



## **The Water Authority of the Cayman Islands**



**'Adjacent' – Intersection of Culture and History by Davin K Ebanks  
Cayman Islands National Gallery – National Collection**

# **ANNUAL REPORT**

## **For the 2013/14 Financial Year**





# **OWNERSHIP AGREEMENT ANNUAL REPORT**

**For**

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

***For the 2013/14 Financial Year***

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## 1. Purpose

This annual report details the performance of The Water Authority of the Cayman Islands ("The Authority") for the fiscal year ended 30 June 2014.

It includes information about the actual performance delivered during the year as compared to the planned performance documented in the Ownership Agreement for The Water Authority of the Cayman Islands for 2013/14, or as amended through the supplementary appropriation process.

## 2. Nature and Scope of Activities

This section outlines the Nature and Scope of Activities within which The Authority operated during the year.

### Approved Nature and Scope of Activities

*The Authority's activities are:*

*To ensure that the entire population of the Cayman Islands have access to a pure, wholesome and affordable supply of potable water; and to regulate other entities who are licensed by the Government to provide public water supplies.*

*To protect and develop groundwater resources for the benefit of present and future populations of these islands.*

*To provide for the collection, treatment and disposal of sewage within these islands in a manner that is safe, efficient and affordable.*

*To operate in such a manner as to be financially self-sufficient, while contributing to the economy of these islands and achieving a reasonable and acceptable return on capital investments.*

### Compliance during the Year

Throughout the 2013/14 fiscal period the Authority complied with the defined mission statement as described above.

To ensure that the population of the Cayman Islands has access to pure, wholesome and affordable drinking water the Authority commenced the Cayman Brac Extension Project, installed a new water storage tank on the Red Gate and did miscellaneous small extensions at a combined cost of \$1.8 million.

During the course of the year the Authority sold 3.6 million m<sup>3</sup> of water (2013: 3.5 million m<sup>3</sup>) and processed 1.086 million gallons of wastewater (2013: 856 million gallons) in Grand Cayman and sold 0.1 million m<sup>3</sup> of water in Cayman Brac (2013: 0.1 million m<sup>3</sup>).

The Water Resources and Quality Control Department carried out the Authority's statutory functions of groundwater protection and management, development control and related permitting throughout the fiscal period. The Authority's accredited water and wastewater Laboratory provided ongoing analytical services for the Authority's water supply, wastewater treatment system and groundwater monitoring programmes. The Department continued the development of the Onsite Wastewater Management Programme, a partnership between the Authority as regulator of onsite wastewater treatment, property owners/developers who own the onsite wastewater treatment systems and service providers who install and maintain onsite wastewater treatment systems. The Department initiated a monitoring programme for nutrients in wastewater and the Laboratory carried out the necessary work to obtain accreditation for nutrient testing, this accreditation was granted by the American Association for Laboratory Accreditation in October 2014.

The Authority prides itself on its fiscal management and ability to be self-sufficient. Throughout the fiscal period the Authority had a positive net surplus and maintained its fiscal independence. The Authority contributed \$100,000 to the Government of the Cayman Islands (2013: \$100,000) and invested \$2.0 million (2013: \$0.5 million) into the capital infrastructure of the islands.

### 3. Strategic Goals and Objectives

#### Approved Strategic Goals and Objectives

The key strategic goals and objectives (from an ownership perspective) for The Authority for the 2013/14 financial year were as follows:

- **Lower Valley** – work in tandem with a consulting engineering firm to re-design the reverse osmosis plant, complete with building refurbishment, replacement of plant equipment and the modernization of the plant control system to ensure reliable and continuous service to the island of Grand Cayman.
- **Red Gate Site** – Construction of a new pumping station and construction of a new 1.8 million gallon capacity water storage tank to replace the existing 1.25 million gallon GRP (glass reinforced plastic) tank.
- **Cayman Brac Extension Project** – Install 4,150 feet of 8" water mains on Gerard Smith Avenue, 3,650 feet of 3" and 4" water mains on Bertrand Avenue, Bluff Boulevard, Marie Avenue and Warbler Road.
- **Cayman Brac** – Purchase and commission a 60,000 gallon / day containerized reverse osmosis plant.

