

FINANCIAL STATEMENTS

WATER AUTHORITY OF THE CAYMAN ISLANDS

30 JUNE 2014

**THE WATER AUTHORITY
OF THE CAYMAN ISLANDS**

**FINANCIAL STATEMENTS
30 June 2014**

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Water Authority of the Cayman Islands
STATEMENT OF RESPONSIBILITY FOR FINANCIAL STATEMENTS
30 June 2014

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, (2013 Revision)* and reference to *Section 17(1)* of the Water Authority Law (1996 Revision). The financial statements comply with generally accepted accounting practice as defined in International Public Sector Accounting Standards and International Financial Reporting Standards.

We accept responsibility for the accuracy and integrity of the financial information in these financial statements and their compliance with the *Public Management and Finance Law, (2013 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 fairly present the statement of financial position, statement of comprehensive income, statement of cash flows and statement of changes in equity as at and for the financial year ended 30 June 2014.

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 year ended 30 June 2014;
- (b) fairly reflect the financial position as at 30 June 2014 and comprehensive income as at and for the year ended 30 June 2014; 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 Lemeul Hurlston

Chairman
Water Authority of the Cayman Islands

31 October 2014

Dr Gelia Frederick van Genderen

Director
Water Authority of the Cayman Islands

31 October 2014

Ms Lori Bergman

Financial Controller
Water Authority of the Cayman Islands

31 October 2014

Independent Auditors' Report to the Shareholder and Directors

In accordance with section 60(1)(a)(ii) of the Public Management and Finance Law (2013 Revision), we have audited the accompanying financial statements of The Water Authority of the Cayman Islands (the "Water Authority"), which comprise the statement of financial position as at 30 June 2014, and the statements of comprehensive income, changes in shareholder's equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

This report is prepared for and only for the Shareholder and Directors of the Water Authority in accordance with the terms of an engagement letter dated July 23, 2014, 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Water Authority as at 30 June 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

Our opinion on the 30 June 2013, financial statements dated 30 October 2013, was qualified because the provision for pensions payable at 30 June 2013 was based on a 30 June 2012 estimate provided to the Water Authority by the Public Service Pensions Board. As described in note 9, the statement of financial position as at 30 June 2013 includes net employee benefits of CI\$1,520,000. In the absence of an actuarial valuation as at 30 June 2013, we were unable to obtain sufficient appropriate audit evidence to form an opinion on the provision for pensions payable in the statement of financial position as at 30 June 2013, nor the related change recognised in the statement of comprehensive income and the related information disclosed in note 9. As at June 30, 2014 the provision for pensions payable is fairly stated.

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31 October 2014

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Alastair Swarbrisk

Alastair Swarbrisk, MA (Hons), CPFA
Auditor General

31 October 2014



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Water Authority of the Cayman Islands
Statements of Financial Position
As at 30 June 2014
(Stated in Cayman Islands dollars)

	Note	2014	2013
Assets			
<i>Non-current assets</i>			
Property, plant and equipment	5	66,046,757	67,932,161
Total non-current assets		66,046,757	67,932,161
<i>Current assets</i>			
Cash and cash equivalents		11,026,085	8,459,689
Accounts receivable, net	3	4,261,006	4,507,345
Inventory, net	4	1,319,327	1,406,839
Prepaid expenses		288,856	166,481
Total current assets		16,895,274	14,540,354
Total Assets		82,942,031	82,472,515
Liabilities and Shareholder's Equity			
Liabilities			
<i>Non-current liabilities</i>			
Loans payable	6,8	10,236,626	12,804,492
Employee benefits, net	9	2,582,000	1,520,000
Total non-current liabilities		12,818,626	14,324,492
<i>Current liabilities</i>			
Accounts payable		1,928,778	1,721,692
Contract retention payable		45,426	-
Interest payable		-	9,820
Customers deposits		1,187,586	1,162,522
Loans payable	6,8	2,568,761	2,640,792
Total current liabilities		5,730,551	5,534,826
Total liabilities		18,549,177	19,859,318
Shareholder's Equity			
Contributed capital	7	236,000	236,000
Retained earnings		64,156,854	62,377,197
		64,392,854	62,613,197
Total Liabilities and Shareholder's Equity		82,942,031	82,472,515

