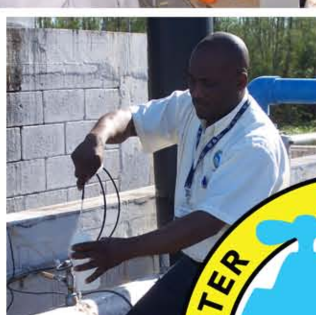
2012

ANNUAL REPORT



WATER AND SEWERAGE CORPORATION

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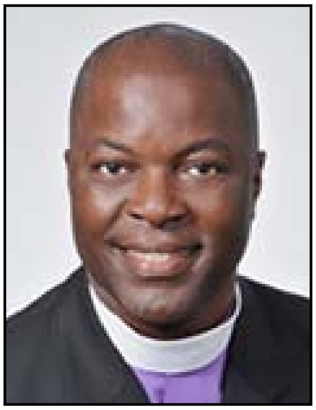
NOTE:

The 2012 Audited Financial Statements were completed in 2013. However, the Annual Report was completed in 2015 and reflects the Board and Executive Management team in place at the time of Report completion. The Annual Report was then published in 2016.

*The Board and Management wishes to acknowledge; the leadership and contributions of **Mr. Bradley Roberts, Chairman**, July 2012 – December 2012; the contributions of **Mr. Audley Hanna, Deputy Chairman**, and **Mr. Ehurd Cunningham (dec.), Board Member**, July 2012 to December 2012, and; the contributions of **Mr. Christopher Sherman (ret.), Deputy General Manager**, January 2012 – December 2012*

1 MESSAGE FROM THE CHAIRMAN



Bishop Lester Cox, J.P.
Chairman

The Progressive Liberal Party was ushered in as the Government of The Bahamas in May-2012. The new Board of Directors was appointed in July-2012 and are actively implementing Government's mandate for the sector which is mainly to; (i) Reduce Water and Sewerage's (WSC) reliance on the Central Government for funding, and; (ii) expand water and sewerage services throughout The Bahamas.

Another focus of the Board will be the reduction of non-revenue water (NRW) or water losses. This problem has plagued WSC for several decades and is a financial and operational burden on the Government, WSC, and its customers.

The Board has actively addressed the matter of extended contracts for temporary employees having reached an agreement with both Unions to have all temporary employees engaged permanently upon the condition that all employees engaged after January 2012 participate in a Contributory Pension Plan instead of the underfunded Defined Benefit Pension Plan. This will greatly decrease the future pension liability of WSC.

The Board also seeks to expand the engagement of Bahamians in various aspects/activities within the sector and will ensure that Management effectively and efficiently implements the various initiatives geared towards achieving financial and operational sustainability of WSC.

BOARD OF DIRECTORS

Leadership with Vision

Lester Turnquest
Deputy Chairman

Mr. John Bain
Board Member

Mr. Audley Hanna
Board Member

Dr. Hubert Fowler
Board Member

Hugh Garfield Chase
Board Member

2 MESSAGE FROM THE GENERAL MANAGER

Glen Laville
General Manager

2012 was the first year of implementation of the US$81Mn loan agreement executed with the Inter-American Development Bank to;

- Reduce Non-Revenue Water (NRW) or water losses;
- Strengthen the Water and Sewerage Corporation (WSC) institution through organization restructuring and automation of various commercial and operational activities;
- Prepare a Wastewater Master Plan and rehabilitation of critical infrastructure, and;
- Establish an independent Economic Regulator (Utilities Regulation and Competition Authority – URCA) and consolidate regulatory functions into an Environmental Regulator within the Ministry of Environment and Housing

The loan program is New Providence focused as the island accounts for over 75% of the Corporation's revenue and expenses. This in no way reflects on the importance of the Family Islands development, and is meant to ensure maximum benefits to the financial and operational sustainability of WSC are realized.

The studies and strategy for the reduction of NRW were completed and approved in 2012, and physical works under the Execution Phase are expected to start in January 2013.

WSC also completed an organization restructuring review and expects to have final approvals in 2013 for implementation. This restructuring is to address staff productivity, efficiency and prepare WSC for a regulated sector under the proposed new economic, and environmental regulators.

The outlook for 2013 is good in terms of procuring the remaining services/activities under the IDB loan program and continuing implementation of WSC's Action Plan targeting financial and operational sustainability.

WSC also successfully hosted the 21st Annual Caribbean Water and Wastewater Association Annual Conference under the theme "Water and Waste Management…Real Strategies & Solutions". It was the third time that WSC and The Bahamas has hosted the Conference which had over 300 delegates, and 40 Exhibitors from over 25 countries.

WSC EXECUTIVE TEAM

NEW PROVIDENCE OPERATIONS / ENGINEERING & PLANNING

Robert Deal
Deputy General Manager

BUSINESS OPERATIONS DIVISION

Sandra Edgecombe
Chief Financial Officer

INTERNAL CONTROL & COMPLIANCE

Elwood Donaldson
Senior Assistant General Manager

HUMAN RESOURCES

Cheri Hanna
Asst. General Manager

FAMILY ISLANDS DIVISION

Philip Beneby
Asst. General Manager

VISION STATEMENT

Committed to growth, committed to quality.

OUR MISSION

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

4 Key Indicators of WSC's Performance

At WSC, performance is measured to ensure that customers are receiving high-quality service and that we aggressively pursue important targets that we have set for ourselves. An evaluation of our performance in 2012 (see Table 4.1) shows that our performance improved compared to 2011. We also ensured that the water provided was safe to drink as we met almost all key targets for water quality. WSC is committed to improving its performance even further, so as to also meet our targets for financial and operational efficiency. Our performance over the coming years will improve through strategic initiatives launched in 2012 (see Section 5).