#### Achievement during the Year

- **Lower Valley** – After a competitive tendering process, the design and build contract for the re-design of the Lower Valley Reverse Osmosis plant was awarded to Ocean Conversion Limited (OCL) for the total amount of \$1.0 million. This contract commenced in May 2014 and is scheduled to be fully completed in the third quarter of 2014/15.
- **Red Gate Site** – After a competitive tendering process, the design and build contract for the construction of a new 1.8 million gallon capacity water storage tank was awarded to Florida Aquastore for the amount of US\$1.16 million. The project commenced in December 2013 and completed in June 2014.
- **Cayman Brac Extension Project** – The Cayman Brac project began in October 2013 by sending 4 members of the Grand Cayman New Works crew to the Brac to replace of 4,500 feet of 6" pipeline along Bert Marsden Drive and side roads at a cost of \$114,000 and to install 9,500 feet of new 4" and 6" pipeline along sideroads off Gerrard Smith Drive at a cost of \$478,000.
- **Cayman Brac West End Water Works** – After a competitive tendering process, the contract to design, build and commission a 60,000 gallon / day containerized reverse osmosis plant was awarded to Consolidated Water in the total amount of US\$ 342,000. The project commenced in May 2014 and is scheduled to be fully completed in the third quarter of 2014/15.

## 4. Ownership Performance Targets

### Financial Performance

| Financial Performance Measure                                                       | 2013/14<br>Actual<br>\$ | 2013/14<br>Budget<br>(Approved in LA)<br>\$ | Annual<br>Variance<br>\$ |
|-------------------------------------------------------------------------------------|-------------------------|---------------------------------------------|--------------------------|
| Revenue from Cabinet                                                                | Nil                     | N/A                                         | Nil                      |
| Revenue from ministries, portfolios, statutory authorities and government companies | Nil                     | N/A                                         | Nil                      |
| Revenue from other persons or organisations                                         | 29,347,601              | 29,869,408                                  | (521,807)                |
| Surplus/deficit from outputs<br>(Gross Operating Surplus)                           | 9,031,629               | 10,217,534                                  | (1,185,905)              |
| Other expenses                                                                      | 7,151,972               | 6,700,502                                   | 451,470                  |
| Net Surplus/Deficit                                                                 | 1,879,657               | 3,517,032                                   | (1,637,375)              |
| Total Assets                                                                        | 82,942,031              | 79,651,960                                  | 3,290,071                |
| Total Liabilities                                                                   | 18,549,177              | 19,643,235                                  | (1,094,058)              |
| Net Worth                                                                           | 64,392,854              | 60,008,725                                  | 4,384,129                |
| Cash flows from operating activities                                                | 7,340,837               | 5,566,414                                   | 1,774,423                |
| Cash flows from investing activities                                                | (2,034,544)             | (3,550,750)                                 | 1,516,206                |
| Cash flows from financing activities                                                | (2,739,897)             | (2,528,500)                                 | 211,397                  |
| Change in cash balances                                                             | 2,566,396               | (512,836)                                   | 3,079,232                |

| Financial Performance Ratio         | 2013/14<br>Actual | 2013/14<br>Budget<br>(Approved in LA) | Annual<br>Variance |
|-------------------------------------|-------------------|---------------------------------------|--------------------|
| Current Assets: Current Liabilities | 2.94              | 1.19                                  | 1.75               |
| Total Assets: Total Liabilities     | 4.47              | 4.05                                  | 0.42               |

#### Explanation of Variances

##### *Financial Performances: Income Statement*

Although both the revenue and by default the operating expenses are lower than budgeted a key figure in this analysis is the net income, which is \$1.6 million or 46% below the budgeted amount. This variance is primarily due to the Past Service Pension Liability (PSPL) expense of \$1,062,000, which was \$912k above the budgeted figure of \$150k.

Revenue - The Authority presented a budgeted figure and was able to show a minor variance of less than 1% (0.6 million).

Other Expenses – Consistent with the explanation above, the PSPL of \$1,062,000 was reflected in "other expenses" and hence it is reasonable that the Authority exceed budget expectations, as this figure was unexpected during the

2013/14 budget process (see below for further explanation). The Authority had maintained austere measures throughout the year and expected to show a net income of approximately \$2.7 million (\$1.7 million actual, add \$1million PSPL).

