



**OWNERSHIP AGREEMENT
ANNUAL REPORT**

For

The Water Authority of the Cayman Islands

For the 2012/13 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 2013.

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 2012/13, 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 2012/13 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 continued the water distribution pipeline to the blue Iguana Reserve and miscellaneous small extensions at a combined cost of \$0.24 million.

During the course of the year the Authority sold 3.5 million m³ of water (2012: 3.5 million m³) and processed 856 million gallons of wastewater (2012: 808 million gallons) in Grand Cayman and sold 0.1 million m³ of water in Cayman Brac (2012: 0.1 million m³).

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. A major project during the fiscal period was the department's participation in the Environmental Advisory Board to review the proposal to close the George Town Landfill and to establish a new Waste Management Facility in Bodden Town. The Authority's Onsite Wastewater Management Programme was strengthened by the private sector providers using the online database to record service reports for onsite treatment systems. The Authority addressed substantial wastewater violations at the Randyke Strata Development and rehabilitated the failing onsite treatment systems on behalf of Government at a cost of \$90,000.

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 (2012: \$100,000) and invested \$0.5 million (2012: \$1.3 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 2012/13 financial year were as follows:

- **Island of Grand Cayman** – Miscellaneous extensions, system connections, new road expansion – to provide water to subserved areas within the general distribution grid.
- **Red Gate Site** – Replace water storage tank and pumping station refurbishment.
- **Red Gate Site** – Vehicle Maintenance Building – construct a special purpose building for fleet maintenance, relocating the buildings and equipment staff and operations from the WWTP to the Red Gate Site. To be financed from proceeds of Wastewater Asset sale.
- **Cayman Brac Extension** – WAC portion of design costs and preliminary investigations into the extension of piped water to residents living on the north side of Cayman Brac.

Achievement during the Year

- **Island of Grand Cayman** – The Authority extended the distribution pipeline a total of 0.65 miles, miscellaneous small pipeline extensions (0.26 miles) to the Blue Iguana Reserve (0.22 miles) and along Lake Destiny Drive (0.17 miles) at a combined cost of \$240,575. The total distribution pipeline on the island of Grand Cayman is 279.25 miles (2012: 278.60).
- **Red Gate Site – Replace water storage tank and pumping station refurbishment** - Due to limited in-house resources these projects did not commence.
- **Red Gate Site – Vehicle Maintenance Building** – The Authority received approval for the master plan for the Red Gate site, which incorporates both a file storage and vehicle maintenance buildings, to the Central Planning Authority (CPA) on 18 May 2011. The Vehicle Maintenance Building was an urgent necessity should the wastewater assets of the authority be sold, however given that the divestiture has been cancelled for the time being this project has been put on hold.
- **Cayman Brac Extension** - The Engineering department of the Authority began initial design and preliminary investigations into the Cayman Brac Extension with the intention to start this project in early 2013/14. No funds were allocated to the project in 2012/13 as mobilisation has taken place and no capital works started in the 2012/13 fiscal period.
- **Wastewater** – In April 2013 the Authority awarded a contract (tender amount US\$ \$1,007,438.50) to clean and inspect the wastewater collection system. Under this contract all leaking pipeline sections, identified by the closed-circuit television survey, will be repaired using an internal repair method, and which will reduce the inflow at the wastewater treatment plant by up to 40%, thus significantly reducing the operational cost of both the wastewater collection system and the wastewater treatment works.