On behalf of the Board on 31 October 2014

Mr Lemeul Hurlston
Chairman

Dr Gelia Frederick van genderen
Director

Ms Lori Bergman
Financial Controller

The accompanying notes form an integral part of these financial statements

Water Authority of the Cayman Islands
Statement of Comprehensive Income
For the Year Ended 30 June 2014
(Stated in Cayman Islands dollars)

	Note	2014	2013
Operating Revenue			
Water sales		23,563,980	24,044,582
Sewerage fees		4,170,621	4,037,430
Connection and miscellaneous fees		5,990	15,045
Septage disposal		130,672	119,183
Agency work		60,648	36,699
Total operating revenue		27,931,911	28,252,939
Operating Expenses			
Water purchases / production		8,055,382	7,940,024
Depreciation expense	5	3,441,730	3,663,367
Salaries		2,499,852	2,601,876
Wages		1,453,775	1,443,365
Repairs and maintenance		1,699,422	1,216,819
Electricity		1,245,251	1,170,587
Supplies		827,228	884,489
Impairment of property, plant and equipment	5	346,636	-
Miscellaneous		155,824	157,732
Land lease expense		12,335	12,335
Total operating expenses		19,737,435	19,090,594
Finance Costs			
Loan interest		578,537	710,451
Gross operating profit		7,615,939	8,451,894
Other Income			
Royalties		1,154,877	1,237,433
Other		196,936	181,774
Statutory licencing fees		59,304	13,713
Interest income		4,573	628
Total other income		1,415,690	1,433,548
Operating Profit		9,031,629	9,885,442

(continued)

The accompanying notes form an integral part of these financial statements

Water Authority of the Cayman Islands
Statement of Comprehensive Income (continued)
For the Year Ended 30 June 2014
(Stated in Cayman Islands dollars)

	Note	2014	2013
Administration Expenses			
Salaries	8	1,880,586	1,993,035
Staff training and benefits		1,290,749	1,249,636
Insurance		870,595	824,099
Miscellaneous		381,996	382,117
Legal and professional fees		365,694	266,148
Telephone and utilities		340,958	347,255
Defined benefit cost	9	329,000	129,000
Information systems		264,022	264,646
Bad debt expense		232,696	186,261
Depreciation expense	5	131,582	135,633
Repairs and maintenance		125,628	119,320
Licenses and dues		124,416	118,494
Office and lab supplies		77,450	57,587
Office rental		3,600	3,600
Total administration expenses		6,418,972	6,076,831
Profit for the year		2,612,657	3,808,611
Other Comprehensive Income/(Loss)			
Remeasurements of defined pension plan	9	(733,000)	-
Total Comprehensive Income for the year		1,879,657	3,808,611

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 Year Ended 30 June 2014
(Stated in Cayman Islands dollars)

	Notes	2014	2013
CONTRIBUTED CAPITAL	7		
Balance at beginning of year		236,000	236,000
Balance at end of year		<u>236,000</u>	<u>236,000</u>
RETAINED EARNINGS			
Balance at beginning of year		62,377,197	58,668,586
Total comprehensive income for the year		1,879,657	3,808,611
Contribution to Government	8	(100,000)	(100,000)
Balance at end of year		<u>64,156,854</u>	<u>62,377,197</u>
TOTAL SHAREHOLDER'S EQUITY		<u>64,392,854</u>	<u>62,613,197</u>

The accompanying notes form an integral part of these financial statements

Water Authority of the Cayman Islands
Statement of Cash Flows
For the Year Ended 30 June 2014
(Stated in Cayman Islands dollars)