**Actuary Report** – The Authority received with an engagement letter from the Public Service Pension Board (PSPB) in May 2104, which requested the Authority's approval for a "2013 Actuarial Valuation for IAS 19 purposes for Defined Benefit Part of Pension Plan", and the expectation was very clear that the valuation for IAS19 purposes was as of 30 June 2013. The Authority was aware that a new actuary had been appointed, however it was only upon receipt of the report in July 2014 for periods ending 30 June 2013 and 2014 that the Authority recognized the new obligation. The Liability was significantly higher than in prior years and budgeted figures as a result of the Public Service Pension Board's consultant (Mercer) using more current actuarial assumptions. The Authority recognized the entire obligation in the current period and expects that the future obligations will be more in line with budgeted figures now that the Actuary is using up to date figures.

**Assets** - The assets of the Authority increased by \$3.3 million, primarily a result of the strong cash intake (\$3.1 million higher than budgeted) offset by capital projects that were not completed due to limited resources during the fiscal period.

**Liabilities** – There were no new borrowings as The Authority continues to be under the Governmental moratorium umbrella and is concentrating on paying off existing debt while still proceeding with required capital projects and remediation works paid from retained earnings.

**Cash Balance** - It is reasonable that the cash position is higher than originally budgeted due to prudent financial management and as not all capital projects were executed.

**Ten Year Development Plant** - The Authority continues to update the Ten Year Capital Development plan, which is an integral part of the Authority's ability to ensure that supply meets the expected demand, taking into consideration growth rates as well as lead-time to complete major projects. As part of this budget process the Authority conservatively estimates revenue and stringently manages expenses in order to maintain a key component of the Mission Statement, "To operate in such a manner as to be financial self-sufficient while contribution to the economy of these islands and achieving a reasonable and acceptable return on capital investments".

In summary, the Authority ended the 30 June 2014 fiscal period in a strong financial position despite lower than expected revenue, allowing the Authority to complete projects within the fiscal period without cash injections from outside credit facilities.

*Financial Performance Ratios:*

It is reasonable that the current assets / current liabilities ratio is higher than expected as the cash position went from an estimate of decreasing by \$513k to increasing by \$2.6 million, a jump of over \$3 million.

The Financial Performance Ratios are within expectation given the discussion above.

**Maintenance of Capability**

| <b>Human Capital Measures</b>                      | <b>2013/14<br/>Actual<br/>\$</b> | <b>2013/14<br/>Budget<br/>(Approved in LA)<br/>\$</b> | <b>Annual<br/>Variance<br/>\$</b> |
|----------------------------------------------------|----------------------------------|-------------------------------------------------------|-----------------------------------|
| Total full time equivalent staff                   | 122                              | 123                                                   | (1)                               |
| Staff turnover (%)                                 | 5%                               | 14%                                                   | (9%)                              |
| Average length of service (In Years)               |                                  |                                                       |                                   |
| Senior Management                                  | 16 years                         | 16                                                    | Nil                               |
| Professional Staff                                 | 12 years                         | 14                                                    | (2)                               |
| Administrative / Field Staff                       | 11 years                         | 12                                                    | (1)                               |
| Significant changes to personnel management system | No actual software upgrades      | No projected software upgrades                        | N/A                               |

| <b>Physical Capital Measures</b>                                                                                             | <b>2013/14<br/>Actual<br/>\$</b> | <b>2013/14<br/>Budget<br/>(Approved in LA)<br/>\$</b> | <b>Annual<br/>Variance<br/>\$</b> |
|------------------------------------------------------------------------------------------------------------------------------|----------------------------------|-------------------------------------------------------|-----------------------------------|
| Value of total assets<br>(NBV of Fixed Assets, inclusive of CIP)                                                             | 66,046,757                       | 73,480,248                                            | (7,433,491)                       |
| Asset replacements: total assets<br>(Fixed Assets Purchased during the year / Total value of Assets)                         | 2.5%                             | 4.0%                                                  | (0.2%)                            |
| Book value of depreciated assets: initial cost of those assets<br>(NBV of Depreciated assets / initial cost of those assets) | 60.7%                            | 64.0%                                                 | (3.3%)                            |
| Depreciation: Cash flow on asset purchases<br>(Annual Depreciation / Cost of Fixed Assets Purchased)                         | 175.6%                           | 95.0%                                                 | 80.6%                             |
| Changes to asset management policies                                                                                         | None                             | None                                                  | None                              |

