

ANNUAL REPORT

2011



WATER AND SEWERAGE CORPORATION

VISION STATEMENT

Committed to growth, committed to quality.



MISSION

To transform the Corporation into an efficient, customer focused organization that provides quality service and enjoys a reputation for consistently high performance.



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2011 ANNUAL REPORT

MINISTERS

The Honourable Earl D. Deveaux, MP

Minister of Environment

The Honourable Phenton O. Neymour, MP

Minister of State In The Ministry of Environment (Utilities)

BOARD OF DIRECTORS AT DECEMBER 31, 2011

Anton A. Saunders

Pauline Cooper-Nairn

Michael Cunningham

Pamela Miller

Gia Cartwright

Sean Blyden

Chairman

Deputy Chairman

Board Member

Board Member

Board Member

Board Member

EXECUTIVE MANAGEMENT AT DECEMBER 31, 2011

Glen F. Laville

Christopher Sherman

Sandra B. Edgecombe

Elwood L. Donaldson

Daphne L. Simmons

Philip J. Beneby

Robert C. Deal

Cheri M. Hanna

General Manager

Deputy General Manager / Engineering & Planning

Deputy General Manager / Chief Financial Officer

Senior Assistant General Manager / Internal Control & Compliance

Senior Assistant General Manager / Human Resources

Assistant General Manager / Family Islands & Business Development

Assistant General Manager / New Providence & Marine Operations

Assistant General Manager/Commercial Operations

HEADQUARTERS

P. O. Box N-3905

No. 87 Thompson Boulevard

Nassau, Bahamas.

Telephone: (242) 302-5500

AUDITORS

PKF Chartered Accountants

P. O. Box N-8335

Nassau, Bahamas

CHAIRMAN'S REMARKS



2011 saw several significant milestones for the Corporation:

- Signing of an \$81Mn loan agreement with the Inter-American Development Bank
- Completion of Phase I of the organization restructuring review
- The replacement of barging water from Andros with expansion of desalination facilities on New Providence

These milestones are all in accordance with the sector strategy and the action plan developed to create a financially and operationally sustainable utility within the next 3-5 years.

Additionally, improved financial controls and the Corporation's focus on resolving longstanding concerns of the Auditors has resulted in completion of the 2011 Annual Report in less than six months.

While it is expected that the dependency on Government subsidies will continue for the next few years, there is no doubt that continued implementation of its strategic plan will have the desired effect of transforming the Corporation into a sustainable, independent, viable entity.

Anton A. Saunders

Chairman, Board of Directors



BOARD OF DIRECTORS



Anton A. Saunders
Chairman



Pauline Cooper-Nairn
Deputy Chairman



Gia Cartwright
Board Member



Sean Blyden
Board Member



Michael Cunningham
Board Member



Pamela Miller
Board Member

GENERAL MANAGER'S REMARKS



2011 has truly been a transforming one. The \$81Mn, 5-year loan agreement signed with the Inter-American Development Bank in 2011 will address key challenges faced by the Corporation:

- Non-Revenue Water (water losses): NRW costs the Corporation close to \$16Mn annually for water purchased and not sold. During the first quarter of 2012 a contract will be signed to reduce these losses from over 50% (5.5Migd) to less than 25% (2.5migd) in New Providence.
- Institutional Strengthening: operational and commercial efficiency will be improved, and development of a restructuring strategy will continue and be implemented to improve productivity and customer service.
- Wastewater: A master Plan will be developed for New Providence and critical infrastructure needs will be addressed to improve/reduce environmental impact of wastewater collection, treatment and disposal.
- Regulatory Reform: An independent Economic Regulator (Utilities Regulation and Competition Authority – URCA) will be established for the sector, along with consolidation of several regulatory agencies into a new Environmental Regulator.

After 35 years, the importation of water from Andros has been replaced by desalination and special thanks must be given to island of Andros and to the dedicated staff who have worked 24/7 over that period to ensure a continual supply of water to the Capital.

A Power Purchase Agreement was signed with the Bahamas Renewable Energy Corporation to develop a wind energy farm to power the new desalination plant commissioned in Eleuthera to serve Tarpum Bay and Rock Sound. The Corporation continues to look at areas where energy efficiency and alternative energy can help in stabilizing and reducing energy costs. In the case of Tarpum Bay, electricity will start at \$0.20/kWhr and must always be at least 25% lower than BEC rates.

The Corporation also began posting Key Performance Indicators (KPIs) on its website to give the public some indication of how it was performing in key areas and what goals/targets it was striving for. This will allow our consumers and other interested parties to see our challenges and progress over the next few years.

In 2010 the focus was on developing an Action Plan and having it approved. In 2011 the focus was on acquiring the necessary financing to implement various aspects of the plan.

For 2012, the focus will be on implementation of our plan while addressing related challenges such as an underfunded pension plan, improving our customer service through online and other payment methods, increasing efficiency and productivity through better use of technology, and improving our communication/interaction with our customers and business partners through our website and other social media .

Glen F. Laville
General Manager
Water And Sewerage Corporation

EXECUTIVE MANAGEMENT



Christopher B. Sherman
DGM/Engineering & Planning



Glen F. Laville
General Manager



Sandra B. Edgecombe
DGM/Chief Financial Officer

2011



Elwood I. Donaldson
SAGM/ICC & Water Quality



Daphne L. Simmons
SAGM/Human Resources



Philip J. Beneby
AGM/FI & Bus. Development



Cheri M. Hanna
AGM/Commercial Operations



Robert C. Deal
AGM/N.P. & Marine Operations

FINANCIAL OVERVIEW

FINANCIAL POSITION

As at December 31, 2011 net current liabilities (i.e. current assets minus current liabilities) remained significant at \$61.15 Mn, but had improved by \$11.90 Mn or 16.3% when compared to \$73.06 Mn in 2010.

Current assets increased by \$2.37 Mn or 23.3% in 2011, from \$10.17 Mn in 2010 to \$12.55 in 2011. Net accounts receivables increased by \$1.13 Mn or 15.0% in 2011, from \$7.51 Mn in 2010 to \$8.64 Mn. Balances due from Government agencies, ministries and departments increased more than two-fold, from \$3.3 Mn to \$6.96 Mn.

The Government settled \$17.82 Mn of outstanding electricity bills owed by WSC to Bahamas Electricity Corporation as at September 30, 2011. As a consequence, current liabilities decreased by 11.5% or \$9.53 Mn, from \$83.23 Mn in 2010 to \$73.70 Mn in 2011. Included in accounts payable and accrued liabilities was pension liability, which increased by \$4.87 Mn from \$43.77 Mn in 2010 to \$48.64 Mn in 2011. Trade payables at December 31, 2011 included \$4.39 Mn (2010 - \$6.16 Mn) owed to Consolidated Water (Bahamas) Ltd.



OPERATING RESULTS

Operating losses rose steeply in 2011, to \$36.32 Mn (2010: \$27.40 Mn), which is an increase of \$8.92 Mn or 32.6%. The increased losses occurred despite a modest increase of \$0.57 Mn or 1.4 % in operating revenues, and a \$7.68 Mn (or 31.6%) increase in operating subsidies (see Figure 1). The \$8.92 Mn or 32.6% rise in operating expenses, from \$27.4 Mn in 2010 to \$36.32 Mn in 2011, far exceeded these gains. As illustrated in Figure 6, the most significant contributors to these rising costs were: water purchases, staffing, fuel and energy, and bad debts.

Comprehensive operating losses for 2011 totaled \$4.55 Mn. Without taking into account the effects of the \$50.65 Mn one-time asset valuation adjustment, 2010 comprehensive losses totaled \$3.40 Mn. Comprehensive losses therefore increased by \$1.15 Mn or 33.8%.

Changes in operating revenues and subsidies over one and five years, broken down between New Providence and Family Island operations, and summarized by service are set out in Figure 1 below:

Figure 1 - Operating Revenues and Government Subsidies

In B\$ 000							
	2011	1 Year	5 Years	1 Year Variance		5 Year Variance	
		2010	2006	\$	%	\$	%
New Providence							
Water	\$ 30,809.35	\$ 31,089.40	\$ 33,471.80	\$ (280.05)	-0.9%	\$ (2,662)	-8.0%
Sewer	\$ 4,551.88	\$ 3,924.51	\$ 3,738.69	\$ 627.37	16.0%	\$ 813	21.8%
Total	\$ 35,361.23	\$ 35,013.90	\$ 37,210.49	\$ 347.32	1.0%	\$ (1,849)	-5.0%
Family Islands							
Water	\$ 6,550.12	\$ 6,344.71	\$ 5,602.92	\$ 205.41	3.2%	\$ 947	16.9%
Sewer	\$ 109.07	\$ 94.15	\$ 0.00	\$ 14.92	N/A	\$ 109	N/A
Total	\$ 6,659.19	\$ 6,438.86	\$ 5,602.92	\$ 220.33	3.4%	\$ 1,056	18.9%
SUMMARY							
Water Revenues	\$ 37,359.47	\$ 37,434.10	\$ 39,074.72	\$ (74.64)	-0.2%	\$ (1,715)	-4.4%
Sewer Revenues	\$ 4,660.95	\$ 4,018.66	\$ 3,738.69	\$ 642.29	16.0%	\$ 922	24.7%
Total Revenues	\$ 42,020.41	\$ 41,452.76	\$ 42,813.41	\$ 567.65	1.4%	\$ (793.00)	-1.9%
Subsidies	\$ 32,013.09	\$ 24,335.00	\$ 19,800.00	\$ 7,678.09	31.6%	\$ 12,213	61.7%

Operating Expenses Before Depreciation

Operating expenses are presented for comparative purposes in conformity with the Statement of Comprehensive Income. A summary of the movement in operating expenses over one and five years is shown in Figure 2.

