

CHAIRMAN'S ANNUAL REPORT – 2019

Overview of Results: This year for the first time, the annual volume of water pumped exceeded 1,000,000m³. Bulk water taken by WDC increased 11%. Gross Water Revenues were up by 7%. Sundry Income was down with fewer recoveries from new connections. While Gross Profit increased by 7%, relative to Revenues it fell. Increases to bulk water pricing became effective as at 1 July.

Operating Expenses were up because of repairs to leaks and jetty maintenance. Overhead Expenses were materially higher than previous years. Costs incurred revaluing the assets, investigations (including WDC negotiations), and additional administration resulted in a reduction of EBITDA.

The biggest impact to profit was the revaluation of assets increasing Depreciation from \$150,000 to \$332,000. As a result, while earning a cash surplus of \$235,000 the Association incurred an accounting loss of \$86,000.

Continued low interest rates, together with the short-term nature of the term deposits, affect Interest Received. This is expected to persist for the foreseeable future. The Committee is seeking professional investment advice given that it is these returns providing the funds for the annual charitable donations made by the Association.

The Waikato District Council, as our maintenance contactor, continues to operate the scheme efficiently. Their "after hours" responses though few continue to be exceptional.

Waikato District Council Memorandum of Understanding (MOU): In June, we advised Members that TKWA had signed a MOU agreement allowing WDC to conduct a due diligence process. This permitted WDC to make an offer to acquire the water assets of TKWA. Please see the supplementary report attached for the current situation.

Capital Works Undertaken: New Asset acquisitions during the financial year totalled \$57,000. These were all small works and plant improvements. The Association continues to ensure its assets are fully maintained to provide continuity of supply. In addition, the digitisation of the network was completed at a cost of \$57,000.

Subdivisions: No material work was undertaken on new subdivisions this year.

Reticulation: The scheme is now 34 years old. The need to replace old components continues. This year has seen a number of major leaks requiring significant and difficult repairs. These works often require shut-downs - some with little warning. While inconvenient, our contractors work with urgency to restore supply.

Charitable Distributions: As a registered charity, the Association makes donations in accordance within its rules. Last year \$63,000 was distributed helping organisations in our community. We hope this makes a difference.

Cash Reserves: It is critical for the long-term financial health of the Association that sufficient cash reserves are held to meet any contingency. The revaluation undertaken last year highlights the costs of replacement. Because horizontal assets are uninsurable, the Committee has exercised its prudent judgement to reserve \$1,000,000 of the cash deposits as an "Adverse Event Reserve". This will be increased as additional surpluses are available.

What the Future Holds: Since July, the Association has commenced a number of significant projects.

1. **Pressure Vessel:** The new surge tank has been successfully installed and commissioned at the Pumphouse. Total Cost including engineering fees: \$173,500.
2. **Headworks:** The switchboard has been upgraded to address urgent safety and reliability concerns. Estimated Costs: \$43,000.
3. **Headworks:** Minor works (Jetty, Filters, Security Fencing): Estimated Costs: \$50,000
4. **Headworks:** Notwithstanding the MOU process, we are holding ongoing discussions with WDC to assess components where there could be a material risk of failure. This could lead to significant capital works if agreement is reached. A partial upgrade to the lower section of the rising main is planned at a cost of \$400,000 to be funded by WDC.
5. **Rodda Road:** WEL will share 50% of the new trench to bury this extension. TKWA's estimated cost including 2 easements: \$20,000.

Administration: In July 2018, the Committee appointed Emma Adams as our Administration Manager. Being locally based and proactive this had been really useful. Thank you Emma for your role.

I also want to thank the Committee for their interest and our Executive Officer for his professional commitment and pro-active way he has overseen the Association's affairs and best interests. These financial results reflect the planning and effort put in to achieve a successful outcome.

I also welcome the new Members and Users to the Association. Thank you all for your continued support. We trust the Association can continue to provide your water needs for the future. I look forward to meeting you at our Annual General Meeting.

Mike Peters Chairman