	2014	2013
Cash flows from operating activities		
Profit for the year	1,879,657	3,808,611
Adjustments to reconcile net income for the year to net cash provided by operating activities:		
Depreciation expense	3,573,312	3,799,000
Impairment of property, plant and equipment	346,636	-
Add/(deduct) net changes in non-cash operating balances:		
Accounts receivable	246,339	(559,514)
Inventory	87,512	(128,653)
Prepaid expense	(122,375)	123,164
Accounts payable	207,086	(329,466)
Contract retention payable	45,426	(118,686)
Interest payable	(9,820)	271
Past service pension liability	1,062,000	129,000
Customer deposits	25,064	(2,347)
Net cash generated by operating activities	7,340,837	6,721,380
Cash flows from investing activities		
Property, plant and equipment purchased	(2,034,544)	(472,880)
Net cash used in investing activities	(2,034,544)	(472,880)
Cash flows from financing activities		
Repayment of loans payable	(2,639,897)	(2,684,930)
Contribution to Government	(100,000)	(100,000)
Net cash used in by financing activities	(2,739,897)	(2,784,930)
Net increase in cash and cash equivalents during year	2,566,396	3,463,570
Cash and cash equivalents at beginning of year	8,459,689	4,996,119
Cash and cash equivalents at end of year	11,026,085	8,459,689
Supplemental disclosure for cash flow information:		
Cash paid during the year for interest	(578,537)	(710,451)
Cash received during the year for interest	4,573	628

The accompanying notes form an integral part of these financial statements

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the Year Ended 30 June 2014

1. Establishment and Principal Activities

The Water Authority of the Cayman Islands (the "Water Authority") is a statutory body, wholly owned by the Cayman Islands Government (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.

As at 30 June 2014, the Water Authority had 122 employees (2013: 118 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

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

(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, related costs to put the assets into service and capitalised borrowing costs.

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 recognized net within other income/other expenses in the statement of comprehensive income.

(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 income as incurred.

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the Year Ended 30 June 2014

2. Significant Accounting Policies (continued)

(d) Property, plant and equipment (continued)

(iii) Depreciation:

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and 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 income on a straight-line basis over the useful lives of each part of an item of property, plant and equipment unless the asset is used in the construction of an internally constructed asset in which case the depreciation is capitalised to the internally constructed asset. Land is not depreciated.

The estimated useful lives are as follows:

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

Construction in progress represents property, plant and equipment projects which are not yet completed at the year 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 year 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 income.

(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 year 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 Year Ended 30 June 2014

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 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, rate 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 realized, employee benefit plan assets and liabilities and comprehensive income will be affected.

(iv) Depreciation and Amortization

The Water Authority's property and equipment is depreciated and amortized on a straightline 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, inventories, net profit and comprehensive income.

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the Year Ended 30 June 2014

2. Significant Accounting Policies (continued)

(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 capitalized. The interest expense of loan payments is recognised in the statement of comprehensive income 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 recognized as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

(j) Financial instruments

(i) Financial assets

The Water Authority initially recognises loans and receivables and deposits 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 amortized cost using the effective interest method, less any impairment losses.

Cash and cash equivalents:

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

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the Year Ended 30 June 2014

2. Significant Accounting Policies (continued)

(i) Financial instruments (continued)

(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 derecognises 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 recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

Other financial liabilities comprise loans payable, accounts payable, contract retention payable and other payables

(iii) Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount presented in the Water Authority's statements 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 cashflow analyses and option pricing models.

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the Year Ended 30 June 2014

2. Significant Accounting Policies (continued)

(j) Financial instruments (continued)

(iv) 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 Water Authority only holds Level 1 financial assets at fair value.

(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 defined benefit and defined contribution plans.

Defined Benefit Plans:

The Water Authority's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of plan assets. The cost of pensions and other retirement 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, retirement ages of employees, and mortality rates. When the calculation results in a net benefit asset, the recognised assets is limited to the total of any unrecognized past service costs and 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.

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the Year Ended 30 June 2014

2. Significant Accounting Policies (continued)

(l) Employee Benefit Plans (continued)

Defined Benefit Plans (continued):

Remeasurements of the net defined benefit liability, 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 income (loss). The net interest expense on the net defined benefit liability for the period is determined by applying the discount rate applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability, taking into account any changes in the net defined benefit liability 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 profit or loss.

The discount rate used to value the defined benefit obligation is based on a combination 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 and the long-term rate of return of plan assets.