Table 4.1: Corporate and Performance Targets

KPI	Description	2012	Target
Water Quality in New Providence[1]			
Escherichia Coli (E. Coli)	One way to ensure that water is safe to drink is to test for E.Coli (a harmful bacterium). All water samples tested should be free of E.Coli.	100%	100% of Samples E. Coli Free
Residual Chlorine	Another way to measure that water is safe to drink is to test it for residual chlorine. The existence of residual chlorine in the water supply means that enough chlorine is added to kill micro-organisms in the distribution network. Thus, all water samples tested should have residual chlorine.	98%	100% of Samples have residual chlorine
Appearance	Water supplied is tested at pumping stations to ensure that it is clear.[2] This does not affect the safety of the water—just its appearance.	100%	100% of samples are clear
Chloride (Salinity)	To ensure that water does not have an odd taste, it is tested for chloride. Chloride levels above 250 mg/l can change the taste of water. Chloride is a naturally occurring chemical in sea water that, according to the World Health Organization, is safe in quantities below 600 mg per liter (mg/l).	272 mg/l	Chloride at or below 250 mg/l
Coverage			
Households Served with Water	Water coverage tells us the percentage of households in our service area to which we are providing service. We strive to increase water coverage each year, in an effort to achieve coverage of 95 percent by 2020.	58%	95% by 2020
Households Served with Sewer	Sewer coverage tells us the percentage of households in our service area to which we are providing service. We strive to increase sewer coverage each year. However, no specific target has been set as our first priority is to expand safe, potable water supply coverage.	13%	No short or medium term target set

[1] 52 samples were taken at each of WSC's main supply facilities in New Providence: Windsor Station, Blue Hills Station, Blue Hills High Level, and Winton Station. The percent is calculated using the simple average of samples that passed the testing.

[2] The appearance of water supplied is checked at the pumping station. As a result, this test does not capture when customers receive water that has been discolored due to old mains. WSC is working to replace old mains in the system and to reduce the number of red water incidences.

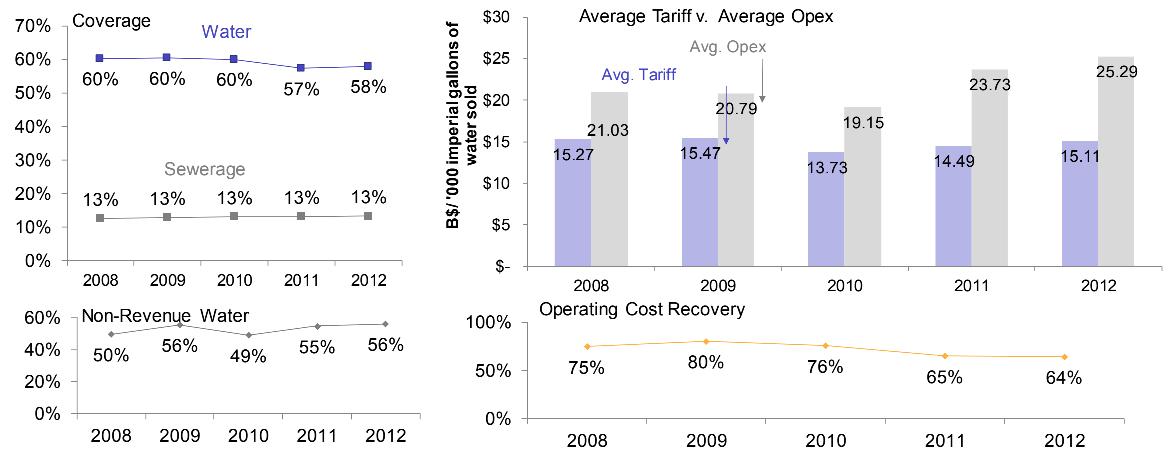
KPI	Description	2012	Target
Operational Performance			
Non-Revenue Water (NRW)	NRW is defined as water that is supplied but not billed to customers. It is very costly and must be controlled. We seek to reduce the level of NRW each year to decrease operating costs associated with water supply.	▪ NP: 6.9 MIG/day ▪ FI: 2.2 MIG/day	By 2017 ▪ NP:2.5 MIG/day ▪ FI: 1.0 MIG/day
Time to Respond to Complaints	Customer complaints should be addressed quickly. We aim to address customer complaints within 48 hours.	Addressed within 48 hours by type: ▪ Leaks:85% ▪ Water:62% ▪ Sewer:91%	95% addressed within 48 hours by 2018
Employees per active water Connections	This indicator—calculated as number of staff per every 1,000 active water connections—measures the efficiency of our staff. We aim for a ratio of 5 staff members for every 1,000 active water customers.	7.1 per 1000 active water customers	5 per 1,000 active water customers by 2018
Collection Efficiency	This measures our effectiveness in collecting payments from customers for bills issued. A high collection efficiency ensures we have the cash required to operate.	89%	98% by 2018
Average Age Receivables	This indicator measures our efficiency in collecting outstanding payments. The quicker outstanding payments are collected, the better and lower the average age of receivables.	109 days	90 days by 2018
Financial Performance			
Annual Capital Expenditure	This indicator keeps track of investments in upgrading and expanding water and sewer infrastructure, as well as purchasing property, plant, and equipment. This helps determine whether we are making the investments required to maintain our system. This figure captures expenditures on capital projects which began and were completed this year, as well as multi-year capital projects that were completed this year.	B$13.7 million[3]	B$8.0 million
Operating Cost Recovery	This indicator measures the percent of operating costs covered with operating revenue. Operating cost recovery should be at least 100 percent so that operating costs are covered with operating revenue.	64%	100% by 2018
EBITDA Margin	EBITDA margin calculates a company's core profitability. It is calculated as earnings before interest, tax, depreciation, and amortization (EBITDA) divided by total revenue. The higher the EBITDA margin, the better. An EBITDA Margin above 0 percent means costs (excluding interest, tax, depreciation, and amortization) are covered with revenue.	-56%	0% by 2018

[3] Includes B$6.60 million worth of new additions and B$7.13 million worth of transfers (works in progress at the end of 2011 that were completed in 2012). Excludes the B$10.34 million worth of works in progress at the end of 2012.

2012 Performance Summary

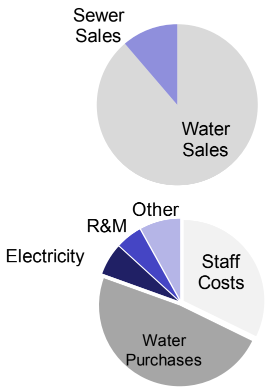
2012 was an important year in which various strategic initiatives were launched that are expected to greatly improve WSC's performance over coming years. However, because the water and sewer tariffs remain below our efficient costs, there was a net loss of about B$25 million this year. A summary of our performance is shown in the figures below, and discussed further throughout the Annual Report.