| <b>Major Capital Expenditure Projects</b>                                                                                                                                                      | <b>2013/14<br/>Actual<br/>\$</b>           | <b>2013/14<br/>Budget<br/>(Approved in LA)<br/>\$</b> | <b>Annual<br/>Variance<br/>\$</b> |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|-------------------------------------------------------|-----------------------------------|
| <b>Lower Valley – Reverse Osmosis Plant refurbishment</b>                                                                                                                                      |                                            |                                                       |                                   |
| <ul style="list-style-type: none"> <li>• 2013/14</li> <li>• 2014/15</li> </ul>                                                                                                                 | In Progress<br>-                           | \$1,800,000<br>\$600,000                              | -<br>-                            |
| <b>Red Gate Site</b>                                                                                                                                                                           |                                            |                                                       |                                   |
| <ul style="list-style-type: none"> <li>- Replace Storage Tank</li> <li>- Pump Station Refurbishment <ul style="list-style-type: none"> <li>• 2013/14</li> <li>• 2014/15</li> </ul> </li> </ul> | \$1,144,000<br><br>Pending<br>-            | \$1,150,000<br><br>\$312,000<br>\$300,000             | (\$6,000)<br><br>N/A<br>N/A       |
| Cayman Brac                                                                                                                                                                                    |                                            |                                                       |                                   |
| <ul style="list-style-type: none"> <li>- Extension</li> <li>- Site Preparation</li> <li>- New Generator</li> <li>- Containerized Plant (60,000 gallons / day)</li> </ul>                       | \$478,000<br>Pending<br>Pending<br>Pending | \$910,000<br>\$240,000<br>\$120,300<br>\$500,000      | (\$432,000)<br>N/A<br>N/A<br>N/A  |

#### **Risk Management**

| <b>Key risks</b>                                       | <b>Status of Risk</b>               | <b>Actions taken during<br/>2013/14 to Manage risk</b> | <b>Financial Value of risk</b> |
|--------------------------------------------------------|-------------------------------------|--------------------------------------------------------|--------------------------------|
| Property / Employee / Public Liability / Motor Vehicle | No Identified Change in risk Status | Adequate insurance maintained to mitigate the risk     | Value of deductible            |

#### **Explanation of Variances**

##### Human Capital Measures:

*Total Full Time Staff Equivalent* - The Authority continues to make a conscious decision with regards to staffing and evaluates each open position and ascertain whether it is an essential position. The Authority started the year with 118 employees, saw five employees leave and filled 9 vacant positions. There were no new positions added within the Authority over the course of the fiscal period.

**Staff Turnover / Average Length of Service** – The Authority is committed to providing a positive working environment for staff and strives to minimise / reduce turnover by encouraging staff training, internal promotions, scholarships and equitable market compensation, with the ultimate objective to retain valuable staff.

**Major Capital Expenditure Projects:**

**Island of Grand Cayman – Misc. Extensions, system Connections, New Road expansion** - To continue to provide the high level of water reliability and quality to the residents of Grand Cayman the Authority installed 376 new meters (2013: 312) at a cost of \$184,197 (2013: \$143,497) and extended the pipeline 0.25 miles at a cost of \$24,514 and made several purchases of equipment (\$88,808)

**Lower Valley – Reverse Osmosis Plant refurbishment** – this project commenced in May 2013, and is expected to be fully completed the third quarter of 2014/15.

**Red Gate Site – Water Storage Tank** – this project commenced in December 2013 and was completed, within budget in June 2014.

**Cayman Brac - Water Distribution Extension and Expansion of the RO Plant** – The Authority continues its mission to provide the convenience of "piped water" to residents living on the North Side of Cayman Brac. In December 2009, the Authority secured the vesting of 12.58 acres next to the Ashton Rutty Civic Center on the Bluff to construct a Water Production, Storage and Pumping Facility to better service the residents on the Brac. In October 2013 a full New Works Crew was mobilized to the Brac to commence the upgrades and extensions of the water distribution pipeline. The Crew started by replacing 1,400 feet (0.85 mile) of 150mm pipeline along Bert Marson Drive (\$113k, which was expensed) then moved to installing new distribution pipeline on Gerrard Smith Drive and the associated side roads at a capitalized cost of \$478k.

