



**OWNERSHIP AGREEMENT
ANNUAL REPORT**

For

The Water Authority of the Cayman Islands

For the 2010/11 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 2011.

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 2010/11, 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 2010/11 fiscal period the Authority complied with the defined mission statement as described above.

To ensure that the population of the Cayman Islands has access to pure, wholesome and affordable drinking water the Authority extended the distribution pipeline along the East / West Corridor, completing from the Lantern Point Roundabout to South Sound Road and miscellaneous side roads at a combined cost of \$0.8 million.

During the course of the year the Authority sold 3.5 million m³ of water (2010: 3.5 million m³) and processed 755 million gallons of wastewater (2010: 733 million gallons) in Grand Cayman and sold 0.1 million m³ of water in Cayman Brac (2010: 0.1 million m³).

Throughout the fiscal period, and in an ongoing quest to protect and develop the groundwater resources, the Authority commenced discussion with the Development Control Board and planners in the Sister Islands to determine practical and feasible options for wastewater treatment and disposal on the Bluff and in Little Cayman, continued to work with Boatswain's Beach on options to reduce impacts of effluent disposal, and reviewed development applications submitted through the Planning Department to ensure compliance with the Water Authority Regulations.

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 \$50,000 to the Government of the Cayman Islands (2010: \$50,000) and invested over \$4.6 million (2010: \$13.5 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 2010/11 financial year were as follows:

- [Grand Cayman](#) – Misc. extensions, system connections, new road expansion – to provide water to unserviced areas within the general distribution grid without piped water service.
- [Red Gate Site](#) – File Storage Building and Vehicle Maintenance Building – To facilitate the file storage needs of the Authority and to construct a special purpose building for fleet maintenance, relocating the buildings and equipment staff and operations from the WWTP to the Red Gate Site.
- [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.
- [Cayman Brac](#) – Expansion of Existing RO Plant - Additional 60,000gpd (gallons per day) containerized SWRO Plant – to increase operational flexibility, reliability and minimize exposure to natural disasters.

Achievement during the Year

- [Grand Cayman](#) – The Authority extended the distribution pipeline a total of 2 miles along the East / West Corridor, completing from the Lantern Point Roundabout to South Sound Road (0.74 miles) and miscellaneous side roads (1.26 miles) at a combined cost of \$0.8 million. The total distribution pipeline on the island of Grand Cayman is 278 miles (2010: 276).
- [Red Gate Site](#) – File Storage Building and Vehicle Maintenance Building – the Authority submitted the master plan for the Red Gate site, which incorporates both the file storage and vehicle maintenance buildings, to the Central Planning Authority (CPA) on 18 February 2011. Approval for the plan was received on 18 May 2011. At 30 June 2011 no plans for either building have been completed.
- [Cayman Brac Extension and Cayman Brac RO Expansion](#) - although work has not commenced on these projects the Authority secured a suitable piece of property from the Cayman Islands Government in 2009/10 for the construction of a water production, storage and pumping facility on the Bluff which will also allow for the expansion of the water distribution system.

4. Ownership Performance Targets

Financial Performance

Financial Performance Measure	2010/11 Actual \$	2010/11 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	27,345,937	27,765,268	(419,331)
Surplus/deficit from outputs (Gross Operating Surplus)	6,721,763	5,749,713	972,050
Other expenses	5,581,362	7,016,328	(1,434,966)
Net Surplus/Deficit	2,678,126	241,604	2,436,522
Total Assets	83,529,583	91,454,532	(7,924,949)
Total Liabilities	26,978,351	40,317,384	(13,339,033)
Net Worth	56,551,232	51,137,148	5,414,084
Cash flows from operating activities	6,773,601	4,881,462	1,892,139
Cash flows from investing activities	(4,584,930)	(10,777,095)	(6,192,165)
Cash flows from financing activities	(2,014,376)	5,196,087	(7,210,463)
Change in cash balances	174,295	(699,546)	873,841

Financial Performance Ratio	2010/11 Actual	2010/11 Budget (Approved in LA)	Annual Variance
Current Assets: Current Liabilities	3.23	0.63	2.60
Total Assets: Total Liabilities	3.10	2.27	0.83

Explanation of Variances

Financial Performances: Income Statement

Original budgeted revenue figures were based on a strong projected rate of growth and a substantial rate increase. Therefore, it is reasonable that the Authority did not meet the original revenue projections as there was no adjustment to rates and growth has slowed considerably from original projections. While the Authority did not meet budgeted figures the revenue figures were still reflective of moderate growth over that shown in 2009/10 (\$27.0 million, an increase of 1.4%) and continues to benefit from mild economic growth on the island.