Figure 4.1: Summary of Coverage, Non-Revenue Water, and Operating Cost Recovery



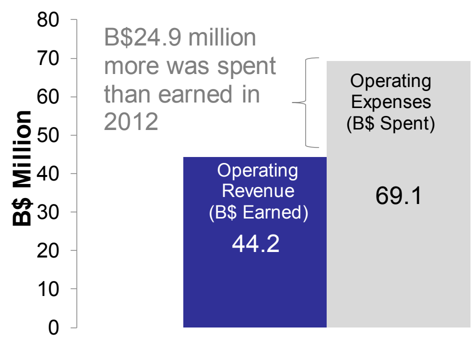
Water sales continued to be the largest source of revenue in 2012, making up 89 percent of total operating revenue. We earned more revenue in 2012 than in 2011 mainly as a result of an increase in non-residential water customer sales. Operating costs also increased due to an increase in the unit price and volume of water purchased.

Figure 4.2: Summary of Operating Revenue and Operating Expenses



Operating Revenue	B$ Million	Percent
Water Sales	39.4	89%
Sewer Sales	4.8	11%
Operating Revenue	44.2	100%

Operating Expenses	B$ Million	Percent
Staff Costs	18.4	27%
Water Purchases	35.7	52%
Electricity	4.2	6%
R&M	3.1	4%
Other	7.8	11%
Operating Expenses	69.1	100%
Cost recovery		**64%**



R&M stands for "Repairs and Maintenance".

Other includes operating expenses related to fuel and oil, administration, bad debt and sundry provisions, and other adjustments.

5 Strategic Initiatives Launched in 2012

At the WSC, we are actively working to improve our performance and the service that our customers receive. This was an important year for the WSC because we launched several major reform initiatives whose goals are to; (i) improve the quality of service received by customers; (ii) improve our operating efficiency, and; (iii) ensure that we are able to recover our operating costs in the medium-term. Most reforms launched are multi-year initiatives, and therefore the focus in 2012 was to establish a framework for executing these initiatives over coming years.

The strategic initiatives launched in 2012 are financed with a US$81 million loan executed with the Inter-American Development Bank (IDB) in December 2011. In 2012, we received US$12.6 million in disbursements from the IDB Loan, of which US$10.75 million was spent. The strategic initiatives launched in 2012 are summarized in the table below.

Table 5.1: Strategic Initiatives Launched in 2012

Initiative	Progress in 2012
Reduce Non-Revenue Water (NRW)	[4]MIYA (Israel)/ Veritec (Canada) was hired to reduce NRW in New Providence. In 2012, MIYA focused on performing a Baseline Survey and developing a Strategic Plan for reducing NRW.
Implement a New Organizational Structure	The New Organizational Structure was developed and a portion of WSC was restructured.
Prepare a master plan and rehabilitate wastewater treatment plants (WWTP)	In 2012, WSC requested and received proposals from firms to prepare the Master Plan and to complete designs for the rehabilitation of critical wastewater infrastructure.
Update the legal and regulatory framework	The establishment of a multi-agency Regulatory Reform Committee, to support the regulatory reform, was initiated.

Strategic Initiative 1: Reduce Non-Revenue Water (NRW)

The objective of this strategic initiative is to improve our financial and operational performance by reducing non-revenue water (NRW). NRW is the difference in the amount of water produced and the amount of water billed to consumers.[5] The expected outcome is that NRW will be reduced to 2.0 million imperial gallons per day (Migd), from a high of 6.9Migd, by 2018. US$50 million of the IDB Loan have been allocated to this initiative and the remaining amount will be funded directly by the WSC with the support of Government.

NRW is of concern to all water utilities but is especially costly to WSC due to the use of energy-intensive desalination (by reverse osmosis – RO) for water production. NRW creates the need to produce more water than would otherwise be needed, and therefore increases operating costs associated with water supply.

[4] Referred to as MIYA.

[5] NRW can be divided into physical losses or commercial losses. Physical losses comprise leakage from all parts of the system and overflows at the utility's storage tanks. Commercial losses are caused by customer meter under registration, data-handling errors, and theft of water. For example, a leak in a water main is considered a physical loss, while an inaccurate meter reading is considered a commercial loss. We aim to reduce both kinds of losses under this strategic initiative.

Following an international competitive bidding process started in 2009, MIYA was hired to help reduce NRW in New Providence. The US$83 million, performance-based contract signed in February 2012, is for a period of 10 years, and we expect to recover this cost over the duration of the contract. MIYA carried out a Baseline Survey and developed an NRW Reduction Strategy in 2012. The execution phase of the contract will begin in 2013. Table 5.2 presents the volume of NRW in 2011 and 2012 as well as the NRW reduction targets in MIYA's proposal.

Table 5.2: NRW Reduction Targets for New Providence

New Providence NRW	Historic		Estimated Reduction Under Contract[6]								
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
MIG/Day	6.6[7]	6.9[8]	6.0	5.0	4.0	3.0	2.5	2.5	2.0	2.0	2.0

On a related note, the performance-based structure of the NRW contract adopted by WSC is the first of its kind to be approved and funded by the IDB and has been identified as an innovative approach that they intend to utilize for future projects.

Strategic Initiative 2: Implement a New Organizational Structure

The objective of this initiative is to improve the efficiency of WSC. The New Organizational Structure designed to; (i) reduce bureaucracy; (ii) ensure that related functions or dependent functions are grouped together, and; (iii) allow the WSC to focus on its core functions. The proposed organizational structure will also improve the staff's performance by establishing clear job descriptions and responsibilities for each position, establishing indicators to measure the performance, and establishing the qualifications and skills needed for each position.

In 2012, the New Organizational Structure was finalized and we began to restructure the WSC's Divisions. Specifically the Commercial Operations and Finance Divisions were merged to form the Business Operations Division. In light of the US$81 million IDB Loan, a dedicated Project Management Department was created in 2011 as the first step towards establishing a Strategic Coordination Division. This Division will manage the activities that are being financed by the IDB and will also lead outsourcing efforts. Implementation of the New Organizational Structure will continue over coming years, and is expected to be completely implemented by 2015. Staff training forms an integral part of this initiative to ensure that staff have the required tools and skills to effectively execute their jobs within the restructured company.

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[6] Targets were established based on the 2011 Baseline Survey which was completed in October 2012 using 2011 data. This was the basis for developing the reduction strategy. The 2012 Baseline Survey will be completed in 2013 using 2012 data, and the targets will be adjusted to reflect the latter results as per the contract which specifies that the 2012 NRW level will be the contractual baseline. The reduction strategy will be adjusted if required to reflect the 2012 NRW level.

