 December 2017

9. Employee Benefits (continued)

a) Defined Benefit Pension Plan (continued)

The defined benefit cost included in net loss is comprised as follows:

	31 December 2017	30 June 2016
	CI\$000's	CI\$000's
Current service cost, net of employee contributions	121	107
Net interest cost	154	119
Total defined benefit cost	<u>275</u>	<u>226</u>
Employer contributions recognised in administrative expenses	(27)	(24)
Net defined benefit cost	<u>248</u>	<u>202</u>

The remeasurements included in other comprehensive loss/(income) are comprised as follows:

	31 December 2017	30 June 2016
	CI\$000's	CI\$000's
Effect of changes in demographic assumptions	(284)	-
Effect of changes in financial assumptions	(236)	706
Effect of experience adjustments	(524)	(36)
Return on plan assets (excluding interest income)	(88)	(4)
Remeasurements	<u>(1,132)</u>	<u>666</u>

The distribution of the plan assets based on the share of the total fund allocated to the Water Authority was as follows:

	31 December 2017	30 June 2016
Equity securities	80%	80%
Debt securities	19%	19%
Cash	1%	1%

The principal actuarial assumptions at the date of valuation:

A. Cost method - Projected Unit Credit

B. Economic assumptions used to determine the net benefit obligations as at:

	31 December 2017	30 June 2016
Discount rate	3.80%	4.00%
Salary increase	2.50%	3.50%
Future pension increases	2.00%	2.50%

C. Other assumptions –

1. Mortality – standard U.S. mortality rates
2. Retirement age – completion of age 57 and 10 years of service

D. Asset valuation – fair market value

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the Period Ended 31 December 2017

9. Employee Benefits (continued)

a) Defined Benefit Pension Plan (continued)

The defined benefit pension obligation is calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield, this will increase the defined benefit pension obligation. The pension plan holds a significant proportion of equities, which are expected to outperform corporate bonds in the long-term while providing volatility and risk in the short-term. A decrease in corporate bond yields will increase the defined benefit pension obligations. This will be partially offset by an increase in the fair value of the pension plans' bond holdings.

The Water Authority's defined benefit pension obligations are linked to inflation, and higher inflation will lead to higher liabilities. The defined benefit pension obligation will be affected by the rate of pension increase as well as increase in pensionable earnings.

The majority of the defined benefit pension plan's obligation is to provide benefits for the life of the members, so increases in life expectancy will result in an increase in the defined benefit pension obligations.

b) Defined Contribution 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 with British Caymanian Pension. During the period, the Water Authority and its employees paid 5% and 5% (30 June 2016: 5% and 5%), respectively of salary contributions to the defined pension contribution plan. The total employees enrolled in the defined pension contribution plan is 129 (30 June 2016: 121).

The total amount recognised as employer contributions for the 18 months ended 31 December 2017 was CI\$462,633 (30 June 2016: CI\$335,051) to the defined pension contribution plan. This amount is included in administrative expenses (staff training and benefits).

c) Pension Employee Defined benefit Healthcare Plan

At the 270th Board Meeting, held on 18 May 2016, the Board of Directors approved that the Water Authority engage with the actuaries to determine the defined benefit healthcare plan for members of the defined benefit pension plan. This was performed on all active employees whom are members of the defined benefit pension plan (as administered by the Public Service Pension Board) some of whom were staff members of the Cayman Islands Government prior to being transferred to the Water Authority. The Water Authority recognised 100% of the pension employee healthcare benefits liability on behalf of these specific employees. At this time, the Water Authority's Post-Retirement Health Care Program will be managed in house, and the Executive Office will be responsible for administering the healthcare plan, communicating with plan participants, prescribing contribution rates in accordance with the latest actuarial valuation and recommending amendments to the healthcare plans as needed.