Defined Contribution Plans:

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

(m) Accounting standards adopted during the year

- *Disclosures – Offsetting financial assets and liabilities (amendments to IFRS 7).* The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar arrangements. The implementation of this amendment did not have an impact on the financial statements of the Water Authority.
- *IFRS 13 Fair value measurement,* establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7. The implementation of this standard did not have an impact on the financial statements of the Water Authority.
- The Water Authority adopted the revised IAS 19 *Employee Benefits* on a prospective basis. The revised standard requires that the calculation of expected return on plan assets and interest cost be replaced with a net interest charge calculated based on the discount rate as at the beginning of the year multiplied by the net position of the plan. The revised standard also requires that administrative fees of the plan be expensed by the Water Authority as incurred rather than included in the expected return. The amendment also requires other changes and additional disclosures which are summarized in Note 9.

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the Year Ended 30 June 2014

2. Significant Accounting Policies (continued)

(n) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 30 June 2014, 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:

- In November 2009, the IASB issued IFRS 9, Financial Instruments (IFRS 9 (2009)) and in October 2010, the IASB published amendments to IFRS 9 (IFRS 9 (2010)). IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additional changes relating to financial liabilities. In November 2013, the IASB published amendments to IFRS 9 Financial Instruments, IFRS 7 Financial Instruments: Disclosures, and IAS 39 Financial Instruments: Disclosures (collectively, "IFRS 9 (2013)") to include a new general hedge accounting model, and allow the adoption of the treatment of fair value changes due to a company's own credit risk on financial liabilities designated at fair value through profit or loss. The new mandatory effective date is for the annual period beginning on January 1, 2018, though early adoption is permitted. The Water Authority does not intend to adopt IFRS 9 (2009), IFRS 9 (2010), and IFRS 9 (2013) in its financial statements for the annual period beginning on July 1, 2014. The extent of the impact of adoption of IFRS 9 (2009), IFRS 9 (2010), and IFRS 9 (2013) has not yet been determined.
- In December 2011, the IASB published amendments to International Accounting Standard ("IAS") 32 *Financial Instruments: Presentation*. The effective date for the amendments to IAS 32 is annual periods beginning on or after 1 January 2014. These amendments are to be applied retrospectively. The amendments to IAS 32 clarify when an entity has a legally enforceable right to off-set as well as clarify, when a settlement mechanism provides for net settlement, or gross settlement that is equivalent to net settlement. The extent of the impact of adoption of amendments to IAS 32 has not yet been determined.

3. Accounts Receivable, net

	<u>2014</u>	<u>2013</u>
Trade Receivables	5,160,840	5,013,746
Non-Trade Receivables	743,932	914,613
Allowance for Doubtful Accounts	(1,643,766)	(1,421,014)
CI\$	<u>4,261,006</u>	<u>4,507,345</u>

4. Inventory, net

	<u>2014</u>	<u>2013</u>
Water Supply and Sewerage Materials	1,250,939	1,353,429
Water Inventory	84,249	69,271
Provision for Obsolete Inventory	(15,861)	(15,861)
CI\$	<u>1,319,327</u>	<u>1,406,839</u>

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5. Property, plant and equipment

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

	<u>2014</u>	<u>2013</u>
1. Cayman Brac – Distribution Extension	112,871	-
2. Pump Station # 1 Control Panel	35,632	6,479
3. Cayman Brac – Site Preparation	34,761	-
4. Cayman Brac – Emergency Generator	27,256	-
5. Cayman Brac – Pad Mount Transformer	12,500	-
6. Grand Cayman - Red Gate Pumping Station	1,632	-
7. Grand Cayman - District Metering Vaults	6,465	6,465
8. Grand Cayman - CCTC Survey	-	640
	CI\$ 231,117	13,584

At 30 June 2014, buildings with a carrying amount of CI\$4,401,612 (2013: CI\$4,511,610) were used as security for loans and borrowings amounting to CI\$896,062 (2013: CI\$1,144,801) (note 6).