[7] Final Baseline Survey 2012 Report (Executive Summary) states that the "total validated volume of NRW in 2011 was 2,400.1 MIG (6.58 MIGD)".

[8] Final Baseline Survey 2013 Report, (Executive Summary) states that the "total validated volume of NRW of 2,506.4 MIG (6.87 MIGPD)."

Strategic Initiative 3: Prepare a Master Plan and Rehabilitate Wastewater Treatment Plants

The objective of this initiative is to improve the quality of wastewater services provided by rehabilitating wastewater treatment plants (WWTP) and other critical sewerage infrastructure. This will help improve the performance of existing assets and protect the environment. A Wastewater Master Plan will be prepared to identify the wastewater collection, treatment, and disposal needs of New Providence, including about US$15Million of critical infrastructure upgrades which will be financed under the IDB Loan. The table below presents the expected outcomes, as defined in IDB Loan.

Table 5.3: Expected Outcomes of Strategic Initiative 4

Expected Outcomes	Baseline (2012)	Target (2016)
WWTP rehabilitated and disposal wells constructed	0	9
Lift stations rehabilitated	0	60
Collection systems and force mains rehabilitated/installed (miles)	0	4
Wastewater Master Plan prepared	0	1
Flow treated daily (million gallons per day)	2.1	6.5

Strategic Initiative 4: Update Legal and Regulatory Framework

The objective of this initiative is to establish an effective legal and regulatory framework for the water and sewerage sector. The expected outcome of this initiative is that; (i) an Environmental Regulator will be established, and; (ii) the Utilities Regulation and Competition Authority (URCA) will expand its responsibilities to act as the economic regulator of the water sector. Both regulators are scheduled to become effective in 2015.

US$3 million has been allocated under the IDB Loan to draft legislation and work with the Government to establish both regulators. This includes assisting in the provision of proper facilities and the necessary human resources. In 2012, WSC actively worked towards establishing a multi-agency Regulatory Reform Committee as a condition precedent under the IDB Loan for this activity.

6 WSC's Performance in 2012

Despite some improvements, we continued to face challenges that affected our operational and financial performance. The number of water and sewer customers in our service area increased, and we were able to provide a fairly consistent water supply. The quality of service that we provided to our customers also improved, as we increased the percentage of complaints which we address within 48 hours.

However, significant challenges were faced: (i) tariffs continued to be below efficient cost recovery levels; (ii) NRW continued to rise, and; (iii) water production costs and average staff costs continued to rise. These challenges led to an increase in operating losses. However, these challenges will be addressed by the strategic initiatives launched this year.

Table 6.1: WSC's Key Operating Statistics Performance (2010-2012)

Indicator	Units	2010	2011	2012	Our Assessment of Our Performance
Operational Indicators					
NRW (Volume)*	IG/connection/day	116	134	151	◔
NRW (%)	%	48	53	56	◔
Collection Rate	%	87	87	89	◕
Staff Efficiency	Employees per 1,000 customers[9]	7.3	7.5	7.1	◑
Financial Indicators					
Average Tariff	B$/'000 IG	13.63	14.31	15.31	◑
Average operating costs	B$/'000 IG	19.01	23.43	25.62	◔
Operating cost recovery	%	76	65	64	◔
EBITDA Margin	%	-32	-54	-56	◔
Net Income (Loss)	B$ millions	(3.1)	(4.3)	(11.2)	◔
Annual Capital Expenditure[10]	B$ millions	11.8	18.8	13.7	◕
Operating Subsidies	B$ millions	24.3	32.0	32.3	◔
Capital Subsidies	B$ millions	3.2	23.0	0.8	◕

Note: ◔ denotes lowest rating, ● denotes highest rating.

*Calculated as the volume of NRW in New Providence (as estimated by Miya-Veritec) and the volume of NRW in Family Islands, divided by the total number of customers in WSC's service area.

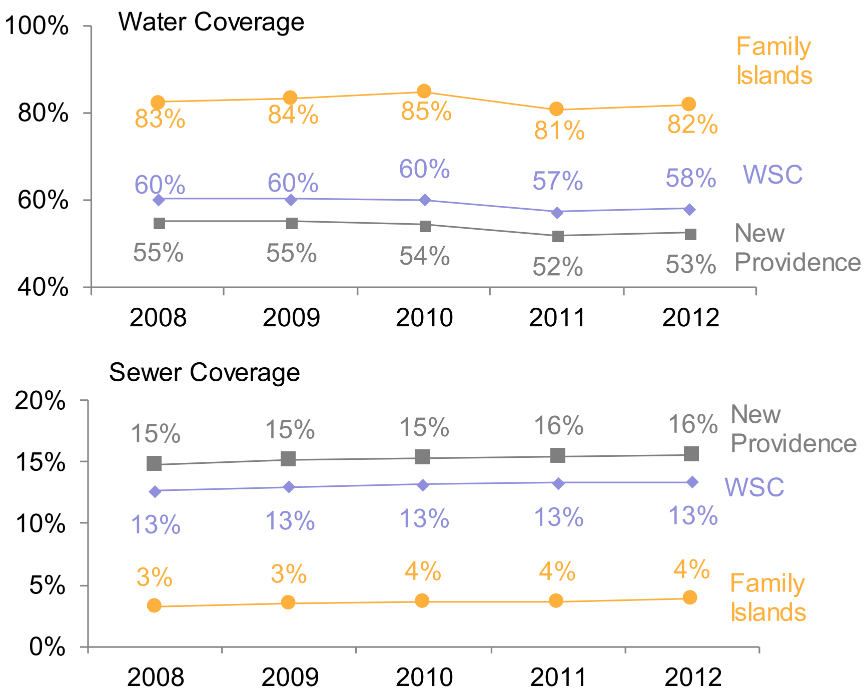
[9] This includes contract employees.

[10] Includes B$6.60 million worth of new additions and B$7.13 million worth of transfers. Excludes the B$10.34 million worth of works in progress.