The current number of active employees entitled to the pension employee healthcare plan is 11 (30 June 2016: 11), 6 of the 11 employees qualified for early retirement which exercised their right and will therefore not be part of the defined benefit pension plan. The total amount recognised as employer contributions for the 18 months ended 31 December 2017 was CI\$45,000 (30 June 2016: CI\$91,000). This amount is included in administrative expenses (staff training and benefits).

The most recent actuarial valuation for IAS 19 reporting was conducted on 9 March 2018 using data as at 31 December 2017. Management use this as best estimate to record the pension employee healthcare benefits liability and the profit and loss charges associated with the plan's participation as at and for the period ended 31 December 2017.

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the Period Ended 31 December 2017

9. Employee Benefits (continued)

c) Pension Employee Defined Benefit Healthcare Plan (continued)

The actuarial position is as follows:

	31 December 2017	30 June 2016
	CI\$000's	CI\$000's
Pension employee healthcare benefits obligation	(5,560)	(5,666)
Fair value of plan assets	-	-
Net liability at end of period/year	<u>(5,560)</u>	<u>(5,666)</u>

The present value of the funded obligation changes as follows:

	31 December 2017	30 June
	CI\$000's	2016
		CI\$000's
Pension employee healthcare benefits at beginning of period/year	5,666	-
Current service cost	173	5,085
Employer direct benefit payments	(45)	(91)
Interest cost	312	234
Remeasurements	(546)	438
Pension employee healthcare benefits at end of period/year	<u>5,560</u>	<u>5,666</u>

The pension employee defined benefit healthcare cost included in net loss is comprised as follows:

	31 December 2017	30 June 2016
	CI\$000's	CI\$000's
Current service cost, net of employee contributions	173	5,085
Net interest cost	312	234
Total pension employee healthcare benefits	<u>485</u>	<u>5,319</u>
Employer contributions recognised in administrative expenses	(45)	(91)
Net pension employee healthcare benefits cost	<u>440</u>	<u>5,228</u>

The remeasurements included in other comprehensive loss are as follows:

	31 December 2017	30 June 2016
	CI\$000's	CI\$000's
Effect of changes in demographic assumptions	(478)	(295)
Effect of changes in financial assumptions	199	733
Effect of experience adjustments	(267)	-
Remeasurements	<u>(546)</u>	<u>438</u>

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the Period Ended 31 December 2017

9. Employee Benefits (continued)

c) Pension Employee Defined Benefit Healthcare Plan (continued)

The principal actuarial assumptions at the date of valuation:

A. Cost method - Projected Unit Credit

B. Economic assumptions used to determine the net benefit obligations as at:

	31 December 2017	30 June 2016
Discount rate for obligation	3.85%	4.05%
Discount rate for costs	3.90%	4.75%
Medical inflation rate	5.00%	5.00%

C. Other assumptions –

- Mortality – standard U.S. mortality rates
- Retirement age – completion of age 57 and 10 years of service

D. Asset valuation – fair market value

The Water Authority's pension employee obligations are linked to inflation, and higher inflation will lead to higher liabilities. The defined benefit healthcare obligation will be affected by the medical inflation rate at 5% in the current period and is based on historical claims information and long-term medical inflation expectation.

The majority of the pension employee defined benefit healthcare obligations are to provide post-retirement healthcare for the life of the member, so increases in life expectancy will result in an increase in the pension employee defined benefit healthcare obligations.

d) Non-pension Employee Defined Benefit Healthcare Plan

At the 275th Board Meeting, held on 16 November 2016, the Board of Directors approved that the Water Authority engage with the actuaries to determine the the defined benefit healthcare liability for non-pension employees. This was performed on all active employees whom are not members of the defined benefit pension plan (as administered by the Public Service Pension Board). The Water Authority recognised 100% of the non-pension employee healthcare benefits liability on behalf of these employees. At this time, the Water Authority's Post-Retirement Health Care Program will be managed in house, and the Executive Office will be responsible for administering the non-pension employee healthcare benefits plan, communicating with plan participants, prescribing contribution rates in accordance with the latest actuarial valuation and recommending amendments to the healthcare plans as needed.