During 2010/11 the Authority maintained austere measures and hence were able to decrease other expenses (administrative) from originally budgeted figures by almost 21%. The majority of the savings can be attributed to zero salary adjustments, no new positions and the associated benefits (\$517k). The rest of the savings were from delayed information technology projects (\$176k), decreased depreciation (\$124k), favorable interest rates (\$88k), conservative utility estimates (\$84k), decreased legal and professional fees (\$30k), and several projects that the

Authority had planned to complete but was unable to due to limited in house resources, for example, completion of the Cost of Service and Rate Design project and employee handbook (\$150k).

An increased Net Surplus is a representation of the strong fiscal management of the Authority given lower than expected sales figures.

The 2010/11 ownership agreement was completed in February 2010 and included \$2.0 million of wastewater capital projects (replacement, extensions and rehabilitation), however none of those projects came to fruition as the Government plans to divest themselves of the Wastewater assets and therefore the Authority was instructed not to proceed with any capital projects related to the Wastewater Assets. The total budgeted asset figure was therefore overstated by \$2.0 million.

If budgeted asset figures were reduced by \$2.0 million, reflective of the directive not to proceed with capital projects relating to the wastewater system, then the variance would be reduced to \$5.9 million. The Authority had aggressively planned to complete several water capital projects throughout 2010/11 however not all of them were completed. Most notably is the delay in the extension of the Cayman Brac Water Distribution System (\$2.9 million), File Storage and Vehicle Maintenance buildings (\$1.6 million), Cayman Brac expansion of the existing RO Plant (\$0.5 million) which have all been delayed due to unavailable resources. The total cost of these projects is \$5.0 million, and had they been completed would have put the asset values of the Authority well within the budgeted figures.

During the course of the 2010/11 budget process, the Authority had planned to borrow over \$10.3 million Long Term Debt, however during the 2010/11 fiscal period the Authority only borrowed \$3.1 million, which was in the form of vendor financing arrangement for the refurbishment of the Red Gate Plant.

The projections prepared for 2010/11 reflect the Authority's operations as a whole, inclusive of the wastewater division. Evidence of a solid revenue stream, strong cash management, prioritisation of projects to complete, and significant, conscious reductions in administrative expenses, is demonstrated through a higher net income than originally forecasted. As at 30 June 2011 the sale of the wastewater assets had not yet been finalized.

As part of the annual budget process, the Authority updates 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 lower than expected 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:

In the 30 June 2010 and 2011 financial statements the wastewater assets were classified as "assets held for sale" however in the budget projections these assets remained classified as long term, thereby significantly changing the ratios as calculated above, this explanation is consistent with the higher than expected Physical Capital Measures. Had the Wastewater Assets not been reclassified the current ratio would have been 1.2, which is more in line with original estimates.

The Financial Performance Ratios are within expectation given the discussion above and the reclassification of the Wastewater Assets from Long Term to Current Assets.

Directive for sale of the Wastewater Assets:

In October 2009 the Authority received a directive from the Government of the Cayman Islands to value the wastewater assets and prepare for their sale. Bids from interested vendors were received on 10 December 2010 and the Authority prepared a preliminary tender evaluation report by 23 December 2010. The Government appointed Wastewater Technical Committee (WTC) commenced their tender evaluation in early January 2011 and as at 30 June 2011 had not completed the evaluation and award process.

Maintenance of Capability

Human Capital Measures	2010/11 Actual	2010/11 Budget (Approved in LA)	Annual Variance
Total full time equivalent staff	123	120	3
Staff turnover (%)	11%	14%	(3%)
Average length of service (In Years)			
Senior Management	13 years	13 Years	Nil
Professional Staff	11 years	7 Years	4
Administrative / Field Staff	8 years	9 Years	(1)
Significant changes to personnel management system	No projected software upgrades	No projected software upgrades	N/A

Physical Capital Measures	2010/11 Actual	2010/11 Budget (Approved in LA)	Annual Variance
Value of total assets (NBV of Fixed Assets, inclusive of CIP)	55,230,159	85,242,895	(30,012,736)
Asset replacements: total assets (Fixed Assets Purchased during the year / Total value of Assets)	8.7%	12.8%	(4.1%)
Book value of depreciated assets: initial cost of those assets (NBV of Depreciated assets / initial cost of those assets)	70.1%	72.9%	(2.8%)
Depreciation: Cash flow on asset purchases (Annual Depreciation / Cost of Fixed Assets Purchased)	98.1%	42.5%	55.6%
Changes to asset management policies	None	None	N/A

Major Capital Expenditure Projects	2010/11 Actual \$	2010/11 Budget (Approved in LA) \$	Annual Variance \$
Island of Grand Cayman – Misc. Extensions, system connections, new road expansion	1,224,125	2,000,000	(775,875)
Red Gate Site – New File Storage and Maintenance Building	Nil	1,625,000	(1,625,000)
Cayman Brac Extension (WAC and Managed Contract)	Nil	2,902,000	(2,902,000)
Cayman Brac Expansion of existing RO Plant	Nil	500,000	(500,000)

Risk Management

Key risks	Status of Risk	Actions taken during 2010/11 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 to fill 3 essential positions in 2010/11.