6.1 Coverage

WSC provides water service to 15 islands and sewerage service in two of these islands (New Providence and Abaco). The customer base increased modestly in 2012. However, despite the increase in the number of water customers, water coverage decreased slightly (see Figure 6.1).[11]

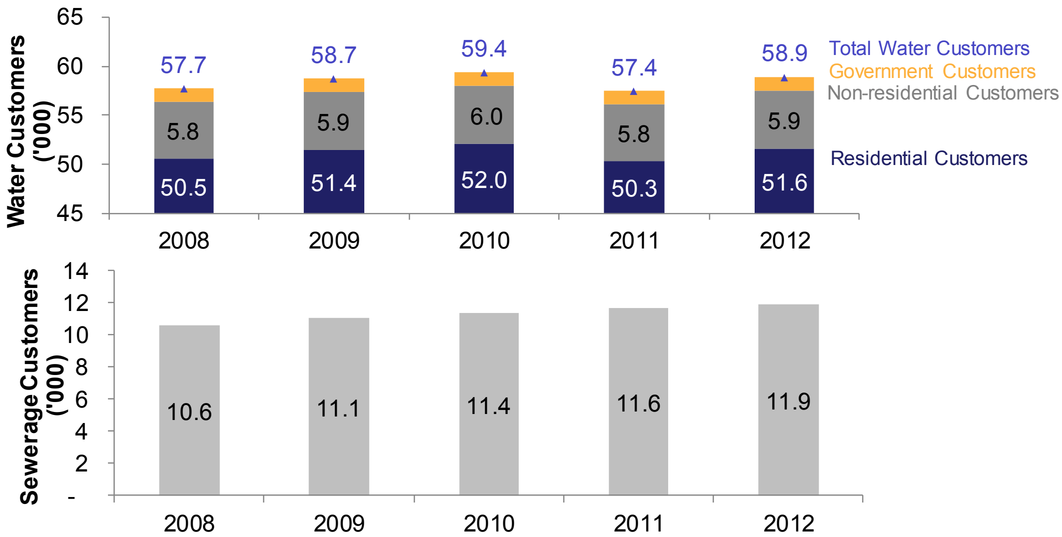
Figure 6.1: Water and Sewerage: Customers and Coverage (2008-2012)



In 2012, 242 new water customers and 270 new sewerage customers were added. Among the customers added in 2012 was the Baha Mar Resort. Approximately 31.4 million imperial gallons were supplied to Baha Mar during the year, which was almost two percent of the total volume of water sold in New Providence. It is expected that Baha Mar's demand will increase significantly once it opens in 2015. Figure 6.2 presents the number of water customers disaggregated by residential, non-residential, and government customers, as well as the total number of sewer customers in the two islands where service is provided.

[11] Coverage (for water and sewerage) was calculated using the number of our active residential customers reported in each year, divided by the number of household in our service area as published by the Department of Statistics of The Bahamas (DOS). Where published data is not available, we use an estimated number of households in our service area to determine coverage.

Figure 6.2: WSC's Water and Sewerage Customers (2008-2012)



Piped water services are provided to New Providence and to several[12] Family Islands (See Table 6.2). Some Family Islands also receive water tanker services either exclusively or in certain areas of the island. We only provide sewer services to New Providence and to one Family Island (Abaco).

Table 6.2: Active Connections by Region

Region	Water		Sewerage	
	2008	2012	2008	2012
New Providence	42,600	42,519	10,121	11,278
Family Islands	16,127	16,392	498	639
Total	**58,727**	**58,911**	**10,619**	**11,917**

Total water supplied increased by six percent. About 75 percent of the water (4,458 Million Imperial Gallons) was produced by desalination, and the remaining 25 percent was supplied using wells (groundwater). Even though about 16 percent of water supplied came from barging in 2011, in 2012 none of the water supplied came from barging (see Table 6.3)

[12] Piped water service is provided to the islands of Abaco, Acklins, Andros, Bimini, Crooked Island, Eleuthera, Exuma, Inagua, Long Island, Long Cay, Mayaguana, Ragged Islands, and San Salvador. Tanker services are also provided in Acklins, Cat Island, Long Island and South Andros

Table 6.3: WSC Water Supplied (2008-2012)

Item	Unit	Value				
Water Supplied		**2008**	**2009**	**2010**	**2011**	**2012**
Total	Million Imperial Gallons	5,226	5,417	5,332	5,565	5,920
Reverse Osmosis (RO)	%	57%	56%	55%	59%	75%
Barging	%	17%	17%	17%	16%	0%
Wells	%	25%	27%	28%	25%	25%

6.2 Operating Performance

6.2.1 Quality of Service

Quality of service in 2012 was fair as we generally provided water to our customers on average 24 hours a day, and addressed 77 percent of all complaints within 48 hours. Also, all water samples were free of E. Coli and were clear.

However, our 2018 target of addressing 95 percent of complaints within 48 hours has not been reached. In 2012, we received a total of 8,413 complaints, almost 1,000 more complaints than we received in 2011. Most of the complaints were water leaks (66 percent), followed by other water complaints (27 percent), and sewer complaints (7 percent). The following percentage of complaints were completed within 48 hours: 85 percent of water leak complaints, 62 percent of other water complaints, and 91 percent of sewer complaints.

Water quality was closely monitored through continuous testing and results were consistently good particularly in New Providence where over 90 percent of the water supplied is desalinated (See Table 6.4).

Operationally, during the Year 2012, the Water Quality Laboratory executed 100 sampling and analytical jobs consisting of 1,186 samples collected and 29,650 analyses performed for the Family Islands. Overall, Family Island water quality compliance was also good but requires improvement particularly as it relates to meeting the target for chlorides/salinity (See Table 6.5). Many systems still rely on groundwater for their water supply source, and several of these are highly saline.

Table 6.4: Results of Water Samples Tested in New Providence (2012)