Figure 2 - Comparative Analysis of 2011 Operating Expenses vs. 2010 and 2006

In B\$ 000								
	% of 2011 Expenses	2011	1 Year	5 Years	1 Year Variance		5 Year Variance	
			2010	2006	\$	%	\$	%
Water Purchases	39.2%	\$ 25,416.14	\$ 20,380.08	\$ 14,771.77	\$ 5,036.11	25%	\$ 10,644.37	72%
Staffing	27.0%	\$ 17,514.04	\$ 15,256.49	\$ 17,244.74	\$ 2,257.55	15%	\$ 269.30	2%
Electricity	6.8%	\$ 4,411.23	\$ 3,775.70	\$ 1,372.31	\$ 636.53	17%	\$ 3,088.92	221%
Fuel and Oil	6.2%	\$ 4,035.44	\$ 3,082.32	\$ 3,342.65	\$ 953.12	31%	\$ 692.79	21%
Shipping Charter Hire	5.8%	\$ 3,730.67	\$ 3,676.91	\$ 5,230.22	\$ 53.76	1%	\$ (1,499.55)	-29%
Repairs and Maintenance	3.8%	\$ 2,436.59	\$ 2,422.12	\$ 1,274.17	\$ 14.47	1%	\$ 1,162.42	91%
Bad Debts & Sundry Provisions	3.4%	\$ 2,213.95	\$ 1,679.67	\$ 3,644.02	\$ 534.28	32%	\$ (1,430.07)	-39%
Professional and Consultancy Fees	2.3%	\$ 1,467.92	\$ 1,150.79	\$ 853.74	\$ 317.13	28%	\$ 604.18	70%
Administrative Overhead	1.8%	\$ 1,139.52	\$ 1,094.57	\$ 1,095.58	\$ 44.95	4%	\$ 43.94	4%
Office Services	1.2%	\$ 759.70	\$ 752.53	\$ 729.73	\$ 7.17	1%	\$ 29.97	4%
Data Processing	0.6%	\$ 404.93	\$ 398.25	\$ 332.52	\$ 6.68	2%	\$ 72.41	22%
Miscellaneous	0.4%	\$ 258.81	\$ 237.58	\$ 201.27	\$ 21.23	9%	\$ 57.54	29%
Travel	0.3%	\$ 222.05	\$ 120.80	\$ 253.06	\$ 101.25	84%	\$ (31.01)	-12%
Bank Charges	0.3%	\$ 216.87	\$ 202.17	\$ 176.25	\$ 14.70	7%	\$ 40.12	23%
Training	0.3%	\$ 188.40	\$ 145.18	\$ 188.65	\$ 43.22	30%	\$ (0.25)	0%
Chemicals	0.2%	\$ 126.88	\$ 111.59	\$ 214.13	\$ 15.29	14%	\$ (87.25)	-41%
Public Relations	0.2%	\$ 119.51	\$ 123.44	\$ 319.23	\$ (3.94)	-3%	\$ (199.73)	-63%
Outside Services	0.1%	\$ 82.18	\$ 115.12	\$ 53.56	\$ (32.94)	-29%	\$ 28.62	53%
Audit Fees	0.1%	\$ 55.77	\$ 50.93	\$ 53.02	\$ 4.84	10%	\$ 2.75	5%
Claims and Damages	0.0%	\$ 16.32	\$ 9.53	\$ 9.51	\$ 6.80	71%	\$ 6.81	72%
Other Shipping	0.0%	\$ 13.10	\$ 47.26	\$ 36.81	\$ (34.17)	-72%	\$ (23.72)	-64%
	100%	\$ 64,830.02	\$ 54,832.98	\$ 51,407.41	\$ 9,997.04	18%	\$ 13,422.58	26%

Water Purchases

Desalinated water purchases increased by approximately 11% in New Providence, from 2,523 million imperial gallons (MIGs) in 2010 to 2,793 MIGs in 2011. The purchase price includes energy costs for diesel and electricity used in water production, which rose by over 30%, consistent with movements in local energy costs. In the Family Islands, there was modest growth in purchased water volumes, taking into account the opening of a new plant at Tarpum Bay, Eleuthera. Although Family Island water purchase contracts are less sensitive to

movements in energy costs, the larger ones are subject to annual cost adjustments, as are those in New Providence.

Staffing

Net staffing cost increases are commensurate with salary adjustments in accordance with industrial agreements. \$1.7 Mn was also accrued for redundancy payments to employees who were to be disengaged following cessation of barging operations in December 2011. Overall headcount decreased by 8, from 457 in 2010 to 449 (349 permanent, 100 contract employees) at the end of 2011. Revenue per employee increased by \$6,265 or 5.5%, to \$120,460 (2010: \$114,195) based on permanent head count.

Energy

Electricity, fuel and oil costs rose in tandem by over 30%, due to rising local energy costs.

Bad Debts

The Corporation is challenged by significant numbers of customer accounts that are required by law to be connected to available water and/or sewer services, but are using alternative sources (private wells and septic tanks). As stated in Note 16 of the financial statements, the Corporation asserts its right to collect statutory minimum or fixed charges. Appropriate allowances are made against past due non-government customer balances, and balances are written off after legal remedies are exhausted, or it has been determined that collection is improbable.

Professional and Consultancy Services

This category includes consulting services, insurances, security services, engineering services, debt collection and legal costs.

Office Services

This includes: office supplies; customer bill mailing; cleaning and other services; telecommunications services and maintenance; and rent.

Data Processing

This is principally for enterprise software licenses and technical support fees, as well as maintenance charges on computer equipment.

KEY PERFORMANCE INDICATORS

Key financial and commercial performance indicators are summarized below:



Figure 3 - 2011 Key Performance Indicators VS. 2010 and 2006

	Description and Standard	2011	1 Year 2010	5 Years 2006
<i>Households served (Service Coverage)</i>	% of New Providence households served. Target 95% by 2020.	50.6%	49.3%	Not reported
<i>Employees per Active Water Connection (Staffing Efficiency)</i>	Target 5 per 1000 connections.	8	8	10
<i>Avg. Age of Receivables (Debt Collection)</i>	Target 90 days	299	296	285
<i>Average Selling Price per thousand gallons of Water Sold</i>	Average Cost of water across all categories of customers. No specific target.	\$ 13.84	\$13.68	\$ 13.92
<i>Operating Cost Recovery</i>	Operating expenses covered by Operating revenues. Target 130%	65%	76%	83%
<i>EBITDA (Financial Efficiency)</i>	Earnings before interest, taxes, depreciation and amortization.	\$22,809.61)	\$(13,380.22)	\$(8,594.03)
<i>EBITDA Margin</i>	EBITDA as percent of revenues. Target 0%	-54%	-32%	-20%
<i>CAPEX—W&SC (Asset Replenishment)</i>	Investments in infrastructural expansions and upgrades, as well as plant and equipment. Target \$8Mn annually	\$14,213.87	\$11,241.61	\$11,480.87
<i>CAPEX—Total</i>	As above, including third party infrastructure and contributions to capital projects.	\$20,129.58	\$16,185.97	\$12,617.93



Photos ~ Some staff members of the Finance & Accounting Division

DIVISIONAL HIGHLIGHTS & STATISTICS

ENGINEERING & PLANNING DIVISION

In addition to the provision of Engineering Services related to infrastructure in various real estate developments, this Division was responsible for management/oversight of various works in the Family Islands and major improvement works under the New Providence Road Improvement Program (NPRIP) and Airport Gateway project.

Under the Ministry of Work & Transport Road Paving Project, some 12,650 feet of water mains were replaced and commissioned in Harbour Island, Eleuthera. A new Sea-water Reverse Osmosis facility was also built and commissioned in Tarpum Bay under a Build Own Operate (BOO) agreement along with storage facilities. A Power Purchase Agreement was executed for the provision of wind energy to service the facility following data collection and analysis to confirm feasibility.

In New Providence, service upgrades were completed along Soldier Road and Bay Street and to accommodate Ministry of Works & Transport paving program. Under the New Providence Road Improvement Program (NPRIP), over 19,000 feet of water infrastructure has been installed and commissioned.. The Airport Gateway project also commenced this year and includes a new 24-inch transmission main to be installed from the Airport to Tonique Williams-Darling Highway.

The National Stadium Infrastructure works (water and sewerage) commenced during the year 2011 and it is anticipated to be completed in late 2012. Additionally, the following private developments were issued a Take-over Certificate (TOC) for the water distribution system only: *Airport Industrial Park Phase 3, Bethany Cover Phase 2, Clement & Julian Maynard Estates, Far Horizon Estates, Harmony Court, Love Estates Phase 1, Malverick Estates and Mount Moriah Estates* ; while *Pride Estates Phase 3 Addition and South Seas Estate and Independence Estate* were issued TOC for both water and sewer collection systems; and *Airport Industrial Park Phase 1* for sewer collection only.

The Division also monitors water resources (development, abstraction, disposal etc) and was involved in several local and regional initiatives and activities, such as:

- **Water Resources Management Regulations**
- **Wellfield (Water Supply) Design, Expansion, and Abandonment**
- **Hydrological and Environmental Guidance**
- **Alternative and Renewable Energy Sources**
- **Reverse Osmosis (RO) Projects and Chiller Water Supply Wells**
- **Sewerage and Effluent Disposal**

Digital mapping of the Corporation assets continued with nearly 680 miles of water mains and 125 miles of sewer mains now digitized in New Providence as well as almost 44,000 customer meters, in addition to associated features such as valves, hydrants, and manholes. There was also increased concentration on digitizing Family Islands infrastructure with customer meters and water mains data collected in Exuma, South Andros and Long Island, as well as additional data collection activities in Eleuthera. Over 170 miles of water mains and 14,000 meters were collected in 2011 and, online maps of Abaco, Andros, Eleuthera, Exuma, Inagua and San Salvador are now available to the Corporation's staff.



NEW PROVIDENCE AND MARINE OPERATIONS DIVISION

General

The most significant event in the Division during 2011 was the official decommissioning of Shipping Operations on December 02nd, 2011 after 35 years of continuous operations as a major source of our New Providence (NP) water supply. 2011 also saw the expanded production capacity of the Blue Hills Desalination Facility from 6.0 MIGD to 10.0 MIGD commencing in November 2011.

Water Supply

Annual Water-into-Supply was 4.060 billion imperial gallons or 11.12 MIGD as compared to 3.832 billion imperial gallons or 10.50 MIGD in 2010. NP water production sources as a percentage of total production were the Blue Hills Desalination Plant (50.7%), the Windsor Desalination Plant (19%), Shipping Operations (21.7%) and NP Wellfields (8.6%).

The average price for desalinated water was \$5.34/'000 IG at Blue Hills (\$6.09/'000 IG – 2010) and \$9.43/'000 IG at Windsor (\$8.71/'000 IG – 2010). The average cost for the Titas for charter hire, fuel and lube oil (O&M costs at Arawak Cay and North Andros not included) was \$6.54/'000 IG imported (\$7.32/'000 IG – 2010). The (tanker) Titas made its last delivery December 1st, 2011 and barging operations officially ceased after over 30 years.

The principal NP operational challenges from the water perspective remain Non-Revenue Water (NRW) and Red/Rusty Water.

There were 4,524 leaks repaired during the year with 83% repaired within 48 hours of the initial report. There were 2,640 water complaints addressed with 64% addressed within 48 hours of the initial report. Major ongoing infrastructural projects combined with limited in-house NRW resources resulted in an increase in NRW from 5.197 MIGD or 49% in 2010 to 6.242 MIGD or 56% in 2011. The proposed 10-year NRW Project via a Consultant/Contractor is scheduled for formal execution during early 2012.

Construction

Mains Renewals continued during the year with over 65,000 feet of water mains replaced utilizing WSC's in house personnel (~ 75,000 feet laid in 2010) with the focus on older iron mains to reduce the incidences of red or rusty water. Some of the areas included: *Harmony Court, Coral Harbour West, Dannottage, Blair, Beatrice Boulevard, Braceridge, Gleniston Gardens South and Sunset Addition.*

Seven hundred and ten 710 (748 – 2010) new water connections and 99 (169 – 2010) new sewer connections were made during the year.

Sewerage Operations

The NP sewerage system continues its gradual expansion with 92 lift stations operational in 13 different drainage basins. Of these thirteen, 11 have various levels of influent treatment and final disposal within the basin via deep disposal well and two (2) were utilizing tanker truck pump-outs as of the end of the year. The Septage & Sludge Facility remains in need of urgent improvements along with several treatment plants. Substantial capital investments in NP sewerage are proposed as part of the proposed IDB NP Water Supply and Sanitation Systems Upgrade Project.