The Water Authority's desalination plants operate under a number of finance lease agreements. At 30 June 2014, the carrying amount of leased plant, included in Water Supply assets, was CI\$10,043,563 (2013: CI\$11,194,367). During the years ended 30 June 2014 and 2013, the Water Authority did not acquire any desalination plants. The finance lease agreement between the Water Authority and Ocean Conversion Cayman (Ltd) relating to the Lower Valley Plant expired in 2013.

During the year ended 30 June 2014, the Water Authority determined that the the Lower Valley Plant could not be repaired and was subsequently dismantled. A net impairment loss of \$346,636 (2013: nil) was recorded against the plant and equipment assets.

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the Year Ended 30 June 2014

5. Property, plant and equipment (continued)

		<u>2014</u>						
		<u>Freehold Land</u>	<u>Buildings</u>	<u>Water Supply</u>	<u>Sewage</u>	<u>Other Assets</u>	<u>Construction in Progress</u>	<u>Total</u>
Cost								
Balance at beginning of year		3,555,599	5,499,883	64,415,639	28,340,151	6,429,518	13,584	108,254,374
Additions		-	-	-	-	33,243	2,001,301	2,034,544
Disposals		-	-	(1,465,206)	-	-	-	(1,465,206)
Transfers between fixed assets		-	-	1,783,768	-	-	(1,783,768)	-
Balance at end of year	CI\$	<u>3,559,599</u>	<u>5,499,883</u>	<u>64,734,201</u>	<u>28,340,151</u>	<u>6,462,761</u>	<u>231,117</u>	<u>108,823,712</u>
Accumulated Depreciation								
Balance at beginning of year		-	988,273	21,899,328	11,949,276	5,485,336	-	40,322,213
Depreciation expense		-	109,998	2,407,001	803,326	252,987	-	3,573,312
Disposals		-	-	(1,118,570)	-	-	-	(1,118,570)
Balance at end of year	CI\$	<u>-</u>	<u>1,098,271</u>	<u>23,187,759</u>	<u>12,752,602</u>	<u>5,738,323</u>	<u>-</u>	<u>42,776,955</u>
Net Book Value								
at 30 June 2014	CI\$	<u>3,555,599</u>	<u>4,401,612</u>	<u>41,546,442</u>	<u>15,587,549</u>	<u>724,438</u>	<u>231,117</u>	<u>66,046,757</u>
		<u>2013</u>						
		<u>Freehold Land</u>	<u>Buildings</u>	<u>Water Supply</u>	<u>Sewage</u>	<u>Other Assets</u>	<u>Construction in Progress</u>	<u>Total</u>
Cost								
Balance at beginning of year		3,555,599	5,499,883	64,020,105	28,340,151	6,359,291	6,465	107,781,494
Additions		-	-	-	-	70,227	402,653	472,880
Disposals		-	-	-	-	-	-	-
Transfers between fixed assets		-	-	395,534	-	-	(395,534)	-
Balance at end of year	CI\$	<u>3,555,599</u>	<u>5,499,883</u>	<u>64,415,639</u>	<u>28,340,151</u>	<u>6,429,518</u>	<u>13,584</u>	<u>108,254,374</u>
Accumulated Depreciation								
Balance at beginning of year		-	878,275	19,311,531	11,136,065	5,197,342	-	36,523,213
Depreciation expense		-	109,998	2,587,797	813,211	287,994	-	3,799,000
Disposals		-	-	-	-	-	-	-
Balance at end of year	CI\$	<u>-</u>	<u>988,273</u>	<u>21,899,328</u>	<u>11,949,276</u>	<u>5,485,336</u>	<u>-</u>	<u>40,322,213</u>
Net Book Value								
at 30 June 2013	CI\$	<u>3,555,599</u>	<u>4,511,610</u>	<u>42,516,311</u>	<u>16,390,875</u>	<u>944,182</u>	<u>13,584</u>	<u>67,932,161</u>

Water Authority of the Cayman Islands
Notes to the Financial Statements
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6. Loans payable