WATER QUALITY PARAMETERS	World Health Guidelines	WINDSOR STATION	BLUE HILLS STATION	BLUE HILLS HIGH LEVEL	WINTON STATION
Total No. Of Samples:		52	52	52	52
PHYSICAL ANALYSIS:					
Appearance	CLEAR	CLEAR	CLEAR	CLEAR	CLEAR
Odor	NOT OFFENSIVE	NIL	NIL	NIL	NIL
pH (Units 6.5 - 8.5)	6.5 - 8.5 pH units	7.3	7.5	7.6	7.5
Temperature (field) @C	NO SPECIFIC STANDARD. However, 25 C is desirable	25.3	27.9	27.6	28.2
True Color Unit (Pt/Co)	15	1	1	1	2
Turbidity (NTU)	5	0.2	0.3	0.3	0.4
CHEMICAL ANALYSIS:					
Anions: Bicarbonate (mg/l) ^	No specific Standard	71	21	17	21
Chloride (mg/l) ^	250 (WHO '83) 600 (WHO '71)	281	265	269	272
Fluoride (mg/l)	1.5	N/A	N/A	N/A	N/A
Nitrate (mg/l)	50 as NO3	N/A	N/A	N/A	N/A
Phosphate (mg/l)	No specific standard Preferably < 5 mg/l	N/A	N/A	N/A	N/A
Sulphate (mg/l)	250	N/A	N/A	N/A	N/A
Cations: Calcium (mg/l)	250 (U.K.) (As an annual average)	73	19	21	24
Iron (mg/l)	0.3	0.0	0.0	0.0	0.1
Magnesium (mg/l) ^	50 (U.K.) (As an annual average)	10	4	4	4
Potassium (mg/l)^.	12 (E.E.C.)	6	6	6	6
Sodium (mg/l) ^	200	160	151	153	155
Residual Chlorine(mg/l)	No specific standard. 0.2 ppm required for disinfection	1.8	1.7	1.5	1.1
Residual Chlorine (% time Present)	No specific Standard	98	100	100	94
Conductivity (umHos/cm) field	1500 (U.K.) (As an annual average)	1,015	979	987	995
TDS concentration (mg/l) ^	1,000	509	495	498	501
Alkalinity (mg/l)	No specific Standard	58	17	14	17
Total Hardness (mg/l CaCO3)	Should not exceed 500	114	35	37	41
MICROBIOLOGICAL ANALYSIS:					
COLIFORMS: Total (% time absent)	0 per 100 ml in 95% of samples	98	100	100	94
COLIFORMS: Faecal (% time absent)	0 per 100 ml in all samples	100	100	100	100
Faecal Streptococcus (% time absent)	0 per 100 ml in all samples (U.K.)	100	100	100	100
Yeast (% < 500 CFU/100ml)	< 500 CFU/ml. Results compared against long-term average. Significant differences investigated. (U.K.)	100	100	100	100
Mold (% < 500 CFU/100ml)		100	100	100	100
Total Bacteria (% < 500 CFU/100ml)		100	100	100	100
WATER CHARACTERISTICS:					
Langelier Saturation Index (LSI):	-0.5 < L.I. < +0.5 (AWWA)	-0.87	-1.70	-1.70	-1.60
Corrosive Tendency:		highly aggressive (serious corrosion)	highly aggressive (serious corrosion)	highly aggressive (serious corrosion)	highly aggressive (serious corrosion)

Table 6.5: Results of Water Samples Tested in the Family Islands (2012)

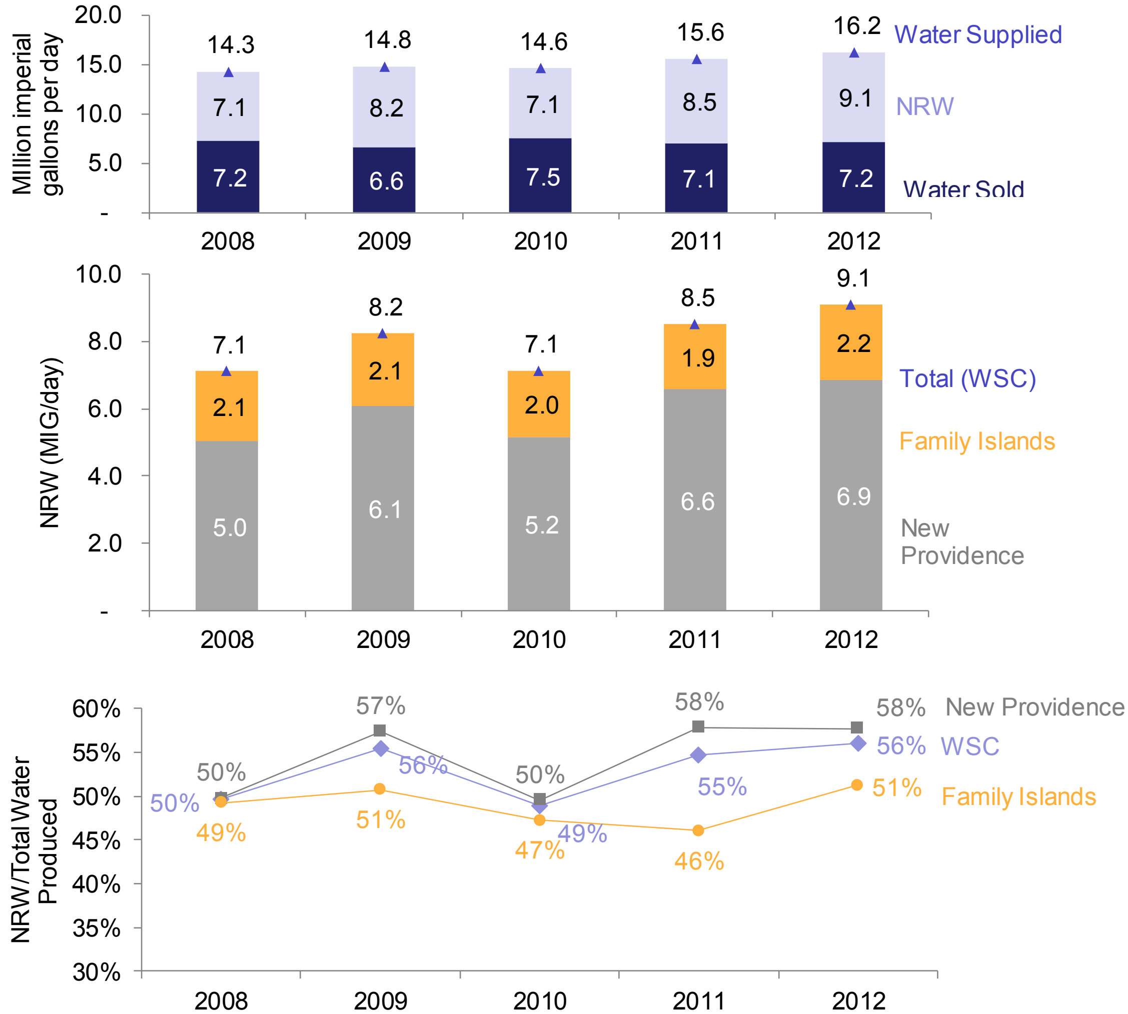
	Escherichia Coli (E. coli) Bacteria	Residual Chlorine (Disinfection)	Chloride (salinity)
Description	One way to ensure that water is safe to drink is to test for E.Coli (a harmful bacterium). All water samples tested should be free of E.Coli.	Another way to measure that water is safe to drink is to test it for residual chlorine. The existence of residual chlorine in the water supply means that enough chlorine is added to kill micro-organisms in the distribution network. Thus, all water samples tested should have residual chlorine.	To ensure that water does not have an odd taste, it is tested for chloride. Chloride levels above 250 mg/l can change the taste of water. Chloride is a naturally occurring chemical in sea water that, according to the World Health Organization, is safe in quantities below 600 mg per liter (mg/l).
Calculating Formula	**# of complying samples/total # of samples taken (x100)**	**# of complying samples/total # of samples taken (x100)**	**# of complying samples/total # of samples taken (x100)**
Location			
Abaco Water Systems (64)	100.0	96.9	37.5
Andros Water Systems (182)	99.5	90.7	31.3
Acklins/Long Cays Water Systems (30)	96.7	86.7	83.3
Berry Islands Water System (24)	95.8	87.1	0.0
Bimini Water System (45)	88.9	88.9	73.3
Cat Island Water System (16)	100.0	100.0	100.0
Crooked Island Water System (3)	100.0	0.0	0.0
Eleuthera Water Systems (345)	99.7	99.4	72.8
Exuma & Cays Water System (189)	100.0	96.3	89.4
Inagua Water System (49)	95.9	69.9	32.7
Long Island Water Systems (168)	100.0	100.0	85.7
Mayaguana Water Systems (7)	100.0	57.1	57.1
Ragged Island Water System (29)	96.6	75.8	100.0
San Salvador Water System (35)	100.0	100.0	100.0