There were 480 sewerage complaints during the year with 82% addressed within 48 hours of the initial report.



Photos ~ Some staff members and activities of the NP & Marine Operations Division

FAMILY ISLANDS AND BUSINESS DEVELOPMENT DIVISION

There are approximately (75) water supply and distribution systems throughout the Family Islands that the Corporation has oversight and operational responsibility for, including twenty-one (21) Reverse Osmosis plants operated under BOO agreements. There are a wide range of operational challenges that exists in the Family Islands. Among them is the need to upgrade many of the wellfields, storage facilities, provide adequate standby power, the reduction of non-revenue water (NRW), upgrade of old water mains and the need to extend the distribution system in several locations.

The Corporation recently update its Family Island Capital Development Plan which identifies all infrastructure needs and costs. It is estimated that close to \$100Mn is required for universal service in the islands

Listed below are some highlights during the year:

FINANCIAL

- Collection - Collections for the 2010 was \$6.1M compared to \$5.5M in 2009. This was achieved through aggressive collection campaign strategy designed to reduce Accounts Receivable.
- Revenue for 2010 was \$6.5M compared to \$6.7M in 2009.
- Collection efficiency – 101% in 2010 and 104% in 2009.
- GIS update – All islands are being GPS with two (2) islands remaining, which should be completed by 2nd quarter of 2011.
- New Connection – 2010 was 704 compared to 514 in 2009.

OPERATIONS

ABACO:

Several improvements were completed in areas such as:

- Spring City (transmission main)
- Central Pines Phase II
- Green Turtle Cay (distribution system extension)

ELEUTHERA:

Significant activities included:

- Tarpum Bay/Rock Sound desalination plant commissioning
- Approval to expand the Naval base desalination facility
- Various mains extensions/renewals in Governor's Harbour
- Comprehensive meter audit

CAT ISLAND:

A new northern wellfield to improve the operation efficiency was constructed on Cat Island.

RAGGED ISLAND:

As a part of the road paving exercise in Duncan Town, a new distribution system was installed with commissioning expected in early 2012.



Photos ~ Some staff members and activities of the Family Island & BD Division



COMMERCIAL OPERATIONS DIVISION

The Commercial Operations Division primary role in the organization includes:

- ▶ New Service and change of ownership application processing
- ▶ Meter Reading, and meter service activities
- ▶ Bill Payment Services
- ▶ Collections and payment agreements
- ▶ Customer communications, relations and inquiries and/or concerns
- ▶ Liaising with Family Island Commercial Operations Department on customer related matters thru out the islands

SOME KEY STATISTICS/INDICATORS:

Due to the economic climate, road improvement works, general payment delays, closure of our Marathon Mall Pay station, and other related challenges there was a decline in collection for 2011, compared to 2010:

- i. 2011 - \$34.2 Million
- ii. 2010 - \$34.7 Million
- iii. 2009 - \$34.0 Million
- iv. 2008 - \$38.5 Million



- Our overall Collection Efficiency stood at 90.0% for 2011, compared to 104.0% for 2010.
 - Payments received from Central Government totaled \$4.9 million for 2011; \$5.3 million for 2010.
 - Payments from non-Government customers totaled \$29.3 million for the year, compared to \$26.1 million for 2010.
 - 1,010 accounts valued at \$1.76 million were written off, vs. 1,408 accounts valued at \$1.80 million in 2010.
- 2,096 accounts, valued at \$3.2 Million were assigned for collection (external) compared to 3,493 accounts valued at \$6.4 million in 2010.
- \$0.98 million was collected through external efforts compared \$0.70 million in 2010.



A total of **84,728 customers** on record:

- 22,508 Customers in the Family Islands
- 62,220 Customers on record for NP
- 653 Sewer Accounts – Abaco
- 11,208 Sewer Accounts in NP
- 1,440 Government Accounts, with 866 in NP and 574 in Family Islands.

During **1,163** accounts were terminated and rendered final/closed – 962 in NP and 201 in Family Islands

- Water Sales: 1,782 MIG with water sales revenue of \$28.2 million compared to 1,918.9 MIG and revenues of \$29.7 million in 2010
- The average selling price of water was \$15.82 per 1,000 imperial gallons in New Providence and \$8.94 in the Family Islands.

- 1,149 **senior** citizens are presently registered with WSC to receive 30% reduction on water and/or sewer charges. WSC continues to be the only Corporation that offers its senior customers a discount, and has been doing so since 1993.



Photos ~ Some staff members & activities of the Commercial Operations Division

HUMAN RESOURCES DIVISION

The staff count at year end 2011 stood at 434 (338 permanent staff and 96 contract workers).

During the first quarter of 2011 the review of pension reform continued in collaboration with external consultancy. The unfunded pension liability under the existing defined benefit of the Corporation is now \$70Mn. Options to transition to a contributory scheme while protecting benefits of existing employees' will be the focus of reform.

The Division also collaborated with external consultancy with organizational and structural reform and was instrumental in the process of providing counseling and other support for staff during the decommissioning of the Corporation's water barging and the Arawak Cay operations. The Department also hosted employee wellness programs aimed at improving the physical, mental and social well-being of employees, additional to its participation in public educational programs and exhibitions.

During the year, the Training Department conducted 25 in-house training and development courses and impacted two hundred and forty five (245) employees. A further 81 employees attended local external training while 8 employees participated in overseas training courses.

The Corporation also assisted nine (9) employees pursuing a first degree courses and continued its sponsorship of the Technical Cadet Corp Program. Scholarships tenable at the College of the Bahamas were awarded to deserving cadets of the program.



Photos ~ Some staff members & activities of the Human Resources Division

INTERNAL CONTROL & COMPLIANCE, WATER QUALITY & SAFETY DIVISION

The Internal Audit Department over the past year continued its focus on the review of Family Islands operations mainly those related to commercial operations as a result of the growing revenue and customer base. Emphasis was also placed on these areas in New Providence as well.

The Internal Audit Department was the lead on two major projects that were completed in the first half of the year. They include the development of a Comprehensive Policy and Procedure Manual for the Corporation which started in late 2010 and was completed in March 2011. Also completed was the reproduction of the Corporation's fixed asset register to record more comprehensively its infrastructural assets and also the updating of its fixed asset policy to include new capitalization, depreciation and asset condition reporting. Final register and policy were finished in June 2011.

Safety and Environment Department

The chart below depicts the total number of Industrial Accidents recorded at the W&SC from 2005—2011. Overall, the trend is decreasing, however, the number recorded for 2011 increased 33% over 2010.



Introduction of the Loss and Prevention System

In the fourth quarter of 2011, the Safety & Environment introduced the Loss Prevention System program to the Corporation. The objective of the program is to eliminate unsafe behavior which leads to damages, personal injuries, environmental incidents and property damage.



WATER QUALITY SIGNIFICANT FIGURES

NEW PROVIDENCE PUMPING STATION, AVERAGE FOR YEAR 2011

WATER QUALITY PARAMETERS	World Health Guidelines	WINDSOR STATION	BLUE HILLS STATION	BLUE HILLS HIGH LEVEL	WINTON STATION	FORT FINCASTLE STATION	ARAWAK CAY STATION	PROSPECT STATION
Total No. Of Samples:		52	52	52	50	52	47	52
PHYSICAL ANALYSIS:								
Appearance	CLEAR	CLEAR	CLEAR	CLEAR	CLEAR	CLEAR	CLEAR	CLEAR
Odor	NOT OFFENSIVE	NIL	NIL	NIL	NIL	NIL	NIL	NIL
pH (Units 6.5 - 8.5)	6.5 - 8.5 pH units	7.6	7.8	7.8	7.7	7.4	7.4	7.7
Temperature (field) @C	NO SPECIFIC STANDARDS (However, 20 C is desirable)	25.3	28.6	28.3	28.6	27.8	27.0	25.3
True Color Unit (Pt/Co)	15	1	1	4	4	2	2	1
Turbidity (NTU)	5	0.2	0.3	0.6	0.5	0.3	0.4	0.3
CHEMICAL ANALYSIS:								
Anions: Bicarbonate (mg/l) ^A	No specific Standard	53	29	26	24	157	169	45
Chloride (mg/l) ^A	250 (WHO 100 WHO (mg/l) %)	322	275	278	277	689	744	285
Fluoride (mg/l)	1.5	0.12	0.09	0.12	0.09	0.14	0.14	0.08
Nitrate (mg/l)	50 as NO ₃	0.87	0.36	0.34	0.35	1.32	1.64	0.68
Phosphate (mg/l)	No specific standard (Phosphate < 0.5 mg/l)	0.27	0.25	0.25	0.24	0.24	0.32	0.21
Sulphate (mg/l)	250	41	12	12	12	85	87	36
Cations: Calcium (mg/l)	250 (A.C.) (As an annual average)	69	29	29	30	188	203	61
Iron (mg/l)	0.3	0.0	0.0	0.2	0.5	0.0	0.0	0.0
Magnesium (mg/l) ^A	30 (A.C.) (As an annual average)	14	5	5	5	29	32	13
Potassium (mg/l) ^A	12 (E.E.C.)	7	6	6	6	14	15	6
Sodium (mg/l) ^A	200	183	157	158	158	393	424	163
Residual Chlorine(mg/l)	No specific standard, 0.2 ppm (minimum desirable)	1.8	1.7	1.5	1.2	1.6	1.9	1.4
Residual Chlorine (% time Present)	No specific Standard	100	100	98	100	100	100	94
Conductivity (umhos/cm) field	1,000 (A.C.) (As an annual average)	1,157	975	984	987	2,363	2,500	1,042
TDS concentration (mg/l) ^A	1,000	622	494	497	499	1,423	1,512	560
Alkalinity (mg/l)	No specific Standard	44	23	21	20	129	139	37
Total Hardness (mg/l CaCO ₃)	should not exceed 500	126	51	50	50	306	335	116
MICROBIOLOGICAL ANALYSIS:								
COLIFORMS: Total (% time absent)	0 per 100 ml in 95% of samples	100	100	98	100	100	100	94
COLIFORMS: Faecal (% time absent)	0 per 100 ml in all samples	100	100	100	100	100	100	100
Faecal Streptococcus (% time absent)	0 per 100 ml in all samples (A.C.)	100	100	100	100	100	100	100
Yeast (% < 500 CFU/100ml)	< 500 CFU/ml. Results compared against long-term average. Significant differences investigated. (A.C.)	100	100	100	100	100	100	98
Mold (% < 500 CFU/100ml)		100	100	100	100	100	100	100
Total Bacteria (% < 500 CFU/100ml)		100	100	100	100	100	100	100
WATER CHARACTERISTICS:								
Langelier Saturation Index (LSI):	-0.8 < LSI < +0.8 (IDEAL)	-0.74	-1.10	-1.10	-1.30	-0.15	-0.11	-0.75
Corrosive Tendency:		highly aggressive (surface corrosion)	highly aggressive (surface corrosion)	highly aggressive (surface corrosion)	highly aggressive (surface corrosion)	Slightly corrosive (Non-scale-forming)	Slightly corrosive (Non-scale-forming)	highly aggressive (surface corrosion)

KEY:

CFU - colony forming units
TNTC - too numerous to count

N/A - Not Available
^ - Calculated Value

mg/l - Milligrams per liter
NTU - Nephelometric Turbidity Unit

REMARKS:

Pumping Stations met disinfection water quality requirements 98.9% of the time, up 3.1% compared to 2010. Overall microbiological standards were met for both total coliform and faecal coliform (e. coli) bacteria at 98.9% and 100% respectively. This represents an appreciable improvement in microbiological water quality over last year's figures for total and faecal coliforms. Chloride (salinity) content exceeded the 250 mg/l WHO Guideline value at all sites. With the termination of shipping imports at Arawak Cay coupled with expansion of the Blue Hills RO Plant, significant water quality improvements should be realized in 2012. The high negative LSI's of the R/O Plant sources adversely impact the aesthetic water quality in the Distribution System due to the corrosive characteristics of the water on the pipes.