**Risk Management** – The Authority recognises the risk associated with normal operations and mitigates this risk by maintaining four comprehensive insurance policies with British Caymanian Insurance, a company associated with Colonial Group International with an A- rating (as published by AM Best).

- Commercial Combined Policy – to protect the physical assets (exclusive of vehicles) of the Authority.
- Comprehensive Vehicle Policy – to protect the fleet assets of the Authority.
- Public / Products Liability Policy – to indemnify the Authority in respect of their legal liability to third parties for Bodily Injury and / or Property Damage arising out of and / or in connection with their activities and / or operations.
- Employer Liability Policy – to protect the Authority in the event that an employee becomes sick or is injured as a result of their employment.

## 5. Summarised Financial Statements

A full set of financial statements for Water Authority – Cayman is provided in the Appendix to this Ownership Agreement.

A summary of those is as follows.

| Operating Statement                 | 2013/14<br>Actual<br>\$ | 2013/14<br>Budget<br>(Approved in LA)<br>\$ | Annual<br>Variance<br>\$ |
|-------------------------------------|-------------------------|---------------------------------------------|--------------------------|
| Revenue                             | 29,347,601              | 29,869,408                                  | (521,807)                |
| Operating / Administrative Expenses | 27,467,944              | 26,352,376                                  | 1,115,568                |
| Net Surplus/Deficit                 | 1,879,657               | 3,517,032                                   | (1,637,375)              |

| Balance Sheet | 2013/14<br>Actual<br>\$ | 2013/14<br>Budget<br>(Approved in LA)<br>\$ | Annual<br>Variance<br>\$ |
|---------------|-------------------------|---------------------------------------------|--------------------------|
| Assets        | 82,942,031              | 79,651,960                                  | 3,290,071                |
| Liabilities   | 18,549,177              | 19,643,235                                  | (1,094,058)              |
| Net Worth     | 64,392,854              | 60,008,725                                  | 4,384,129                |

| <b>Statement of Cash Flows</b>           | <b>2013/14<br/>Actual<br/>\$</b> | <b>2013/14<br/>Budget<br/>(Approved in LA)<br/>\$</b> | <b>Annual<br/>Variance<br/>\$</b> |
|------------------------------------------|----------------------------------|-------------------------------------------------------|-----------------------------------|
| Net cash flows from operating activities | 7,340,837                        | 5,566,414                                             | 1,774,423                         |
| Net cash flows from investing activities | (2,034,544)                      | (3,550,750)                                           | 1,516,206                         |
| Net cash flows from financing activities | (2,739,897)                      | (2,528,500)                                           | (211,397)                         |

Explanation of Variances

Explanations for variances are found in section 4 on page 5.

## 6. Other Financial Information

Detailed below is information about specific financial transaction required to be included in the Ownership Agreement by the *Public Management and Finance Law (2010 Revision)*.

| <b>Transaction</b>                                                                      | <b>2013/14<br/>Actual<br/>\$</b> | <b>2013/14<br/>Budget<br/>(Approved in LA)<br/>\$</b> | <b>Annual<br/>Variance<br/>\$</b> |
|-----------------------------------------------------------------------------------------|----------------------------------|-------------------------------------------------------|-----------------------------------|
| Equity Investments into Water Authority - Cayman                                        | Nil                              | Nil                                                   | N/A                               |
| Capital Withdrawals from Water Authority – Cayman                                       | Nil                              | Nil                                                   | N/A                               |
| Dividend or Profit Distributions to be made by Water Authority – Cayman                 | 100,000                          | 100,000                                               | \$ nil                            |
| Government Loans to be made to Water Authority – Cayman                                 | Nil                              | Nil                                                   | N/A                               |
| Government Guarantees to be issued in relation to Water Authority – Cayman              | Nil                              | Nil                                                   | N/A                               |
| Related Party Payments (Non Remuneration) made to Key Management Personnel <sup>1</sup> | Nil                              | Nil                                                   | N/A                               |
| Remuneration <sup>2</sup> Payments made to Key Management Personnel                     | 987,994                          | 1,250,000                                             | (262,006)                         |
| Remuneration Payments made to Senior Management                                         | Same as Above                    | Same as Above                                         | Same as Above                     |

|                                | <b>2013/14<br/>Actual<br/>\$</b> | <b>2013/14<br/>Budget<br/>(Approved in LA)<br/>\$</b> |
|--------------------------------|----------------------------------|-------------------------------------------------------|
| No of Key Management Personnel | 7                                | 8                                                     |
| No of Senior Management        | 7                                | 8                                                     |

Explanation of Variances

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

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

Transaction:

As part of the budgeting process, the Authority highlights the annual contribution to Government, which is approved by the Board. Therefore, it is reasonable that there is no variance.