6.2.2 Operational Efficiency

Non-Revenue Water (NRW)

NRW is the difference in the amount of water supplied and the amount of water billed to consumers.[13] High levels of NRW lead to the need to increase the amount of water produced/supplied and to higher operating expenses. Significant reductions in NRW are expected from the 10 year, performance-based contract executed with MIYA. This will decrease the volumes of water produced and the overall water purchase costs.

Figure 6.3: Non-Revenue Water—Million Imperial Gallons per Day (2008-2012)



Staff Efficiency

Staff efficiency is calculated as the total number of employees per 1,000 active water customers, and is considered a measure of the staff productivity. A lower ratio of staff per 1,000 customers implies that the staff is more productive. Staff efficiency improved in 2012 to 7.1 staff per 1,000 customers

[13]Kingdom, B. Liemberger, R. Marin, P. *The Challenge of Reducing Non-Revenue Water (NRW) in Developing Countries How the Private Sector Can Help: A Look at Performance-Based Service Contracting.*. December 2006.

(see Table 6.5). Improved staff efficiency was the result of fewer staff members and more water customers.

Table 6.5: Number of Staff and Staff Efficiency

	2008	2009	2010	2011	2012
Number of Staff	444	438	447	452	432
Staff Efficiency	7.8	7.6	7.3	7.5	7.1

Collection rate

The collection rate—amount collected as a percent of the total amount billed for sales—improved in 2012. Collection rate was 87 percent in 2011 and 89 percent in 2012.

6.3 Financial Performance

WSC's financial performance continued to suffer as a result of ongoing challenges not within our control such as the rising cost of fuel and electricity, and tariffs that are below the reasonable cost of providing service. However, we have made a concerted effort to improve our financial performance by addressing challenges that are within our control and by making important investments to maintain our system. The key factors that drove financial performance in 2012 are:

- **Tariffs below efficient cost recovery levels.** The tariff, which was last adjusted in 1999, is outdated and is too low for us to cover our reasonable operating costs. The existing tariff only allowed recovery of 64 percent of operating costs and, as a result, WSC continued to rely heavily on subsidies, which only partially cover losses.
- **Cost of water supply increased further.** Increased fuel prices led to the increased price of water purchased from RO plants. Additionally, a greater volume of water was purchased from RO plants following the cessation of barging and the increased NRW.
- **Rising average staff costs.** While total staff costs decreased slightly in 2012, the average staff costs (staff costs per employee) rose. In 2012, average compensation per active employee rose by almost B$1,000 and average pension payments per retired employees rose by almost B$5,000.

Below, we discuss how these factors have affected our financial performance over the period 2008 to 2012.

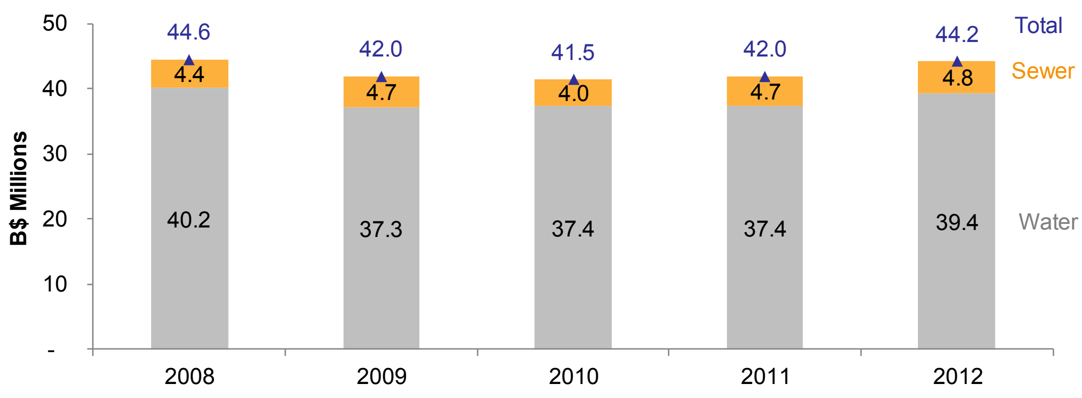
6.3.1 Revenues, Operating Costs, and Cost Recovery

In 2012, existing tariffs only recovered 64 percent of operating costs—for New Providence operating cost recovery was 74 percent and for Family Islands it was 41 percent. WSC expects to improve its financial performance in the coming years with our strategic initiatives, however this year we continued to rely heavily on subsidies, which only partially covered our operating losses.