	Date of Loan	Loan Amount	Original Loan Term*** (Years)	Interest Rate		Current	1-2 yrs	3-5 yrs	TOTAL	
				Rate	At Year End				2014	2013
a) First Caribbean International Bank (Cayman) Limited (FCIB)**										
New Administration Building Loan*	Jun 2007	2,421,500	15	LIBOR + 0.9%	1.45%	254,059	508,118	133,885	896,062	1,144,801
North Side Supply Extension & North Side Pumping Facility	Dec 2008	2,505,000	15	LIBOR + 0.9%	1.45%	247,348	505,851	599,347	1,352,546	1,511,321
Credit Facility F	Jun 2009	4,676,000	15	LIBOR + 0.9%	1.45%	461,717	944,256	1,118,779	2,524,752	3,058,266
Sub-total for FCIB						963,124	1,958,225	1,852,011	4,773,360	5,714,388
b) Cayman Islands Government (CIG)										
Grand Cayman	Apr 1995	4,822,349	25	0%	0.00%	210,894	421,788	590,235	1,222,917	1,433,811
Sub-total for CIG						210,894	421,788	590,235	1,222,917	1,433,811
c) Ocean Conversion (Cayman) Ltd. (OCL)										
North Sound - Expansion	Apr 2007	1,450,505	7	5.04%	5.04%	-	-	-	-	180,726
North Side - Original	Jul 2009	9,176,442	10	6.48%	6.48%	931,644	2,054,464	2,338,584	5,324,692	6,197,909
Red Gate - Upgrade	Jul 2010	3,063,816	7	6.48%	6.48%	463,099	1,021,319	-	1,484,418	1,918,450
Sub-total for OCL						1,394,743	3,075,783	2,338,584	6,809,110	8,297,085
TOTALS						2,568,761	5,455,796	4,780,830	12,805,387	15,445,284
Less current loans payable									(2,568,761)	(2,640,792)
Non-current loans payable									CIS 10,236,626	12,804,492

(*) = refer to note 5

(**) = These loans are subject to a letter of undertaking dated December 21, 2000 issued by the Cayman Islands Government.

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

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the Year Ended 30 June 2014

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 (2013: CI\$416,000). At 30 June 2014 \$nil (2013: \$nil) of the overdraft facility was being utilized.

The loans subject to a letter of undertaking by the Cayman Islands Government have the following covenants included in the agreements:

1. The Government shall retain full legal and beneficial ownership of the whole issued share capital of the Water Authority at all times.
2. The Government will not permit the Water Authority to pay dividends or authorize capital withdrawals (including, without limitation, withdrawals to make contributions to the Government) to the detriment of the Water Authority's full debt service obligations.
3. No agreements or arrangements will be entered into (whether by the Government, the Water Authority or otherwise) in terms of which any option, right to purchase or right to subscribe, in each case, in respect of any shares in capital of the Water Authority is granted to any third party.

At 30 June 2014, the Water Authority was in good standing with FCIB regarding the above covenants.

As described in note 5, the administration building serves as security for the loan thereon.

7. Contributed Capital

The Cayman Islands 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.

8. Related Party Transactions

The Cayman Islands Government appoints the Chairman and Members to the Water Authority's Governing Board. The following transactions occurred during the year between the Water Authority and the Cayman Islands Government.

1. The Water Authority made loan repayments to the Government during the year in the amount of CI\$210,894 (2013: CI\$210,894). The outstanding balance of the loans with Government was CI\$1,222,917 (2013: CI\$1,433,811) at 30 June 2014; refer to note 6.
2. The Water Authority paid a dividend to the Government in the amount of CI\$100,000 (2013: CI\$100,000).
3. The remuneration of directors and other members of key management personnel during the year was CI\$987,994 (2013: CI\$1,053,960). 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 year (2013: nil). There were 7 personnel categorized in 2014 broken down as 6 key management personnel and 1 Director (2013: 7 key management personnel and 1 Director).

During the year, the Water Authority provided, at no charge to the Cayman Islands Government, the availability and use of water for fire fighting, free sewerage service to a number of indigent persons in the Watler's Road area, supervision of water resources, administration of Plumbers Examination Board, consultative services for development control, and water at a reduced Public Authority rate. The Water Authority does not estimate the value of services provided to the Government.