Michael Swann
Sr. Manager
Water Quality Unit

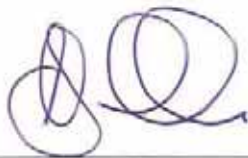


Photos ~ Ceremony to mark the termination of water shipping operations.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENT

The integrity and objectivity of the data in the accompanying Financial Statements including informed estimates and judgments relating to matters not concluded by year end are the responsibility of Management, as is all other information contained in the Annual Report unless indicated otherwise. To this end, Management maintains a highly developed system of internal controls to provide reasonable assurance, on a cost effective basis, that the Corporation's assets are protected and events recorded properly.

PKF Chartered Accountants have examined these Financial Statements which have been prepared in conformity with International Financial Reporting Standards and their report follows.



GLEN F. LAVILLE
GENERAL MANAGER



SANDRA B. EDGECOMBE
DEPUTY GENERAL MANAGER/CFO

2011

WATER AND SEWERAGE CORPORATION
FINANCIAL STATEMENTS
DECEMBER 31, 2011

PKF

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Water and Sewerage Corporation

We have audited the accompanying financial statements of **Water and Sewerage Corporation**, which comprise the statement of financial position as at December 31, 2011, the statements of comprehensive (loss)/income, changes in equity and the cashflow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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 whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal controls 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.

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Nassau | New Providence | Bahamas

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1



Auditors' Responsibility (Continued)

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.

Emphasis of Matter

Without qualifying our report, we draw your attention to Note 13 regarding the continued operations of the Corporation. With a net current liability of \$61,153,377 at December 31, 2011, the Corporation's continuance and ability to meet its obligations are dependent on the Bahamas Government's funding of its operations.

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of **Water and Sewerage Corporation** as of December 31, 2011 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



April 30, 2012
Nassau, Bahamas

WATER AND SEWERAGE CORPORATION

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2011

(Expressed in Bahamian Dollars)



	Notes	2011	2010
PROPERTY, PLANT & EQUIPMENT	5	<u>249,616,100</u>	<u>243,406,580</u>
CURRENT ASSETS			
Cash at bank		2,344,771	1,033,343
Accounts receivable	6	8,641,920	7,511,805
Materials and supplies		1,446,131	1,519,599
Prepaid expenses and deposits		<u>114,574</u>	<u>109,584</u>
		<u>12,547,396</u>	<u>10,174,331</u>
CURRENT LIABILITIES			
Bank overdraft	7	2,379,110	4,250,816
Accounts payable and accrued liabilities	8	66,700,038	74,259,767
Customers' deposits		4,056,920	4,132,537
Current portion of long-term debt	9	<u>564,705</u>	<u>590,746</u>
		<u>73,700,773</u>	<u>83,233,866</u>
NET CURRENT LIABILITIES		(61,153,377)	(73,059,535)
LONG-TERM DEBT - Non Current Portion	9	<u>(5,953,408)</u>	<u>(6,524,446)</u>
NET ASSETS		<u>\$ 182,509,315</u>	<u>\$ 163,822,599</u>
EQUITY (Page 7)		<u>\$ 182,509,315</u>	<u>\$ 163,822,599</u>

Approved by the Board of Directors and authorized for issuance on April 30, 2012:

Chairman

Board Member

The accompanying notes form an integral part of these financial statements.

WATER AND SEWERAGE CORPORATION
STATEMENT OF COMPREHENSIVE (LOSS)/INCOME
FOR THE YEAR ENDED DECEMBER 31, 2011



(Expressed in Bahamian Dollars)

	Notes	2011	2010
OPERATING REVENUE			
Water		37,359,467	37,434,103
Sewerage		4,660,945	4,018,655
		<u>42,020,412</u>	<u>41,452,758</u>
OPERATING EXPENSES	11		
Water		46,006,824	39,410,914
Sewerage		2,739,879	1,978,528
General and administrative		16,083,323	13,443,533
		<u>64,830,026</u>	<u>54,832,975</u>
Loss from operations before depreciation		(22,809,614)	(13,380,217)
Depreciation	5,12	(12,684,598)	(12,649,702)
OPERATING LOSS		(35,494,212)	(26,029,919)
Other income		15,110	22,899
Miscellaneous income		1,071,898	726,121
Amortization of deferred income		2,982,002	2,843,180
Net foreign exchange loss		(31,357)	(10,889)
Finance charges	14	(4,861,396)	(4,953,134)
Net loss before government subsidy		(36,317,955)	(27,401,742)
Government subsidy	13	32,013,090	24,335,000
NET OPERATING LOSS		(4,304,865)	(3,066,742)
Other comprehensive (loss)/income:			
Valuation adjustment	5,21	-	50,646,099
Actuarial loss on defined benefit plan		(248,200)	(335,100)
		<u>(248,200)</u>	<u>50,310,999</u>
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		<u>\$ (4,553,065)</u>	<u>\$ 47,244,258</u>

The accompanying notes form an integral part of these financial statements.

WATER AND SEWERAGE CORPORATION
NEW PROVIDENCE STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2011



(Expressed in Bahamian Dollars)

	<u>Notes</u>	<u>2011</u>	<u>2010</u>
OPERATING REVENUE			
Water		30,809,349	31,089,395
Sewerage		<u>4,551,875</u>	<u>3,924,506</u>
		<u>35,361,224</u>	<u>35,013,901</u>
OPERATING EXPENSES			
Water		34,249,643	29,063,755
Sewerage		2,741,390	1,978,528
General and administrative		<u>10,903,924</u>	<u>9,825,822</u>
		<u>47,894,957</u>	<u>40,868,105</u>
Loss from operations before depreciation		(12,533,733)	(5,854,204)
Depreciation		<u>(9,403,332)</u>	<u>(9,504,944)</u>
OPERATING LOSS		(21,937,065)	(15,359,148)
Other income		14,154	22,899
Miscellaneous income		976,737	722,027
Amortization of deferred income		2,307,954	2,168,312
Net foreign exchange loss		(31,357)	(10,889)
Finance charges		<u>(4,716,332)</u>	<u>(4,812,045)</u>
Net loss before government subsidy		(23,385,909)	(17,268,844)
Government subsidy	13	<u>25,758,090</u>	<u>17,810,000</u>
NET OPERATING PROFIT		2,372,181	541,156
Other comprehensive (loss)/income:			
Valuation adjustment	5,21	-	28,735,753
Actuarial loss on defined benefit plan		<u>(205,501)</u>	<u>(278,133)</u>
		<u>(205,501)</u>	<u>28,457,620</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>\$ 2,166,680</u>	<u>\$ 28,998,776</u>

The accompanying notes form an integral part of these financial statements.

WATER AND SEWERAGE CORPORATION
FAMILY ISLANDS STATEMENT OF COMPREHENSIVE (LOSS)/INCOME
FOR THE YEAR ENDED DECEMBER 31, 2011



(Expressed in Bahamian Dollars)

	<u>Notes</u>	<u>2011</u>	<u>2010</u>
OPERATING REVENUE			
Water		6,550,118	6,344,708
Sewerage		109,070	94,149
		<u>6,659,188</u>	<u>6,438,857</u>
OPERATING EXPENSES			
Water		11,757,181	10,347,159
Sewerage		(1,511)	-
General and administrative		5,179,399	3,617,711
		<u>16,935,069</u>	<u>13,964,870</u>
Loss from operations before depreciation		(10,275,881)	(7,526,013)
Depreciation		(3,281,266)	(3,144,758)
OPERATING LOSS		(13,557,147)	(10,670,771)
Other income		956	-
Miscellaneous income		95,161	4,094
Amortization of deferred income		674,048	674,868
Net foreign exchange loss		-	-
Finance charges		(145,064)	(141,089)
Net loss before government subsidy		(12,932,046)	(10,132,898)
Government subsidy	13	6,255,000	6,525,000
NET OPERATING LOSS		(6,677,046)	(3,607,898)
Other comprehensive (loss)/income:			
Valuation adjustment	5,21	-	21,910,346
Actuarial loss on defined benefit plan		(42,699)	(56,967)
		<u>(42,699)</u>	<u>21,853,379</u>
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		<u>\$ (6,719,745)</u>	<u>\$ 18,245,481</u>

The accompanying notes form an integral part of these financial statements.

WATER AND SEWERAGE CORPORATION
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2011
(Expressed in Bahamian Dollars)



	(Note 10) Equity contributions	Accumulated deficit	(Note 21) Valuation adjustment	Deferred income	Total equity
Balance at January 1, 2010	145,242,070	(76,099,694)	-	43,920,841	113,063,217
Contributions (Note 10)	3,217,613	-	-	-	3,217,613
Distributions (Note 10)	(1,803,663)	-	-	-	(1,803,663)
Net operating loss	-	(3,066,742)	-	-	(3,066,742)
Other comprehensive (loss)/income for the year (Page 4, Note 21)	-	(335,100)	50,646,099	-	50,310,999
Contribution to projects completed during the year	-	-	-	1,064,756	1,064,756
Third party infrastructure capitalized	-	-	-	3,879,599	3,879,599
Amortization of deferred income	-	-	(1,447,031)	(1,396,149)	(2,843,180)
Balance at December 31, 2010	146,656,020	(79,501,536)	49,199,068	47,469,047	163,822,599
Contributions (Note 10)	22,973,354	-	-	-	22,973,354
Distributions (Note 10)	(1,610,356)	-	-	-	(1,610,356)
Net operating loss	-	(4,304,865)	-	-	(4,304,865)
Other comprehensive loss for the year (Page 4)	-	(248,200)	-	-	(248,200)
Asset disposals (Note 21)	-	-	(1,056,924)	-	(1,056,924)
Contributions to projects completed during the year (Note 8)	-	-	-	1,665,319	1,665,319
Third party infrastructure capitalized	-	-	-	4,250,391	4,250,391
Amortization of deferred income	-	-	(1,416,834)	(1,565,169)	(2,982,003)
Balance at December 31, 2011	\$ 168,019,018	\$ (84,054,601)	\$ 46,725,310	\$ 51,819,588	\$ 182,509,315

The accompanying notes form an integral part of these financial statements.