At this time, the original optimal number of Key Management Personnel identified for the Authority is seven (7) as the Authority continues to streamline operations and reporting structures. At 30 June 2014, the Key Management Personnel are; The Director, Deputy Director, Financial Controller, Customer Service Manager, Chief Human Resource manager, Water Resources Engineer and Information System Manager.

Remuneration for Key Management Personnel is inclusive of base salary, pension and health insurance benefits. No salary adjustments were given and the Authority was able to keep health insurance premiums stable so it is reasonable that actual are slightly lower than budgeted.

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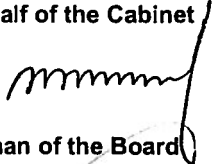
**Agreement**

We jointly agree that this Ownership Agreement accurately documents the ownership performance that The Water Authority of the Cayman Islands achieved for the 2013/14 financial year.



Hon. D. Kurt Tibbetts, OBE, JP

on behalf of the Cabinet



Chairman of the Board

Date: 10 June 2015

**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 Lemuel 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.

KPMG

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              |
|---------------------------------------------------|------|-------------------|-------------------|
| <b>Assets</b>                                     |      |                   |                   |
| <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        |
| <b>Total Assets</b>                               |      | <b>82,942,031</b> | <b>82,472,515</b> |
| <b>Liabilities and Shareholder's Equity</b>       |      |                   |                   |
| <b>Liabilities</b>                                |      |                   |                   |
| <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        |
| <b>Shareholder's Equity</b>                       |      |                   |                   |
| Contributed capital                               | 7    | 236,000           | 236,000           |
| Retained earnings                                 |      | 64,156,854        | 62,377,197        |
|                                                   |      | 64,392,854        | 62,613,197        |
| <b>Total Liabilities and Shareholder's Equity</b> |      | <b>82,942,031</b> | <b>82,472,515</b> |

On behalf of the Board on 31 October 2014

Mr Lemuel 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       |
|---------------------------------------------|------|------------|------------|
| <b>Operating Revenue</b>                    |      |            |            |
| Water sales                                 |      | 23,563,980 | 24,044,582 |
| Scworage 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 |
| <b>Operating Expenses</b>                   |      |            |            |
| 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 |
| <b>Finance Costs</b>                        |      |            |            |
| Loan interest                               |      | 578,537    | 710,451    |
| <b>Gross operating profit</b>               |      | 7,615,939  | 8,451,894  |
| <b>Other Income</b>                         |      |            |            |
| 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  |
| <b>Operating Profit</b>                     |      | 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      |
|------------------------------------------------|------|-----------|-----------|
| <b>Administration Expenses</b>                 |      |           |           |
| 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 |
| <b>Profit for the year</b>                     |      | 2,612,657 | 3,808,611 |
| <b>Other Comprehensive Income/(Loss)</b>       |      |           |           |
| Remeasurements of defined pension plan         | 9    | (733,000) | -         |
| <b>Total Comprehensive Income for the year</b> |      | 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              |
|-----------------------------------------|-------|-------------------|-------------------|
| <b>CONTRIBUTED CAPITAL</b>              | 7     |                   |                   |
| Balance at beginning of year            |       | 236,000           | 236,000           |
| Balance at end of year                  |       | <b>236,000</b>    | <b>236,000</b>    |
| <b>RETAINED EARNINGS</b>                |       |                   |                   |
| 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                  |       | <b>64,156,854</b> | <b>62,377,197</b> |
| <b>TOTAL SHAREHOLDER'S EQUITY</b>       |       | <b>64,392,854</b> | <b>62,613,197</b> |