Staff Turnover / Average Length of Service – The Authority is committed to providing a positive working environment for staff and strives to minimize / 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 567 new meters (2010: 795) and completed multiple extensions at a cost of \$0.8 million.

Red Gate Site – New File Storage and Maintenance Building – no significant work has been completed on these projects throughout 2010/11 due to restricted resources and funds.

Cayman Brac - Water Distribution Extension and Expansion of the RO Plant – In response to requests from the public and in fulfillment of the Authority’s mission statements there are plans to provide the convenience of “city water” to residents living on the North Side of Cayman Brac. The Authority received a verbal commitment from government in 2006 to vest a section of property next to the Ashton Rutty Civic Centre on the Bluff to the Authority for the construction of a Water Production, Storage and Pumping Facility to service the existing customers of Cayman Brac and also to allow expansion of the water distribution system to the north side of the island. The Authority took the initiative and in December 2007 contracted with Cayman Survey Associated Limited to carry out a fixed boundary survey for a sub division of Block104A, Parcel #9 and submit a formal planning application for the subdivision. The process of vesting the 12.58 acre property was completed in December 2009. No work was done on this project in the 2010/11 fiscal period due to limited resources.

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

- Commercial Combined Policy – to protect the physical assets (exclusive of vehicles) 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	2010/11 Actual \$	2010/11 Budget (Approved in LA) \$	Annual Variance \$
Revenue	27,345,937	27,765,268	(419,331)
Operating / Administrative Expenses	24,667,811	27,523,664	(2,855,853)
Net Surplus/Deficit	2,678,126	241,604	2,436,522

Balance Sheet	2010/11 Actual \$	2010/11 Budget (Approved in LA) \$	Annual Variance \$
Assets	83,529,583	91,454,532	(7,924,949)
Liabilities	26,978,351	40,317,384	(13,339,033)
Net Worth	56,551,232	51,137,148	5,414,084

Statement of Cash Flows	2009/10 Actual \$	2009/10 Budget (Approved in LA) \$	Annual Variance \$
Net cash flows from operating activities	6,773,601	4,881,462	1,892,139
Net cash flows from investing activities	(4,584,930)	(10,777,095)	(6,192,165)
Net cash flows from financing activities	(2,014,376)	5,196,087	(7,210,463)

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 (2005 Revision)*.

Transaction	2010/11 Actual \$	2010/11 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	\$50,000	\$50,000	\$ 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	961,251	1,100,000	(138,749)
Remuneration Payments made to Senior Management	Same as Above	Same as Above	Same as Above

	2010/11 Actual	2010/11 Budget (Approved in LA)
No of Key Management Personnel	8	9
No of Senior Management	8	9

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 was originally set at nine (9) but later reduced to eight (8) as the Authority strove to streamline operations and reporting structures. By natural attrition, the Chief Operations Manager post became vacant in April 2010 and not filled. 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. The Chief Operations Manager post was not filled, 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 (12.6%) 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 2010/11 financial year.

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

Chairman of the Board

Date:

**THE WATER AUTHORITY OF THE CAYMAN ISLANDS
STATEMENT OF COMMITMENTS
FOR THE YEAR ENDING 30 JUNE 2011**

Type	One year or less	One to five years	Over five years	Total
	\$000	\$000	\$000	\$000
Capital Commitments				
Land and buildings	n/a	n/a	n/a	n/a
Other fixed assets	n/a	n/a	n/a	n/a
Other commitments [list separately if material]	n/a	n/a	n/a	n/a
Total Capital Commitments	n/a	n/a	n/a	n/a
Operating Commitments				
Non-cancellable accommodation leases	n/a	n/a	n/a	n/a
Other non-cancellable leases	n/a	n/a	n/a	n/a
Non-cancellable contracts for the supply of goods and services	n/a	n/a	n/a	n/a
Other operating commitments	n/a	n/a	n/a	n/a
Total Operating Commitments	n/a	n/a	n/a	n/a
Total Commitments	n/a	n/a	n/a	n/a

Please see notes # 10 & 11 of the Financial Statements on page 18 which outlines and describes future capital and operating commitments.

THE WATER AUTHORITY OF THE CAYMAN ISLANDS
STATEMENT OF CONTINGENT LIABILITIES
FOR THE YEAR ENDING 30 JUNE 2011

Summary of Quantifiable Contingent Liabilities

	\$000
Legal Proceedings and Disputes	
None	n/a
None	n/a
Total Legal Proceedings and Disputes	<u>n/a</u>
Other Contingent Liabilities	
None	n/a
None	n/a
Total Other Contingent Liabilities	<u>n/a</u>

Summary of Non-Quantifiable Contingent Liabilities

None
None

The Water Authority does not have any quantifiable Contingent Liabilities @ 30 June 2011; please refer to the attached financial statements and accompanying notes.

Financial Statements

(Insert Financial Statements)

Word Version of 2010/11 Audited Financial Statements to be included