WATER AND SEWERAGE CORPORATION
CASHFLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2011
(Expressed in Bahamian Dollars)



	<u>Notes</u>	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Total comprehensive (loss)/income for the year		(4,553,065)	47,244,258
Non-cash items:			
Depreciation	5	12,684,598	12,649,702
Amortization of deferred income (Page 7)		(2,982,003)	(2,843,180)
(Decrease)/increase in non-cash operating working capital		(8,696,983)	2,944,634
Net cash (used in)/provided by operating activities		(3,547,453)	59,995,414
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of long-term debt		(597,079)	(594,189)
Contributions to capital projects		1,665,319	1,064,756
Equity contributions	10	22,973,354	3,217,613
Equity distributions	10	(1,610,356)	(1,803,663)
Transfer of third party infrastructure (Page 7)		4,250,391	3,879,599
Net cash provided by financing activities		26,681,629	5,764,116
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property, plant & equipment	5	(21,007,967)	(16,185,966)
Valuation adjustment	21	1,056,924	(50,646,099)
Net cash used in investing activities		(19,951,043)	(66,832,065)
NET INCREASE/(DECREASE) IN CASH AND BANK BALANCES		3,183,133	(1,072,536)
Net cash and bank balances, beginning of year		(3,217,472)	(2,144,937)
Net cash and bank balances, end of year		\$ (34,339)	\$ (3,217,472)
Net cash and bank balances are represented by:			
Cash at bank		2,344,771	1,033,343
Bank overdraft		(2,379,110)	(4,250,816)
		\$ (34,339)	\$ (3,217,473)

The accompanying notes form an integral part of these financial statements.

WATER AND SEWERAGE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011



1. ORGANIZATION

The Corporation, which was established by the Water and Sewerage Corporation Act of 1976, is wholly owned by the Government of The Bahamas (the Government). Its primary functions are to grant and control water rights; to protect water resources; to regulate the extraction, use and supply of water; to dispose of sewerage; and to perform other ancillary functions throughout New Providence and the Family Islands. The Corporation's main place of business is 87 Thompson Boulevard, Nassau, Bahamas. The number of employees at December 31, 2011 was 449 (457 in 2010).

2. BASIS OF PREPARATION

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

These financial statements are expressed in Bahamian dollars, which is the Corporation's functional currency.

(a) Use of estimates and judgement

The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts in the financial statements. The areas involving a higher degree of judgement or complexity, or areas where assumptions or estimates are significant to the financial statements are disclosed in Note 4.

(b) Adoption of standards effective in 2011

- IAS 1 Presentation of financial statements clarifies that entities may present the analysis of each component of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.

- IFRS 7 Financial instruments. The amended standard clarified that additional disclosure of maximum exposure to credit risk is only required where the exposure is not reflected in the carrying amount. It requires disclosure of the financial effect of collateral held as security for financial assets and removed the requirement to specifically disclose financial assets, where the terms have been renegotiated. It also clarifies that disclosure of financial instruments obtained by calling on security or collateral is only required where those assets are still held at the reporting date.

WATER AND SEWERAGE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011



2. BASIS OF PREPARATION (Continued)

(c) IFRS effective in 2011 but not relevant

The following amendments were mandatory for accounting periods beginning on or after January 1, 2011 but are not relevant to the operations of the Corporation.

- IAS 24 Related parties
- IAS 21 The Effects of Changes in Foreign Exchange Rates
- IAS 28 Investments in Associates
- IAS 31 Investments in Joint Ventures
- IAS 27 (Amendment) Consolidated and separate financial statements
- IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- IFRIC 19 Extinguishing of Financial Liabilities with Equity Instruments

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies adopted in order to assist in the general understanding of the financial statements are as follows:

(a) Recognition of revenue

Revenue comprises sales and services to external customers. Consideration received from customers is only recorded as revenue to the extent that the Corporation has performed its contractual obligations in respect to that consideration.

(b) Materials and supplies

Materials and supplies are valued at the lower of average cost and replacement cost, net of an allowance for obsolescence.

(c) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of the asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Property, plant & equipment and depreciation

The establishing Act (1976) states that all water and sewerage installations, within the area of control and administration of the Corporation, which were the property of the Government, or were vested for or on behalf of the Government, shall be deemed to have been transferred to, and shall vest in the Corporation. This includes substantial land holdings comprised of land owned by the Corporation, leased from the Crown or others, or used by the Corporation for water supply purposes. Continued use or disposal of these land-holdings is subject to government's mandates therefore these land-holdings have been recorded in the Corporation's financials statements at \$1.

Prior to January 1, 2007, assets constructed by the Government or private subdivision developers and transferred to the Corporation upon completion were not recorded in property, plant and equipment. A review was conducted as at December 31, 2010 by an independent valuer to inventory and value these assets, and reclassify certain other assets to align with operations.

Depreciation of property, plant & equipment is calculated on the straight-line method, which is further described in Note 4(a), over the estimated useful lives of the respective assets as follows:

	Life (years)
Buildings	40
Dock installations	40
Harbour improvements	40
Transmission and distribution mains	40
Sewer collection systems and mains	40
Sewer connections	40
Storage tanks and reservoirs	30
Wellfields	25
Water pumping stations	20
Sewer lift stations	20
Sewer treatment plants	20
Water service lines	15
Water meters	10
Garage plant and equipment	10
Automotive equipment	5
Other equipment	5

When composite depreciation is used, as described in Note 4, gains or losses on retirements are recorded against the valuation reserve. Gains or losses on other disposals are included in the statement of comprehensive income.

Work in progress is included in total property, plant & equipment and includes the following:

Materials, supplies and other expenditures, valued at cost;
 Direct labour, valued at cost plus an allocated amount for labour overhead recovery;
 Indirect labour, valued at an allocated amount on an equitable basis;
 Interest expense, valued at cost, where incurred in relation to the financing of work in progress having a construction period in excess of 6 months.

On substantial completion, 95% or more, work in progress is transferred to the appropriate category of property, plant & equipment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**(e) Impairment of assets**

Depreciable assets are reviewed for impairment whenever events or operational changes indicate that the carrying value is higher than the asset's estimated net recoverable amount or value in use.

(f) Deferred income

The Corporation requires new subdivision developers to pay a proportional impact fee that is set aside to defray future infrastructural costs associated with adding new customers. Prior to January 1, 2007 impact fees were recorded as revenue upon receipt.

The Corporation records all developer constructed works upon transfer, at a value determined from design estimates. This third party infrastructure is captured in deferred income, and is included in property, plant & equipment.

Some developers may contract the Corporation to carry out infrastructural works for the development's specific use. These contributions in respect of incomplete projects are carried forward as accounts payable until the project is substantially completed. The value of completed infrastructure is included in property, plant & equipment.

The value of impact fees, third party infrastructure and contributions in respect of completed projects are credited to deferred income and amortised to income on a straight line basis over the estimated average useful life of the assets, which is currently 35 years.

(g) Retirement benefit costs

The Corporation operates a defined benefit non-contributory retirement benefit plan covering substantially all full-time employees. The cost of providing such benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each statement of financial position date. Actuarial gains and losses which exceed 10% of the greater of the present value of the Corporation's pension obligations and the fair value of the plan's assets are amortized over the expected average remaining working lives of the participating employees. Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the amended benefits become vested.

The amount recognized in the statement of financial position represents the present value of the defined benefits obligation as adjusted for the unrecognized actuarial gains and losses and unrecognized past service costs, and reduced by the fair value of plan assets.

WATER AND SEWERAGE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Financial instruments

Financial instruments are classified into the following categories: "Fair Value Through Profit or Loss" (FVTPL); "Held-To-Maturity"; "Available-For-Sale" (AFS); and Loans and Receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

The Corporation classifies financial instruments, or their component parts, on initial recognition as a financial asset, or a financial liability in accordance with the substance of the contractual arrangement.

Financial instruments are recognized on trade date when the Corporation becomes a party to the contractual provisions of the instrument. Financial instruments are recognized initially at fair value plus, in the case of a financial instrument not at fair value through profit and loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

Financial instruments are derecognized on trade date when the Corporation is no longer a party to the contractual provisions of the instrument.

Accounts receivable

Receivables are stated at their original invoiced value, as the interest that would be recognized from discounting future cash receipts over the short credit period is not considered to be material. Receivables are reduced by appropriate allowances for estimated recoverable amounts.

Losses for impaired accounts receivable are recognized immediately when there is objective evidence that impairment has occurred. Statistical methods are used to assess losses for impairment on a collective basis, factoring historical loss experience on groups of accounts and categories of services, and taking into account management's judgement regarding economic factors that might affect collection.

Accounts payable

Payables are stated at their original invoiced value, as the interest that would be recognized from discounting future cash payments over the short payment period is not considered to be material.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Financial instruments (Continued)

Interest bearing borrowings

Interest-bearing borrowings are stated at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability.

Cash and bank

Cash and bank balances comprise short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

4. ACCOUNTING ESTIMATES AND JUDGEMENTS

The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Key sources of estimation uncertainty

- (a) Property, plant & equipment - Depreciation rates are periodically reviewed to ensure that they continue to be representative of actual experience. Composite depreciation is computed for all categories except dock installations, harbor improvements, garage plant and equipment, automotive equipment, and other equipment.

It was determined during the valuation review described in Note 3(d) that the useful life of certain assets should be shortened to reflect local conditions and replacement trends. The effect of this reassessment, inclusive of those assets recorded in the valuation review, and assuming the assets are held until the end of their estimated useful lives, is to increase the depreciation expense in the current year and for the next three years, by the following numbers:

	\$
2011	3,472,700
2012	3,576,900
2013	3,684,300
2014	3,794,900

WATER AND SEWERAGE CORPORATION
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4. ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

Internally generated assets - include apportionment of preliminary engineering costs, based upon projects completed during the year.

- (b) Deferred income - as a part of the valuation process management reviewed and aligned the amortisation rate applied to deferred income to the estimated useful life of privately developed infrastructure. During the financial year, it was determined that the amortization period should be increased from 25 to 35 years in keeping with the weighted average useful lives of the related assets. The effect of this reassessment resulted in a decreased amortization in the current year and for the next three years, by the following amounts:

	<u>\$</u>
2011	575,300
2012	592,600
2013	610,400
2014	628,800

- (c) Retirement benefit obligation – Refer to Note 15 for disclosure of the key sources of estimation uncertainty relating to the retirement benefit obligation.
- (d) Materials and supplies – The allowance for obsolescence is determined by examining stock movements over the year, coupled with the age and condition of certain items which, due to changes in technology, are retained principally for maintenance purposes.
- (e) Accounts receivable – Refer to Notes 3(i) and 16(b) for disclosure of the key sources of estimation uncertainty relating to collectibility of receivables.