4. Ownership Performance Targets

Financial Performance

| Financial Performance Measure | 2012/13 Actual \$ | 2012/13 Budget (Approved in LA) \$ | Annual Variance \$ |
|---|----------------------|--|-----------------------|
| Revenue from Cabinet | Nil | Nil | Nil |
| Revenue from ministries, portfolios, statutory authorities and government companies | Nil | Nil | Nil |
| Revenue from other persons or organisations | 29,686,487 | 29,869,408 | (182,921) |
| Surplus/deficit from outputs (Gross Operating Surplus) | 9,885,442 | 10,217,534 | (332,092) |
| Other expenses | 6,076,831 | 6,700,502 | (623,671) |
| Net Surplus/Deficit | 3,808,611 | 3,517,032 | 291,579 |
| Total Assets | 82,472,515 | 79,651,960 | 2,820,555 |
| Total Liabilities | 19,859,318 | 19,643,235 | 216,083 |
| Net Worth | 62,613,197 | 60,008,725 | 2,604,472 |
| Cash flows from operating activities | 6,721,380 | 5,566,414 | 1,154,966 |
| Cash flows from investing activities | (472,880) | (3,550,750) | 3,077,870 |
| Cash flows from financing activities | (2,784,930) | (2,528,500) | (256,430) |
| Change in cash balances | 3,463,570 | (512,836) | 3,976,406 |

| Financial Performance Ratio | 2012/13 Actual | 2012/13 Budget (Approved in LA) | Annual Variance |
|-------------------------------------|----------------|------------------------------------|-----------------|
| Current Assets: Current Liabilities | 2.62 | 1.19 | 1.43 |
| Total Assets: Total Liabilities | 4.15 | 4.05 | 0.10 |

Explanation of Variances

Financial Performances: Income Statement

On 21 August 2012 the Authority met with members of Cabinet regarding the original budgeted figures, provided in January 2012, for 2012/13 of \$710k and were instructed to re-visit the projections. The Authority made it clear that without a rate adjustment (stagnant since 1995, with only a small adjustment in 2006) it is impossible to continue to show a strong net income with rising costs of doing business. In response, the Cayman Islands Government granted the Authority permission to adjust the rates which are reflected in the revised Regulations that came in to effect on 01 November 2012. This was essential in order for the Authority to meet the strong projection of \$3.5 million in the fiscal period, a copy of which is attached to this document.

Revenue - The Authority was able to meet the budgeted figures, showing a minor decrease of less than 1% (0.6%)

Gross Operating Surplus – the minor decrease of 3% is reasonable given the slightly lower revenue figures.

Other Expenses – The Authority maintained austere measures and were able to reduce the administrative expenses against budgeted figures and show a slight increase (3%) over that of prior year. The slight decrease from budgeted figures was a direct result of the Authority prudently budgeting for an annual hurricane expense of \$255k and conservative litigation costs that were not required.

Net Surplus – an 8% increase in Net Surplus over budgeted figures is a representation of the strong fiscal management of the Authority given lower than expected sales figures. Evidence of a solid revenue stream, strong cash management, prioritisation of projects to complete, and significant, conscious maintenance of administrative expenses, is demonstrated through a higher net income than originally forecasted. Should also note that delayed project (WW) helped, we had expected the Closed Circuit Television (CCTV) survey to be awarded in late 2012/13, but only commence in 13/14. Our budgeted net income for 13/14 is 2.4 million, which is taking into account the \$1.2 million for the CCTV survey.

Assets - The assets of the Authority increased by \$2.8 million, primarily because of the strong cash intake offset by the capital projects that were not completed during the fiscal period.

Liabilities – the Authority has been under the Governmental moratorium on borrowing and hence it is reasonable the Authority's actual liabilities compared to that of the budget are within 1% as the Authority is not taking on any new debt and concentrating on paying off existing debt while still proceeding with required capital projects and remediation works paid from retained earnings.

Cash Flow - It is reasonable that cash flow from operating activities would be higher than budgeted as the net income is slightly higher than expected and administrative expenses are lower than expected.

Ten Year Development Plan - As part of the annual budget process, the Authority continues to update the Ten Year Capital Development plan. This plan 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, despite relatively stagnant sales, the Authority ended the fiscal period in a strong financial position, primarily because of conservative estimates and prudent fiscal management, which translated to the Authority's ability to complete projects within the fiscal period without cash injection 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 \$3.5 million, a jump of \$4 million.