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the Year Ended 30 June 2014

9. Employee Benefits

a) Defined Benefit Plan

The Public Services Pension Plan is managed by the Cayman Islands Government through the Public Services Pension Board. The Board is responsible for among other things, administering The Public Service Pensions Fund (the "Fund"), communicating with plan participants and employers, prescribing contribution rates in accordance with the latest actuarial valuation and recommending amendments to the Public Service Pensions Plan (the "Plan") as needed. The current number of employees enrolled under the defined benefit plan is 5 (2013: 5).

The Water Authority recognises the unfunded past service liability as a liability on its financial statements once the actuarial valuation is completed and the actual liability since 1990 (date of establishment) is determined.

The most recent actuarial valuations for IAS 19 reporting was conducted on October 17, 2014, using data as at 30 June 2014. Management use this as best estimate to record the unfunded past service pension liability and the profit and loss charges associated with the plan participation as at and for the year ended 30 June 2014.

The actuarial position is as follows:

	30 June 2014 CI\$000's	30 June 2013 CI\$000's
Net present value of funded obligation, end of year	(4,175)	(3,246)
Fair value of plan assets	1,593	1,302
Defined benefit liability	(2,582)	(1,944)
Unrecognised actuarial net gains	-	424
Net liability in financial position, end of year	(2,582)	(1,520)

The present value of the funded obligation changes as follows:

	30 June 2014 CI\$000's	30 June 2013 CI\$000's
Defined benefit obligation, beginning of year	3,246	2,772
Current service cost	166	73
Interest cost	344	152
Plan participant contributions	46	22
Benefit payments from plan	(191)	-
Net actuarial (gain)/loss on obligations	-	227
Remeasurements	564	-
Defined benefit obligation, end of year	4,175	3,246

Water Authority of the Cayman Islands
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9. Employee Benefits (continued)

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

	30 June 2014 CI\$000's	30 June 2013 CI\$000's
Fair value of plan at the beginning of year	1,302	1,193
Interest income	138	-
Employer contributions	48	23
Plan participant contributions	46	22
Benefits paid by the plan	(191)	-
Expected return on assets, net of expense	-	73
Actuarial gain/(loss) on plan assets	-	(9)
Remeasurements	255	-
Administrative expenses	(5)	-
Fair value of plan at the end of year	<u>1,593</u>	<u>1,302</u>

Reconciliation of past service liability (PSL) during the period:

	30 June 2014 CI\$000's	30 June 2013 CI\$000's
Balance as at the beginning of year	1,520	1,391
Reconciliation of PSL 2012	-	129
Current service cost	377	-
Remeasurements	733	-
Employer contributions	(48)	-
Balance as at the end of the year	<u>2,582</u>	<u>1,520</u>

Past Service Pension Liability valuations for the period ending 30 June 2012, in the amount of CI\$129,000, was made available to the Water Authority during the 30 June 2013 fiscal period. The Water Authority recognized the adjustment in that period. The valuation for the period ending 30 June 2014 was prepared in the current year. Thus the amount recognized in the current year reflects the actuarial position as at 30 June 2014.

The defined benefit cost included in Profit

	30 June 2014 CI\$000's	30 June 2013 CI\$000's
Current service cost, net of employee contributions	166	73
Net interest cost	206	152
Administrative expenses	5	-
Expected return on assets	-	(73)
Total defined benefit cost	<u>377</u>	<u>152</u>
Employer contributions recognized in administrative expenses	(48)	-
Net defined benefit cost	<u>329</u>	<u>152</u>

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the Year Ended 30 June 2014

9. Employee Benefits (continued)

The remeasurements included in other comprehensive income

	30 June 2014 CI\$000's	30 June 2013 CI\$000's
Effect of changes in demographic assumptions	223	-
Effect of changes in financial assumptions	584	-
Effect of experience adjustments	(243)	-
Effect of changes in actuarial assumptions	424	-
(Return) on plan assets (excluding interest income)	(255)	-
	<u>733</u>	<u>-</u>
Remeasurements		