WATER AND SEWERAGE CORPORATION
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5. PROPERTY, PLANT & EQUIPMENT

As at January 1, 2010 the cost of property, plant & equipment which were transferred to the Corporation by the Government at the date of incorporation and on July 1, 1989 was based on valuations made jointly by the Ministries of Finance and Works & Lands at transfer date, or original cost less depreciation. Subsequent additions to property, plant and equipment were stated at cost, which included overhead amounts capitalized in work-in-progress however, as stated in Note 3(d), the cost of certain property, plant and equipment constructed by the Government and third parties from incorporation to December 2009 had not been valued. The cost of this previously unvalued property, plant and equipment and related accumulated depreciation has been included in 2010, based upon valuations as at December 31, 2010 made by an independent valuer. This valuation included property, plant and equipment in the amount of \$228.2 million made up of \$169.7 million and \$58.5 million for New Providence and Family Islands respectively.

Cost	January 1 2011	Additions	Disposals	Valuation Additions	Valuation Disposals	Transfers	December 31 2011
Land and wellfields	5,348,211	30,673	(13,751)	-	-	11,077	5,376,210
Buildings	5,229,879	6,787	(12,032)	-	-	409,834	5,634,468
Dock installations	1,040,052	-	(549,982)	-	-	-	490,070
Harbour improvements	17,077,254	-	-	-	-	-	17,077,254
Water pumping stations	1,425,807	116,254	(936)	-	-	334,042	1,875,167
Sewer lift stations	5,085,464	273,647	-	-	-	-	5,360,111
Storage tanks and reservoirs	19,837,626	279,843	(7,902)	-	-	541,147	20,650,714
Transmission and distribution mains	179,520,936	61,973	(61,469)	-	(1,773,686)	8,106,642	185,854,396
Water service lines	33,195,350	1,560,841	(7,125)	-	-	2,021,258	36,771,324
Sewer collection systems and mains	88,941,835	82,656	-	-	-	743,001	89,767,492
Sewer connections	4,402,554	2,412,019	-	-	-	305,151	7,119,724
Sewer treatment plants	9,359,579	-	-	-	-	276,792	9,636,371
Water meters	14,038,401	-	(280,795)	-	-	285,659	14,053,265
Garage plant and equipment	2,448,884	574,391	(407,259)	-	-	-	2,616,016
Other equipment	7,465,693	107,105	(727,451)	-	-	-	6,845,347
Automotive equipment	2,871,253	236,953	(418,712)	-	-	-	2,689,494
	397,290,778	5,743,142	(2,487,414)	-	(1,773,686)	13,044,603	411,817,423
Work-in-progress	9,144,714	14,386,437	-	-	-	(13,044,603)	10,486,548
Total	\$ 406,435,492	\$ 20,129,579	\$ (2,487,414)	\$ -	\$ (1,773,686)	\$ -	\$ 422,303,971

(See Note 21) (See Note 21)

WATER AND SEWERAGE CORPORATION

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5. PROPERTY, PLANT & EQUIPMENT (Continued)

Accumulated depreciation	January 1 2011	Depreciation expense	Disposals	Valuation Adjustments	Valuation Disposals	December 31 2011
Land and wellfields	4,000,048	69,763	(4,960)	-	-	4,064,851
Buildings	1,055,490	134,501	(2,765)	-	-	1,187,226
Dock installations	1,040,052	-	(388,203)	-	-	651,849
Harbour improvements	10,931,909	436,649	-	-	-	11,368,558
Water pumping stations	1,028,965	38,593	(936)	-	-	1,066,622
Sewer lift stations	3,009,836	181,419	-	-	-	3,191,255
Storage tanks and reservoirs	12,209,788	434,130	(38,483)	-	-	12,605,435
Transmission and distribution mains	64,255,750	4,474,802	(805,083)	-	(716,762)	67,208,707
Water service lines	11,964,477	2,130,748	-	-	-	14,095,225
Sewer collection systems and mains	29,721,406	2,209,850	-	-	-	31,931,256
Sewer connections	1,960,952	113,004	-	-	-	2,073,956
Sewer treatment plants	3,187,080	451,536	-	-	-	3,638,616
Water meters	7,721,120	1,404,601	(9,376)	-	-	9,116,345
Garage plant and equipment	1,921,769	122,486	-	-	-	2,044,255
Other equipment	6,836,283	201,035	(723,090)	-	-	6,314,228
Automotive equipment	2,183,987	281,481	(335,981)	-	-	2,129,487
Total	\$ 163,028,912	\$ 12,684,598	\$ (2,308,877)	\$ -	\$ (716,762)	\$ 172,687,871
Net book value 2011	\$ 243,406,580			(See Note 21)	(See Note 21)	\$ 249,616,100
Net book value 2010	\$ 189,224,217					\$ 243,406,580

WATER AND SEWERAGE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2011

5. PROPERTY, PLANT & EQUIPMENT (Continued)

	January 1 2011	Additions	Disposals	Valuation Additions	Valuation Disposals	Transfers	December 31 2011
Cost							
Land and wellfields	191,200	-	-	-	-	-	191,200
Buildings	4,983,712	6,787	(12,032)	-	-	379,719	5,358,186
Dock installations	1,040,052	-	(549,982)	-	-	-	490,070
Harbour improvements	17,077,254	-	-	-	-	-	17,077,254
Water pumping stations	103,724	64,947	-	-	-	-	168,671
Sewer lift stations	4,951,658	273,647	-	-	-	-	5,225,305
Storage tanks and reservoirs	12,947,503	19,362	-	-	-	79,691	13,046,556
Transmission and distribution mains	100,204,832	1,920	(1,920)	-	(1,511,199)	4,485,416	103,179,049
Water service lines	26,010,045	1,560,841	(7,125)	-	-	1,923,285	29,487,046
Sewer collection systems and mains	88,325,170	82,656	-	-	-	743,001	89,150,827
Sewer connections	4,293,731	2,412,019	-	-	-	305,151	7,010,901
Sewer treatment plants	9,100,149	-	-	-	-	276,792	9,376,941
Water meters	10,420,120	-	(265,975)	-	-	229,488	10,383,633
Garage plant and equipment	1,948,649	535,040	(407,259)	-	-	-	2,076,431
Other equipment	7,212,215	85,409	(617,211)	-	-	-	6,680,413
Automotive equipment	1,951,905	58,395	(299,971)	-	-	-	1,710,329
	290,761,919	5,101,023	(2,161,475)	-	(1,511,199)	8,422,543	300,612,812
Work-in-progress	3,883,816	12,254,691	-	-	-	(8,422,543)	7,715,964
Total	\$ 294,645,735	\$ 17,355,714	\$ (2,161,475)	\$ -	\$ (1,511,199)	\$ -	\$ 308,328,776

WATER AND SEWERAGE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2011

5. PROPERTY, PLANT & EQUIPMENT (Continued)

	January 1 2011	Depreciation expense	Valuation		Transfers	December 31 2011
			Disposals	Adjustments		
New Providence						
Accumulated depreciation/impairment						
Buildings	1,028,637	124,796	(2,765)	-	-	1,150,668
Dock installations	1,040,052	-	(388,203)	-	-	651,849
Harbour improvements	10,931,909	436,649	-	-	-	11,368,558
Water pumping stations	103,724	2,706	-	-	-	106,430
Water lift stations	2,875,030	181,419	-	-	-	3,056,449
Storage tanks and reservoirs	8,347,145	247,772	-	-	-	8,594,917
Transmission and distribution mains	33,616,115	2,484,352	(805,083)	-	(591,758)	34,703,626
Water service lines	7,393,613	1,702,269	-	-	-	9,095,882
Sewer collection systems and mains	29,104,741	2,209,850	-	-	-	31,314,591
Sewer connections	1,852,129	113,004	-	-	-	1,965,133
Sewer treatment plants	3,134,173	439,734	-	-	-	3,573,907
Water meters	5,731,066	1,043,701	(1,224)	-	-	6,773,543
Garage plant and equipment	1,722,298	66,615	-	-	-	1,788,913
Other equipment	6,598,906	194,263	(615,710)	-	-	6,177,459
Automotive equipment	1,516,090	156,202	(248,407)	-	-	1,423,885
Total	\$ 114,995,628	\$ 9,403,332	\$ (2,061,392)	\$ -	\$ (591,758)	\$ 121,745,810
Net book value 2011	\$ 179,650,107					\$ 186,582,966
Net book value 2010	\$ 148,576,829					\$ 179,650,107

WATER AND SEWERAGE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

5. PROPERTY, PLANT & EQUIPMENT (Continued)

Family Islands

Cost	January 1 2011	Additions	Disposals	Valuation Adjustment	Valuation Disposals	Transfers	December 31 2011
Buildings	246,167	-	-	-	-	30,115	276,282
Land and wellfields	5,157,011	30,673	(13,751)	-	-	11,077	5,183,910
Water pumping station	1,322,083	51,307	(936)	-	-	334,042	1,706,496
Water service lines	7,186,305	-	-	-	-	97,973	7,284,278
Water meters	3,618,281	-	(14,820)	-	-	66,171	3,669,632
Sewer lift stations	134,806	-	-	-	-	-	134,806
Sewer treatment plants	259,430	-	-	-	-	-	259,430
Storage tanks and reservoirs	6,890,123	260,481	(7,902)	-	-	461,456	7,604,158
Sewer collection systems & mains	616,665	-	-	-	-	-	616,665
Sewer connections	108,823	-	-	-	-	-	108,823
Transmission & distribution mains	79,316,104	60,053	(59,549)	-	(262,487)	3,621,226	82,675,347
Other equipment	253,478	21,696	(110,240)	-	-	-	164,934
Garage plant & equipment	500,235	39,351	-	-	-	-	539,586
Automotive equipment	919,348	178,558	(118,741)	-	-	-	979,165
	106,528,859	642,119	(325,939)	-	(262,487)	4,622,060	111,204,612
Work-in-progress	5,260,898	2,131,746	-	-	-	(4,622,060)	2,770,584
Total	\$ 111,789,757	\$ 2,773,865	\$ (325,939)	\$ -	\$ (262,487)	\$ -	\$ 113,975,196

WATER AND SEWERAGE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2011

5. PROPERTY, PLANT & EQUIPMENT (Continued)

Family Islands

Accumulated depreciation/impairment	January 1 2011	Depreciation expense	Disposal	Valuation Adjustment	Valuation Disposals	December 31 2011
Buildings	26,853	9,705	-	-	-	36,558
Land and wellfields	4,000,048	69,763	(4,960)	-	-	4,064,851
Water pumping station	925,241	35,887	(936)	-	-	960,192
Water service lines	4,570,864	428,479	-	-	-	4,999,343
Water meters	1,990,054	360,900	(8,152)	-	-	2,342,802
Sewer lift stations	134,806	-	-	-	-	134,806
Sewer treatment plants	52,907	11,802	-	-	-	64,709
Storage tanks and reservoirs	3,862,643	186,358	(38,483)	-	-	4,010,518
Sewer collection systems & mains	616,665	-	-	-	-	616,665
Sewer connections	108,823	-	-	-	-	108,823
Transmission & distribution mains	30,639,635	1,990,450	-	-	(125,004)	32,505,081
Other equipment	237,377	6,772	(107,380)	-	-	136,769
Office furniture & equipment	-	-	-	-	-	-
Radios	-	-	-	-	-	-
Garage plant & equipment	199,471	55,871	-	-	-	255,342
Automotive equipment	667,897	125,279	(87,574)	-	-	705,602
Total	\$ 48,033,284	\$ 3,281,266	\$ (247,485)	\$ -	\$ (125,004)	\$ 50,942,061
Net book value 2011	\$ 63,756,473					\$ 63,033,135
Net book value 2010	\$ 39,003,542					\$ 40,647,388

WATER AND SEWERAGE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
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6. ACCOUNTS RECEIVABLE

These are comprised of the following:

	<u>2011</u>	<u>2010</u>
New Providence:		
Water	21,097,786	20,697,679
Sewerage	4,458,005	3,993,349
	<u>25,555,791</u>	<u>24,691,028</u>
Less: Allowance for doubtful accounts	(18,864,560)	(19,494,133)
	<u>6,691,231</u>	<u>5,196,895</u>
Other	108,541	816,265
	<u>6,799,772</u>	<u>6,013,160</u>
Family Islands:		
Water	8,279,909	8,235,576
Sewerage	39,928	34,736
	<u>8,319,837</u>	<u>8,270,312</u>
Less: Allowance for doubtful accounts	(6,560,595)	(6,841,055)
	<u>1,759,242</u>	<u>1,429,257</u>
Other	82,906	69,388
	<u>1,842,148</u>	<u>1,498,645</u>
Total	<u><u>\$ 8,641,920</u></u>	<u><u>\$ 7,511,805</u></u>

Included in the above receivables for New Providence water and sewerage is an amount of \$3,598,243 (2010: \$6,625,155) due from Government ministries, departments and corporations.