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             |
|------------------------------------------------------------------------------------------------|-------------------|------------------|
| <b>Cash flows from operating activities</b>                                                    |                   |                  |
| 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        |
| <b>Cash flows from investing activities</b>                                                    |                   |                  |
| Property, plant and equipment purchased                                                        | (2,034,544)       | (472,880)        |
| Net cash used in investing activities                                                          | (2,034,544)       | (472,880)        |
| <b>Cash flows from financing activities</b>                                                    |                   |                  |
| 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)      |
| <b>Net increase in cash and cash equivalents during year</b>                                   | <b>2,566,396</b>  | <b>3,463,570</b> |
| Cash and cash equivalents at beginning of year                                                 | 8,459,689         | 4,996,119        |
| <b>Cash and cash equivalents at end of year</b>                                                | <b>11,026,085</b> | <b>8,459,689</b> |
| <b>Supplemental disclosure for cash flow information:</b>                                      |                   |                  |
| 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)**

*(j) 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)      |
|                                 | <u>CIS 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)         |
|                                     | <u>CIS 1,319,327</u> | <u>1,406,839</u> |

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

**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 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.

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**5. Property, plant and equipment (continued)**

|                                 |      | <u>2014</u>          |                  |                     |               |                     |                                 |              |
|---------------------------------|------|----------------------|------------------|---------------------|---------------|---------------------|---------------------------------|--------------|
|                                 |      | <b>Freehold Land</b> | <b>Buildings</b> | <b>Water Supply</b> | <b>Sewage</b> | <b>Other Assets</b> | <b>Construction in Progress</b> | <b>Total</b> |
| <b>Cost</b>                     |      |                      |                  |                     |               |                     |                                 |              |
| 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\$ | 3,559,599            | 5,499,883        | 64,734,201          | 28,340,151    | 6,462,761           | 231,117                         | 108,823,712  |
| <b>Accumulated Depreciation</b> |      |                      |                  |                     |               |                     |                                 |              |
| 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\$ | -                    | 1,098,271        | 23,187,759          | 12,752,602    | 5,738,323           | -                               | 42,776,955   |
| <b>Net Book Value</b>           |      |                      |                  |                     |               |                     |                                 |              |
| at 30 June 2014                 | CI\$ | 3,555,599            | 4,401,612        | 41,546,442          | 15,587,549    | 724,438             | 231,117                         | 66,046,757   |
|                                 |      | <u>2013</u>          |                  |                     |               |                     |                                 |              |
|                                 |      | <b>Freehold Land</b> | <b>Buildings</b> | <b>Water Supply</b> | <b>Sewage</b> | <b>Other Assets</b> | <b>Construction in Progress</b> | <b>Total</b> |
| <b>Cost</b>                     |      |                      |                  |                     |               |                     |                                 |              |
| 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\$ | 3,555,599            | 5,499,883        | 64,415,639          | 28,340,151    | 6,429,518           | 13,584                          | 108,254,374  |
| <b>Accumulated Depreciation</b> |      |                      |                  |                     |               |                     |                                 |              |
| 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\$ | -                    | 988,273          | 21,899,328          | 11,949,276    | 5,485,336           | -                               | 40,322,213   |
| <b>Net Book Value</b>           |      |                      |                  |                     |               |                     |                                 |              |
| at 30 June 2013                 | CI\$ | 3,555,599            | 4,511,610        | 42,516,311          | 16,390,875    | 944,182             | 13,584                          | 67,932,161   |

**6. Loans payable**

**(\*) = 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

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**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.

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**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<br>CIS000's | 30 June 2013<br>CIS000'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<br>CIS000's | 30 June 2013<br>CIS000'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                    |

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**9. Employee Benefits (continued)**

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

|                                             | 30 June 2014<br>CIS000's | 30 June 2013<br>CIS000'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<br>CIS000's | 30 June 2013<br>CIS000'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 CIS\$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<br>CIS000's | 30 June 2013<br>CIS000'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**  
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**9. Employee Benefits (continued)**

The remeasurements included in other comprehensive income

|                                                     | 30 June 2014 | 30 June 2013 |
|-----------------------------------------------------|--------------|--------------|
|                                                     | CIS000's     | CIS000'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)        | -            |
| Remeasurements                                      | 733          | -            |

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).

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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>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**  
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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        |
|                             | <u>CI\$ 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>       |
|------------------------------|------------------------|-------------------|
| <b>Financial Liabilities</b> |                        |                   |
| Fixed rate instruments       | 8,032,027              | 9,730,896         |
| Variable rate instruments    | 4,773,360              | 5,714,388         |
|                              | <u>CI\$ 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.