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

Directive for sale of the Wastewater Assets:

Although the Authority was presented with a directive from the Cayman Islands Government to value the wastewater assets and prepare for their sale (October 2009), it was made clear early in the 2012/13 fiscal period that until further notice this project was put on hold. As a result, the Authority's financial projections and actual performance included the wastewater division and will until a directive is received that instructs otherwise.

Maintenance of Capability

| Human Capital Measures | 2012/13 Actual \$ | 2012/13 Budget (Approved in LA) \$ | Annual Variance \$ |
|--------------------------------------|--------------------------|---|---------------------------|
| Total full time equivalent staff | 118 | 123 | (5) |
| Staff turnover (%) | 5% | 14% | (9%) |
| Average length of service (In Years) | | | |
| Senior Management | 14 years | 14 Years | Nil |
| Professional Staff | 12 years | 12 Years | Nil |
| Administrative / Field Staff | 9 years | 10 Years | (1) |

| | | | |
|--|-----------------------------|--------------------------------|-----|
| Significant changes to personnel management system | No actual software upgrades | No projected software upgrades | N/A |
|--|-----------------------------|--------------------------------|-----|

| Physical Capital Measures | 2012/13 Actual \$ | 2012/13 Budget (Approved in LA) \$ | Annual Variance \$ |
|---|-------------------|------------------------------------|--------------------|
| Value of total assets (NBV of Fixed Assets, inclusive of CIP) | 67,932,161 | 73,480,248 | (5,548,087) |
| Asset replacements: total assets (Fixed Assets Purchased during the year / Total value of Assets) | 0.6% | 4.0% | 3.4% |
| Book value of depreciated assets: initial cost of those assets (NBV of Depreciated assets / initial cost of those assets) | 62.8% | 64.0% | (1.2%) |
| Depreciation: Cash flow on asset purchases (Annual Depreciation / Cost of Fixed Assets Purchased) | 803.4% | 95.0% | 708.4% |
| Changes to asset management policies | None | None | N/A |

| Major Capital Expenditure Projects | 2012/13 Actual \$ | 2012/13 Budget (Approved in LA) \$ | Annual Variance \$ |
|---|-------------------|------------------------------------|----------------------------|
| Island of Grand Cayman – Misc. Extensions, system connections, new road expansion | 472,880 | 1,200,000 | (\$727,120) |
| Red Gate Site – Replace Water Storage Tank - Pump Station Refurbishment | Nil Nil | 956,000 275,000 | (\$956,000) (\$275,000) |
| Red Gate Site – Maintenance Building | Nil | 830,000 | (\$830,000) |
| Cayman Brac Extension (WAC and Managed Contract) | Nil | 800,000 | (\$800,000) |

Risk Management

| Key risks | Status of Risk | Actions taken during 2011/12 to Manage risk | Financial Value of risk |
|--|-------------------------------------|--|-------------------------|
| Property / Employee / Public Liability / Motor Vehicle | No Identified Change in risk Status | Adequate insurance maintained to mitigate the risk | Value of deductible |

Explanation of Variances

Human Capital Measures:

Total Full Time Staff Equivalent - The Authority has made a conscious decision to clearly evaluate each open position and ascertain whether it was an essential position. The Authority started the year with 121 employees (not the budgeted 123), saw seven employees leave and only filled 4 of those positions. There are 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 312 new meters

(2012: 407) at a cost of \$143,497 (2012: \$225,352) and extended the pipeline 0.65 miles at a cost of \$240,575 and made several purchases of equipment (\$88,808). The Authority's crew concentrated primarily on upgrades, which are expensed, rather than extensions that are capitalised, therefore it is reasonable that the Authority is under budget on capital works.

Red Gate Site – Water Storage Tank – this project did not commence in the fiscal period and will be carried forward to 2013/14.