The current number of active employees entitled to the non-pension employee healthcare benefits plan are 115.

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the Period Ended 31 December 2017

9. Employee Benefits (continued)

d) Non-pension Employee Defined Benefit Healthcare plan (continued)

The most recent actuarial valuation for IAS 19 reporting was conducted on 10 April 2018 using data as at 31 December 2017. Management use this as best estimate to record the non-pension employee defined benefit healthcare liability and the profit and loss charges associated with the plan's participation as at and for the period ended 31 December 2017.

The actuarial position is as follows:

	31 December 2017 CI\$000's
Non-pension employee healthcare benefits obligation	(12,505)
Fair value of plan assets	-
Net liability in financial position at end of period/year	(12,505)

The present value of the funded obligation changes as follows:

	31 December 2017 CI\$000's
Non-pension employee healthcare benefits obligation at beginning of period/year	-
Past service cost	9,010
Current service cost, net of employee contributions	733
Employer direct benefit payments	(14)
Interest cost	416
Remeasurements	2,360
Non-pension employee healthcare benefits at end of period/year	12,505

The non-pension employee healthcare benefits cost included in net loss is comprised as follows:

	31 December 2017 CI\$000's
Past service cost	9,010
Current service cost, net of employee contributions	733
Net interest cost	416
Total non-pension employee healthcare benefits cost	10,159
Employer direct benefit payments	(14)
Net non-pension employee healthcare benefits cost	10,145

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the Period Ended 31 December 2017

9. Employee Benefits (continued)

d) Non-pension Employee Defined Benefit Healthcare plan (continued)

The remeasurements included in other comprehensive loss are comprised as follows:

	31 December 2017 CI\$000's
Effect of changes in demographic assumptions	(567)
Effect of changes in financial assumptions	2,894
Effect of experience adjustments	33
Remeasurements	2,360

The principal actuarial assumptions at the date of valuation:

A. Cost method - Projected Unit Credit

B. Economic assumptions used to determine the net benefit obligations as at:

	31 December 2017
Discount rate for obligation	3.85%
Discount rate for costs	3.90%
Medical inflation rate	5.00%

C. Other assumptions –

1. Mortality – standard U.S. mortality rates
2. Retirement age – The probability of an employee staying with the Water Authority until age 60 or age 65 is summarized below.

	Age at retirement	
	Age 60	Age 65
29 or younger	60%	40%
30-39	80%	60%
40-49	100%	80%
50+	100%	100%

D. Asset valuation – fair market value

The Water Authority's non-pension employee defined benefit healthcare obligations are linked to inflation, and higher inflation will lead to higher liabilities. The non-pension defined benefit healthcare benefits obligation will be affected by the medical inflation rate at 5% in the current period and is based on historical claims information and long-term medical inflation expectation.

The majority of the non-pension employee defined benefit healthcare obligations are to provide post-retirement healthcare for the life of the member, so increases in life expectancy will result in an increase in the non-pension employee healthcare benefits obligations.

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10. Leases

The Water Authority leases a parcel of land in Cayman Brac under an operating lease. Lease payments are currently CI\$1,028 per month and are subject to periodic review to reflect open market rental values. The lease was signed in January 2000, and is for a period of thirty years.

Future minimum lease rentals payable follow:

	<u>31 December 2017</u>	<u>30 June 2016</u>
Within one year	12,335	12,335
After one year but not more than five period/years	49,340	49,340
After more than five years	86,343	104,846
	<u>CI\$ 148,018</u>	<u>166,521</u>

11. Change in estimates

During the review of the useful lives of assets performed by the Water authority for the year ended 30 June 2016, the Water Authority identified a change in useful lives of assets relating to the water meters. Management had previously amortised the assets over 15 years. Based on the value in use, the expected useful life decreased to 8 years. The effect of these changes on the actual and expected depreciation expense was as follows:

	<u>31 December 17</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Increase in depreciation expense	CI\$ 79,855	38,650	16,627	9,676

12. Financial risk management objectives and policies

The Water Authority's activities expose it to various types of risk that are associated with the financial instruments and markets in which it operates. The Water Authority's Board has overall responsibility for the establishment and oversight of its risk management framework. The most important types of financial risk to which the Water Authority is exposed to are credit risk, liquidity risk and market risk. This note presents information about the Water Authority's exposure to each of these risks and the Water Authority's objectives, policies and processes for measuring and managing risk and the Water Authority's management of capital.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Water Authority. Financial assets which potentially subject the Water Authority to credit risk consist principally of trade receivables. Concentrations of credit risks with respect to trade receivables are small as the customer base is large and unrelated.

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12. Financial risk management objectives and policies (continued)

Credit risk (continued)

Customer credit risk is jointly managed within the finance and customer service departments of the Water Authority. Outstanding customer receivables are regularly monitored, and the Water Authority will disconnect water supply to any customers who do not pay their invoices within 60 days. Payment agreements are available to customers who seek assistance and are monitored closely to ensure compliance. Failure to pay within the outlined time will result in disconnection. The Water Authority holds customer deposits on each account as collateral against non-payment amounting to CI\$1,382,971 (30 June 2016: CI\$1,322,790).

The maximum exposure to credit risk for financial assets at the reporting date without taking account of any collateral held or other credit related enhancements and based on the carrying amounts as reported in the statements of financial position, is:

	31 December 2017	30 June 2016
Trade receivables	4,627,361	4,793,594
Non-trade receivables	488,090	642,188
	CI\$ 5,115,451	5,435,782

Liquidity risk

As at 31 December 2017, an allowance for doubtful receivables of CI\$1,919,677 has been made against accounts receivable (30 June 2016: CI\$1,919,677). The aging of trade and other receivables at 31 December 2017 is as follows:

	31 December 2017	30 June 2016
Current	2,628,083	3,334,256
Between 30 days and 60 days	645,590	218,349
Between 60 days and 90 days	173,067	76,282
Greater than 90 days	1,668,711	1,806,895
	CI\$ 5,115,451	5,435,792

Liquidity risk is the risk that the Water Authority will not be able to meet its financial obligations as they fall due.

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to predict and manage the Water Authority's expected cash outflows. Management monitors rolling forecasts of the cash and cash equivalents on the basis of expected cash outflows.

As at 31 December 2017, accounts payable are all due within 3 months of the statement of financial position date. The repayment dates on the loans are as described in note 6.

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12. Financial risk management objectives and policies (continued)

Market risk

Market risk is the risk that changes in interest rates, foreign exchange rates or commodity prices will affect the financial performance of the Water Authority. The Water Authority's activities expose it to interest rate risk and currency risk.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

Loans are subject to interest rate risk. As outlined in note 6, the loans attract fixed interest rates based on market interest rates. Management does not consider there to be a significant interest rate risk due to the low interest environment. As at 31 December 2017, the interest rate profile of the Water Authority's interest-bearing financial instruments were:

Financial Liabilities	<u>31 December 2017</u>	<u>30 June 2016</u>
Fixed rate instruments	CI\$ 1,782,023	3,926,274

The nature of the Water Authority's exposures to interest rate risk and its objectives, policies and processes for managing interest rate risk have not changed significantly from the prior year.

Currency risk

As substantially all transactions are denominated in Cayman Island dollars, the Water Authority is not significantly exposed to currency risk due to the Cayman Islands dollar being fixed to the United States dollar. The nature of the Water Authority's exposure to currency risk has not changed significantly from the prior year.

13. Subsequent events

In preparing these financial statements, management has evaluated subsequent events up to 30 April 2018, which is the date that the financial statements were approved and available to be issued. No subsequent events were identified that require additional disclosures in these financial statements.