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

	30 June 2014	30 June 2013
Global equities	79%	64%
Bonds	20%	32%
Other / cash	1%	1%
Property	0%	3%

The principal actuarial assumptions at the date of valuation:

A. Cost method - Projected Unit Credit

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

	30 June 2014	30 June 2013
Discount rate	4.50%	5.25%
Expected long-term rate of return (net of expense)	7.00%	7.00%
Salary increase	3.50%	3.50%
Future pension increases	2.50%	2.50%
Inflation rate	2.50%	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

b) Defined Contribution Plan

In accordance with the *National Pensions Law of June 1998*, all new employees who are not participants in the Public Service Pensions Fund are enrolled in an approved local defined contribution pension plan with British Caymanian Pension. During the year, the Water Authority and its employees paid 5% and 5% (2013: 5% and 5%) respectively of salary contributions to the defined contribution plan. The total employees enrolled in the defined contribution plan is 117 (2013: 113).

The total amount recognised as a employer contributions for the 12 months ended 30 June 2014, inclusive of both the defined benefit and defined contribution plans, was CI\$307,011 (2013: CI\$ 305,893). This amount is included as administrative expenses (staff training and benefits).

Water Authority of the Cayman Islands
Notes to the Financial Statements
For the Year Ended 30 June 2014

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>2014</u>	<u>2013</u>
Within one year	12,335	12,335
After one year but not more than five years	49,340	49,340
After more than five years	129,516	141,851
CI\$	<u>191,191</u>	<u>203,526</u>

11. 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.

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 customer 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\$1,187,586 (2013: CI\$1,162,522).

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:

	<u>2014</u>	<u>2013</u>
Trade receivables	5,160,840	5,013,949
Non-trade receivables	743,932	914,410
CI\$	<u>5,904,772</u>	<u>5,928,359</u>

Water Authority of the Cayman Islands
Notes to the Financial Statements
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11. Financial risk management objectives and policies (continued)

Credit risk (continued)

As at 30 June 2014, an allowance for doubtful receivables of CI\$1,643,765 has been made against accounts receivable (2013: CI\$1,421,014). The aging of receivables at 30 June is as follows:

	<u>2014</u>	<u>2013</u>
Current	3,810,315	3,736,468
Between 30 days and 60 days	47,570	25,714
Between 60 days and 90 days	224,041	313,644
Greater than 90 days	1,822,846	1,852,533
CI\$	<u>5,904,772</u>	<u>5,928,359</u>

Liquidity risk

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 30 June 2014, accounts payable and interest payable are all due within 3 months of the statements of financial position date. The repayment dates on the loans and borrowings are as described in note 6.

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 and borrowings are subject to interest rate risk. As outlined in Note 6, the loans and borrowings attracts variable and fixed interest rates based on market interest rates which are reset monthly. Management does not consider there to be a significant interest rate risk due to the low interest environment. As at 30 June 2014, the interest rate profile of the Water Authority's interest-bearing financial instruments were:

	<u>2014</u>	<u>2013</u>
Financial Liabilities		
Fixed rate instruments	8,032,027	9,730,896
Variable rate instruments	4,773,360	5,714,388
CI\$	<u>12,805,387</u>	<u>15,445,284</u>

A change of 1% in interest rates throughout the reporting period would have increased/decreased net income by CI\$ 47,734 (2013: CI\$97,640)

Water Authority of the Cayman Islands
Notes to the Financial Statements
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11. Financial risk management objectives and policies (continued)

Market risk (continued)

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. Subsequent to 30 June 2014s, the market interest rates have remained static and Water Authority has therefore not experienced any adverse effects as a result of interest rate risk.

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.

12. Financial instruments

Fair values

As at 30 June 2014 and 2013, the carrying amount of cash and cash equivalents, accounts receivable, accounts payable, interest 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.

13. Comparative amounts

Certain comparative amounts have been reclassified to conform to the financial statement presentation adopted in the current year.

14. Subsequent events

In preparing these consolidated financial statements, management has evaluated and disclosed all material subsequent events up to October 31, 2014, being the date that the financial statements were available to be issued.