Included in the above water and sewerage receivables for Family Islands is an amount of \$557,655 (2010: \$332,131) due from Government ministries, departments and corporations.

Provision for doubtful accounts	<u>2011</u>	<u>2010</u>
Opening balance	26,335,188	26,461,684
Amounts written-off during the year	(3,123,984)	(1,806,170)
Increase in doubtful debts provided for	2,213,951	1,679,674
Closing balance	<u><u>\$ 25,425,155</u></u>	<u><u>\$ 26,335,188</u></u>

WATER AND SEWERAGE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
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7. BANK OVERDRAFT

The Corporation has overdraft facilities with two banks. The first facility, with a limit of \$2.8 million, is guaranteed by the Government and bears interest at 1.75% above Nassau Prime, for a current effective rate of 6.5%. The second facility, with a limit of \$1.9 million, is supported by a letter of comfort from the Government and bears interest at 2% above Nassau Prime, for a current effective rate of 6.75%.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

These are comprised of the following:

	<u>2011</u>	<u>2010</u>
New Providence:		
Trade payables	5,122,082	6,903,855
Contributions to capital projects in progress (See below)	2,161,397	3,224,018
Defined benefit pension liability (Included in Note 15)	42,161,653	38,126,930
Accrued liabilities	<u>4,783,218</u>	<u>10,753,086</u>
	<u>54,228,350</u>	<u>59,007,889</u>
Family Islands:		
Trade payables	1,116,365	1,037,900
Contributions to capital projects in progress (See below)	412,940	521,760
Defined benefit pension liability (Included in Note 15)	6,485,563	5,647,234
Accrued liabilities	<u>4,456,820</u>	<u>8,044,984</u>
	<u>12,471,688</u>	<u>15,251,878</u>
Total	<u>\$ 66,700,038</u>	<u>\$ 74,259,767</u>

New Providence accounts payable and accrued liabilities include \$831,051 (2010: \$7,573,423) due to Government ministries, departments and corporations.

Family Island accounts payable and accrued liabilities include \$1,582,061 (2010: \$7,017,522) due to Government ministries, departments and corporations.

Contributions to capital projects in progress:

	<u>New Providence</u>	<u>Family Island</u>	<u>Total</u>
Liability at January 1, 2011	3,224,018	521,760	3,745,778
Contributions received during the year	493,878	-	493,878
Contributions to projects completed during the year	<u>(1,556,499)</u>	<u>(108,820)</u>	<u>(1,665,319)</u>
Liability at December 31, 2011	<u>\$ 2,161,397</u>	<u>\$ 412,940</u>	<u>\$ 2,574,337</u>

WATER AND SEWERAGE CORPORATION
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9. LONG-TERM DEBT

These comprise the following:

	<u>2011</u>	<u>2010</u>
(a) Inter-American Development Bank	6,412,368	6,925,357
(b) IBM	-	31,803
(c) British American Financial	<u>105,745</u>	<u>158,032</u>
	6,518,113	7,115,192
Less: Amounts due within one year	<u>(564,705)</u>	<u>(590,746)</u>
	<u>\$ 5,953,408</u>	<u>\$ 6,524,446</u>

The main characteristics of the long-term debt are as follows:

- (a) Inter-American Development Bank**
- i. The Corporation was granted a loan facility of US \$14,000,000 in 1999 primarily for The Family Island Water Improvement Project. Only \$10,632,274 of this facility had been drawn-down, and the residual amount of the facility of \$ 3,367,726 was subsequently cancelled. Interest accrues on the disbursed portion of the loan facility at an annual LIBOR based interest rate for each quarter as determined on the interest rate determination date. The loan is repayable in equal bi-annual installments, which commenced on September 25, 2003, and will terminate no later than March 25, 2024. The outstanding balance at December 31, 2011 is \$6,412,368 (\$6,925,357 in 2010).
 - ii. The Corporation was granted a single currency loan facility of US \$81,000,000 in December 2011. The main components to be addressed under the loan are non-revenue water reduction, wastewater infrastructure improvements and master plan, institutional strengthening and development of a new legal and regulatory framework. Although no funds have been drawn from the loan as at December 31, 2011, the Corporation has incurred eligible obligations totalling \$90,000. The disbursement period will end in December 2016. Interest will accrue on the disbursed portion of the loan facility at an annual LIBOR based interest rate for each quarter as determined on the interest rate determination date. The loan will be repayable in equal bi-annual installments, commencing May 16, 2017, and will terminate no later than May 16, 2042.

WATER AND SEWERAGE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
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9. LONG-TERM DEBT (Continued)

(b) IBM

The Corporation entered into a financing arrangement of \$ 95,414 for the purpose of procuring computer equipment, software and other services. This arrangement, which commenced in January 2009, was payable in 36 monthly installments of \$2,650. This facility, which did not bear interest, was repaid in 2011. The outstanding balance at December 31, 2011 is \$nil (\$31,803 in 2010).

(c) British American Financial

The Corporation entered into an arrangement for \$257,480 to purchase equipment. This arrangement, which commenced in October, 2008, is payable in 60 monthly installments of \$5,534, inclusive of interest. The outstanding balance at December 31, 2011 is \$105,745 (\$158,032 in 2010).

Long-term debt repayable in more than one year is as noted below:

	2011	2010
1-5 years	2,074,321	2,639,026
More than 5 years	3,879,087	3,885,420
	<u>\$ 5,953,408</u>	<u>\$ 6,524,446</u>

10. EQUITY CONTRIBUTIONS

Equity contributions represent contributions to major capital projects received from the Government of the Commonwealth of The Bahamas. Receipts and distributions during the year are noted below:

	New Providence	Family Island	2011 Total	2010 Total
Balance at January 1	106,293,298	40,362,722	146,656,020	145,242,070
Contributions	15,004,753	7,968,601	22,973,354	3,217,613
Distributions	-	(1,610,356)	(1,610,356)	(1,803,663)
Balance at December 31	<u>\$ 121,298,051</u>	<u>\$ 46,720,967</u>	<u>\$ 168,019,018</u>	<u>\$ 146,656,020</u>

WATER AND SEWERAGE CORPORATION
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11. OPERATING EXPENSES

	2011	2010
Water:		
Purchase of water	25,416,145	20,380,033
Staffing expense	5,792,036	5,521,423
Shipping charter hire	3,730,667	3,676,915
Fuel and oil	3,839,932	2,940,379
Electricity	3,332,696	2,717,527
Bad debts and sundry provisions	1,859,031	1,679,674
Repairs and maintenance	1,228,546	1,757,501
Office services	231,191	223,629
Chemicals	121,573	102,672
Travel	195,899	110,303
Outside services	82,183	115,123
Other shipping	13,095	47,260
Public relations	7,086	7,192
Data processing	8,174	17,209
Claims and damages	-	(1,030)
Training	18,971	12,746
Miscellaneous	129,599	102,358
	<u>46,006,824</u>	<u>39,410,914</u>
	2011	2010
Sewerage:		
Electricity	770,169	820,058
Staffing expense	887,637	803,905
Repairs and maintenance	683,790	299,474
Fuel and oil	31,931	29,612
Bad debts and sundry provisions	354,920	-
Office services	-	12,696
Training	-	-
Data processing	181	-
Chemicals	2,070	5,624
Miscellaneous	9,181	7,159
	<u>2,739,879</u>	<u>1,978,528</u>

WATER AND SEWERAGE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
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11. OPERATING EXPENSES (Continued)

	<u>2011</u>	<u>2010</u>
General and administrative:		
Staffing expense	10,834,365	8,931,167
Administrative overhead	1,139,516	1,094,567
Professional and consultancy fees	1,467,922	1,150,786
Office services	528,510	516,206
Repairs and maintenance	524,252	365,148
Electricity	308,477	238,110
Data processing	396,579	381,042
Public relations	112,419	116,254
Training	169,431	132,437
Bank charges	216,870	202,167
Travel	26,154	10,471
Fuel and oil	163,575	112,329
Audit fees	55,771	50,929
Claims and damages	16,212	10,556
Chemicals	3,238	3,293
Miscellaneous	120,032	128,071
	<u>16,083,323</u>	<u>13,443,533</u>
Total	<u>\$ 64,830,026</u>	<u>\$ 54,832,975</u>

12. DEPRECIATION

	<u>2011</u>	<u>2010</u>
Water	8,919,523	8,798,715
General and administrative	809,266	891,988
Sewerage	2,955,809	2,958,999
	<u>\$ 12,684,598</u>	<u>\$ 12,649,702</u>

13. FINANCING OF OPERATIONS

The Corporation has incurred significant operating losses in recent years and such losses are projected for the future. The Corporation is dependent on funding from the Government and it is anticipated that such funding, via the Government's subsidy, will continue to be made available at a level sufficient to allow the Corporation to adequately maintain its operations. In fiscal 2011, the Corporation received \$32,013,090 (2010: \$ 24,335,000) from the Government in the form of a subsidy to assist with the cost of operations.

14. FINANCE CHARGES

Finance charges comprise the following:

	2011	2010
Interest on pension obligation (See Note 15)	4,474,300	4,304,600
Interest and commitments fees on long-term debt	41,501	189,329
Interest on bank overdraft	144,880	153,533
Other	200,715	305,672
	<u>\$ 4,861,396</u>	<u>\$ 4,953,134</u>

15. PENSION PLAN

The Corporation's funded pension contributions are wholly invested in a mutual fund that is administered by a private insurance company. Equity instruments totaled \$17,733,500 (2010: \$19,380,000).

The Corporation suspended funding contributions to the plan in 1989. Current retirement benefits are funded through direct payments, a portion of which may be reimbursed on a quarterly basis from the pension fund, subject to periodic review.