Red Gate Site – New File Storage and Maintenance Building – no progress was made on the file storage building due to lack of available financial resources and the Maintenance Building was dependent on the divestment of the wastewater assets. As the divestment is currently on hold indefinitely the vehicle maintenance building is on hold as well and there are no current plans to continue with this project at this time although it may be considered in the future whether or not the wastewater assets are divested.

Cayman Brac - Water Distribution Extension and Expansion of the RO Plant – Consistent with the responses received in prior years, the Authority seeks to fulfill its mission statement and provide the convenience of “city 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 Ruddy Civic Center on the Bluff to construct a Water Production, Storage and Pumping Facility to better service the residents on the Brac. The project did not officially commence in the 2012/13 fiscal period, however the Engineering Department has completed the formal plan with capital work expecting to start in early 2013/14.

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 | 2012/13 Actual \$ | 2012/13 Budget (Approved in LA) \$ | Annual Variance \$ |
|-------------------------------------|-------------------------|---|--------------------------|
| Revenue | 29,686,487 | 29,869,408 | (182,921) |
| Operating / Administrative Expenses | 25,877,876 | 26,352,376 | (474,500) |
| Net Surplus/Deficit | 3,808,611 | 3,517,032 | 291,579 |

| Balance Sheet | 2012/13 Actual \$ | 2012/13 Budget (Approved in LA) \$ | Annual Variance \$ |
|---------------|-------------------------|---|--------------------------|
| Assets | 82,472,515 | 79,651,960 | 2,820,555 |
| Liabilities | 19,859,318 | 19,643,235 | 216,083 |
| Net Worth | 62,613,197 | 60,008,725 | 2,604,472 |

| Statement of Cash Flows | 2012/13 Actual \$ | 2012/13 Budget (Approved in LA) \$ | Annual Variance \$ |
|--|----------------------------------|---|-----------------------------------|
| Net cash flows from operating activities | 6,721,380 | 5,566,414 | 1,154,966 |
| Net cash flows from investing activities | (472,880) | (3,550,750) | 3,077,870 |
| Net cash flows from financing activities | (2,784,930) | (2,528,500) | (256,430) |

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)*.

| Transaction | 2012/13 Actual \$ | 2012/13 Budget (Approved in LA) \$ | Annual Variance \$ |
|---|----------------------------------|---|-----------------------------------|
| Equity Investments into Water Authority - Cayman | Nil | Nil | N/A |
| Capital Withdrawals from Water Authority – Cayman | Nil | Nil | N/A |
| Dividend or Profit Distributions to be made by Water Authority – Cayman | 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 ¹ | Nil | Nil | N/A |
| Remuneration ² Payments made to Key Management Personnel | 1,053,960 | 1,250,000 | (196,040) |
| Remuneration Payments made to Senior Management | Same as Above | Same as Above | Same as Above |

| | 2012/13 Actual | 2012/13 Budget (Approved in LA) |
|--------------------------------|---------------------------|--|
| No of Key Management Personnel | 8 | 8 |
| No of Senior Management | 8 | 8 |

Explanation of Variances

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

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

Transaction:

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

The original optimal number of Key Management Personnel for the Authority has been established at eight (8) as the Authority continues to streamline operations and reporting structures. At 30 June 2013, the Key Management Personnel are; The Director, Deputy Director, Financial Controller, Customer Service Manager, Chief Human Resource manager, Water Resources Engineer, Information Technology Manager and Operations Manager – CYB.

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.

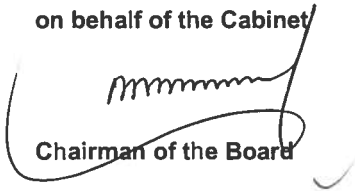
Agreement

We jointly agree that this Ownership Agreement accurately documents the ownership performance that The Water Authority of the Cayman Islands achieved for the 2012/13 financial year.



Hon, D. Kurt Tibbetts, OBE, JP

on behalf of the Cabinet



Chairman of the Board

Date: 8 May 2014