Direct payments of current retirement benefits, net of reimbursements for the fourth quarter of 2010, totaled \$1,106,247 (2010: \$1,473,200). Reimbursements of \$1,157,531 were received (2010: \$1,123,942).

	2011	2010	2009
Present value of funded obligations at December 31	87,779,400	74,766,300	71,916,000
Fair value of plan assets at December 31	<u>(17,733,500)</u>	<u>(19,380,000)</u>	<u>(19,511,500)</u>
Present value of unfunded obligations at December 31	70,045,900	55,386,300	52,404,500
Unrecognized actuarial losses	(20,958,847)	(11,109,400)	(12,426,700)
Unrecognized past service cost	<u>(439,900)</u>	<u>(502,800)</u>	<u>(565,600)</u>
Liability recognized in statement of financial position at December 31	<u>\$ 48,647,153</u>	<u>\$ 43,774,100</u>	<u>\$ 39,412,200</u>

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15. PENSION PLAN (Continued)

	2011	2010	2009
Current service cost	2,394,400	2,343,000	2,357,300
Interest on obligation (See Note 14)	4,474,300	4,304,600	4,216,900
Expected return on plan assets	(1,200,500)	(1,210,400)	(1,251,700)
Net actuarial loss recognized in year	248,200	335,100	433,100
Past service cost	62,900	62,800	62,800
	5,979,300	5,835,100	5,818,400
Less: Previously accrued pension expense	-	-	-
Pension expense for the year	\$ 5,979,300	\$ 5,835,100	\$ 5,818,400

The actual net return on plan assets during the year was \$174,365 (2010: \$1,110,500).

Movements in the net liability recognized in the statement of financial position are as follows:

	2011	2010	2009
Net liability at January 1	43,774,100	39,412,200	35,971,700
Pension expense for the year	5,979,300	5,835,100	5,818,400
Contributions paid	(1,106,247)	(1,473,200)	(2,377,900)
Net liability at December 31 (See Note 8)	\$ 48,647,153	\$ 43,774,100	\$ 39,412,200

Principal actuarial assumptions at the statement of financial position date are as follows:

	2011	2010	2009
Discount rate	5.00% p.a.	6.00% p.a.	6.00% p.a.
Expected rate of return on plan assets	5.50% p.a.	6.50% p.a.	6.50% p.a.
Expected rate of salary increase	3.00% p.a.	4.00% p.a.	4.00% p.a.

Defined Benefit Pension Plan

	2011	2010	2009	2008
	\$	\$	\$	\$
Defined benefit obligations	(87,779,400)	(74,766,300)	(71,916,000)	(70,564,500)
Plan assets	17,733,500	19,380,000	19,511,500	19,813,200
Deficit	(70,045,900)	(55,386,300)	(52,969,900)	(50,751,300)
Experience adjustments on plan liabilities	2,371,184	(1,039,100)	(2,298,800)	(1,067,300)
Experience adjustments on plan assets	(1,026,135)	(128,300)	(442,000)	(1,169,300)

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16. FINANCIAL RISK MANAGEMENT

The Corporation's operations expose it to a number of financial risks. A risk management program has been established to protect the Corporation against potential adverse effects of these financial risks. There has been no significant change in these financial risks since the prior year.

The most important operational risks to which the Corporation is exposed are liquidity risk, credit risk and market risk.

(a) Liquidity Risk

The Corporation is exposed to liquidity risk which is the risk that it might be unable to meet its obligations associated with its financial liabilities when they become due. This risk is mitigated by the Government's subsidy as stated in Note 13.

The Corporation has further undrawn banking facilities of \$2.80 million (2010: \$2.70 million) which can be used as an additional means of easing liquidity risks if necessary.

	Due or due in less than 1 month \$	Due between 1 to 3 months \$	Due between 3 months to 1 year \$	Due between 1 to 5 years \$	Due after 5 years \$	Total \$
2011						
Financial Liabilities						
Non-current debt	-	-	-	2,074,321	3,879,087	5,953,408
Trade and other payables	66,670,038	-	-	-	-	66,670,038
Bank overdraft	2,264,032	-	-	-	-	2,264,032
Current portion of long-term debt	4,609	262,667	297,428	-	-	564,704
	<u>68,938,679</u>	<u>262,667</u>	<u>297,428</u>	<u>2,074,321</u>	<u>3,879,087</u>	<u>75,452,182</u>
2010						
Financial Liabilities						
Non-current debt	-	-	-	2,639,026	3,885,420	6,524,446
Trade and other payables	74,259,767	-	-	-	-	74,259,767
Bank overdraft	4,250,816	-	-	-	-	4,250,816
Current portion of long-term debt	6,802	267,041	316,903	-	-	590,746
	<u>78,517,385</u>	<u>267,041</u>	<u>316,903</u>	<u>2,639,026</u>	<u>3,885,420</u>	<u>85,625,775</u>

(b) Credit risk

The Corporation is exposed to credit risk, which is the risk that a counterparty might cause a financial loss for the Corporation by failing to discharge its obligations.

WATER AND SEWERAGE CORPORATION
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16. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk

The Corporation's exposure to credit risk on financial instruments is primarily in respect of accounts receivable and bank balances. There is also credit risk associated with counterparty operating contracts related to desalinated water production under "build-own-operate" arrangements.

Concentration of credit risk with respect to the Corporation's customers is not significant due to customers being unrelated, and is limited to the carrying value of accounts receivable. Credit risk on bank balances is not considered significant because funds are held by reputable and well established financial institutions. Risk with respect to operating contracts is mitigated by performance and operations securities and buy-out clauses, in the event of counterparty default in respect to material contracts.

By law, new premises are required to be connected to water and sewer services where they are available, for which certain minimum or fixed charges accrue, however, some customers elect to use alternative means. The Corporation asserts its right to collect statutory minimum or fixed charges, notwithstanding actual usage, on the basis of readiness to serve such customers. Consequently, although significant allowances are made for past due amounts over 120 days, individual accounts are written off only after legal remedies have been exhausted or it is determined that collection is improbable.

	Carrying amount	Neither impaired nor past due	Past due but not impaired				Total
			31 - 60 days	61 - 90 days	91 - 120 days	More than 121 days	
2011							
Accounts receivable	8,641,920	1,253,684	279,778	319,486	321,962	2,666,643	4,841,553
2010							
Accounts receivable	7,511,805	710,077	486,904	63,555	216,172	1,685,113	3,161,821

(c) Market Risk

Market risk is the risk that the fair value or future cash flows of our financial instruments will fluctuate because of changes in market prices. The Corporation is exposed to the following market risks: interest rate risk; and foreign currency risk.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. Interest bearing liabilities that expose the Corporation to interest rate risk are the long-term debt. There is no mitigation against this risk.

	Carrying amount	Average interest rate %	If interest rates were .5% higher		If interest rates were .5% lower	
			Profit for the year	Equity	Profit for the year	Equity
2011						
IDB	6,925,357	2.00	36,012	36,012	(33,242)	(33,242)

Foreign currency risk

Foreign currency risk refers to the risk that the value of a financial commitment or recognized asset or liability will fluctuate due to changes in foreign currency rates. There is no mitigation against this risk.

17. FINANCIAL INSTRUMENTS

The following table analyzes the carrying amounts of financial assets and liabilities as defined in Note 3(i):

	Loans and receivables \$	Other financial instruments \$	Available for sale \$	Total \$
2011				
<u>Financial assets</u>				
Cash at bank	-	2,344,771	-	2,344,771
Accounts receivable	8,641,920	-	-	8,641,920
Other current assets	-	114,574	-	114,574
	<u>8,641,920</u>	<u>2,459,345</u>	<u>-</u>	<u>11,101,265</u>
<u>Financial liabilities</u>				
Non-current borrowings	-	5,953,408	-	5,953,408
Trade and other payables	-	66,700,038	-	66,700,038
Bank overdraft	-	4,250,816	-	4,250,816
Current portion of long-term debt	-	590,746	-	590,746
Customer deposits	-	4,132,537	-	4,132,537
	<u>-</u>	<u>81,627,545</u>	<u>-</u>	<u>81,627,545</u>
2010				
<u>Financial assets</u>				
Cash at bank	-	1,033,343	-	1,033,343
Accounts receivable	7,511,805	-	-	7,511,805
Other current assets	-	109,584	-	109,584
	<u>7,511,805</u>	<u>1,142,927</u>	<u>-</u>	<u>8,654,732</u>
<u>Financial liabilities</u>				
Non-current borrowings	-	6,524,446	-	6,524,446
Trade and other payables	-	74,259,767	-	74,259,767
Bank overdraft	-	4,250,816	-	4,250,816
Current portion of long-term debt	-	590,746	-	590,746
Customer deposits	-	4,132,537	-	4,132,537
	<u>-</u>	<u>89,758,312</u>	<u>-</u>	<u>89,758,312</u>

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18. RELATED PARTY TRANSACTIONS

Key management compensation:

Salaries, other short-term and termination benefits paid to key management are as follows:

	<u>2011</u>	<u>2010</u>
Short-term employee benefits	1,057,866	1,171,168
Post employment benefits	-	-
Termination benefits	-	-
	<u>\$ 1,057,866</u>	<u>\$ 1,171,168</u>

Additional related party disclosures are included elsewhere in the notes to the financial statements.

19. CONTINGENT LIABILITIES

In the normal course of business, the Corporation is exposed to asserted and unasserted claims. The Corporation is involved in various legal proceedings and claims covering a range of matters that arise in the normal course of business activities. Management is of the view that no significant losses will arise as a result of such proceedings and claims.

20. COMMITMENTS

The Corporation has the following commitments as at December 31, 2011:

(a) Water purchase agreements, which have minimum purchase terms. Minimum annual purchases in respect of these arrangements, exclusive of cost escalation clauses, are approximately as follows:

	<u>\$</u>
2012	30,242,831
2013	24,179,431
2014	22,833,052
2015	22,986,631
2016	22,971,031

(b) Rental agreements for which annual costs are \$164,981 (2010: \$135,580).

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21. VALUATION ADJUSTMENT

In January, 2011, an independent valuer was contracted to document the Corporation's ownership and the value of its fixed assets as at December 31, 2010. This process resulted in a valuation adjustment that reflects the depreciated historical costs of the assets based on their condition, age and, when necessary, the impairment of asset value. See Notes 3(d), 4 and 5 for further details.

The amount of the valuation is made up as follows:

	<u>Notes</u>	<u>2011</u> <u>\$</u>	<u>2010</u> <u>\$</u>
COST			
Valuation additions (Page 16)	5	-	123,396,765
Less disposals (Page 16)	5	<u>(1,773,686)</u>	<u>(39,990,572)</u>
		(1,773,686)	83,406,193
 ACCUMULATED DEPRECIATION			
Additions (Page 17)	5	-	72,127,117
Less disposals (Page 17)	5	<u>(716,762)</u>	<u>(39,367,023)</u>
		(716,762)	32,760,094
 VALUATION ADJUSTMENT		<u>\$ (1,056,924)</u>	<u>\$ 50,646,099</u>



Photos ~ Blue Hills R/O Expansion Plant





2011