Operating Revenue

Operating revenue has remained relatively flat from 2008 to 2012 (see Figure 6.4). The main source of revenue is water sales in New Providence. The changes in operating revenue are due to changes in bulk water sales to Paradise Utilities (decreased substantially in 2009 and increased again in 2012) and to Baha Mar (which came online in 2012). Water and sewerage tariffs have not been changed since 1999, and therefore changes in revenue are *not* the result of changes in the tariff.

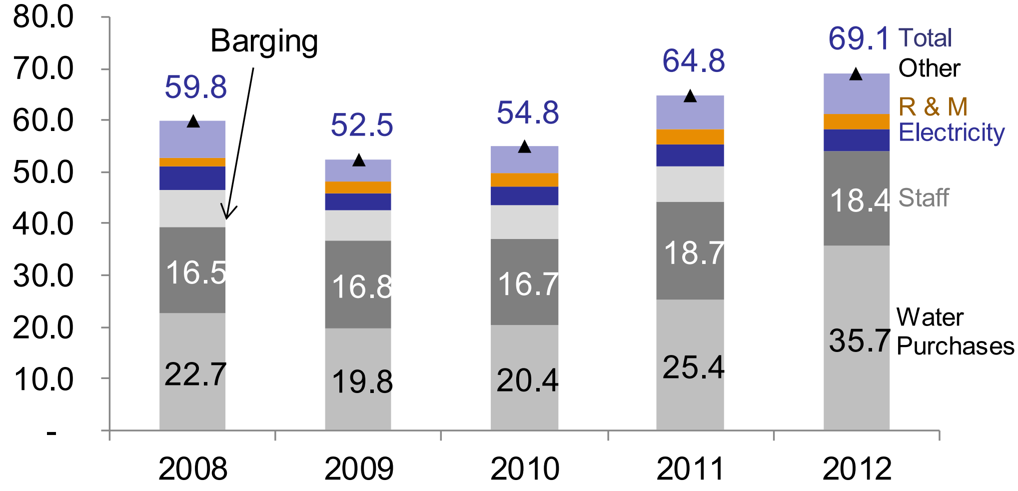
Figure 6.4: Operating Revenue (2008-2012)



Operating Costs

Total operating costs have continued to increase due to many factors (See Figure 6.5). Our largest operating costs over the years are those associated with supplying water (water purchases and barging) and with paying staff salaries and pensions.

Figure 6.5: Operating Costs (2008-2012)



Water purchases

The cost of water supplied has increased since 2011 due to an increase in the price and volume of water purchased from reverse osmosis (RO) suppliers. In 2012 there was a rise in the cost of fuel and electricity. Under the major RO water purchase contracts, fuel and electricity are pass through costs within certain performance guarantee limits. The volume purchased increased as a result of the cessation of barging and increased NRW.

Staff costs

Staffing costs have two major components: compensation for active employees and pension payments for retired employees. While total staff costs decreased slightly in 2012, the average compensation for active employees, and the total and average pension payments for retirees, increased.

In 2012, the total number of staff decreased by 20 employees. However, the average cost per employee increased by almost B$1,100 in 2012. The increase in the average staff costs was driven by an increase in employee benefits, which consist of: pension contributions for active employees (increased by about B$200 per employee), medical insurance (increased by about B$800 per employee), and National insurance (increased by about B$100 per employee).

The cost of pension payments to retired employees also increased in 2012. This was the result of an increase in the number of retired employees and in the pension payment per retired employee. The number of retired employees increased from 138 in 2011 to 146 in 2012. The average pension payment per retiree increased by almost B$5,000.

Cost recovery

Adding depreciation, interest, and other non-operating expenses to the 2012 operating loss yields a net loss of about B$43.5 million (See Figure 6.6). As a result of an operating subsidy of B$32.3 million from the Government, the net loss reported was B$11.2 million.

Over the period, lower revenues and higher costs have increased operating losses. Additionally, depreciation expense and other expenses[14] have risen. This has caused net losses to grow over time. The operating subsidies provided by Government during this period have fluctuated and, with the exception of 2009, have not fully covered net losses.

[14] Includes miscellaneous income and other income, amortization of deferred income, net foreign exchange gain/(loss), and finance charges.

Figure 6.6: Net loss and Operating Subsidy (2008-2012)

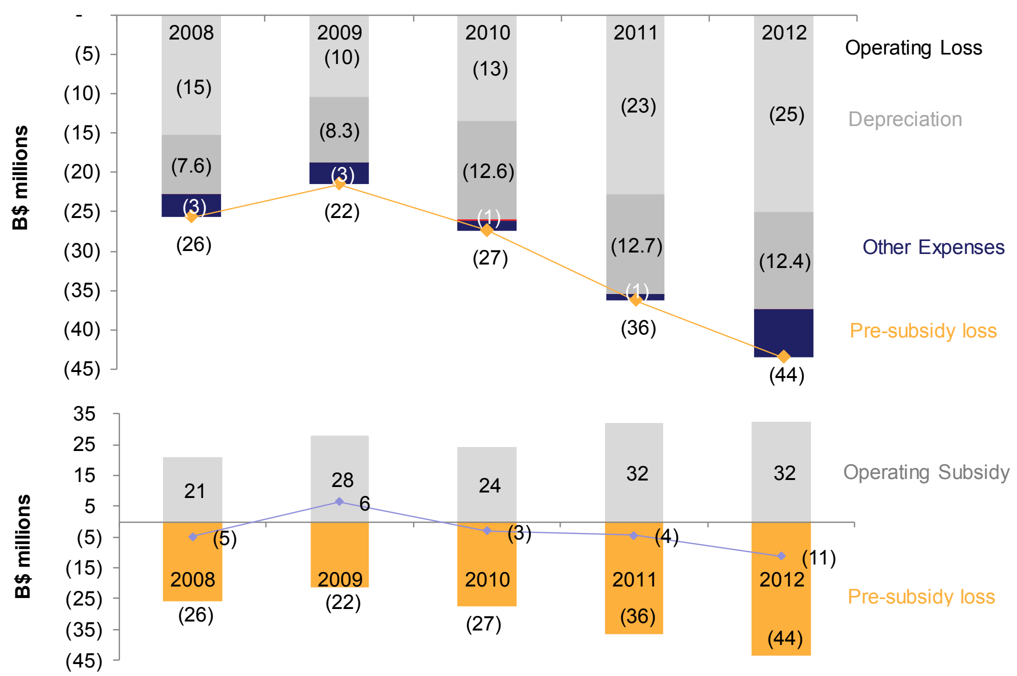
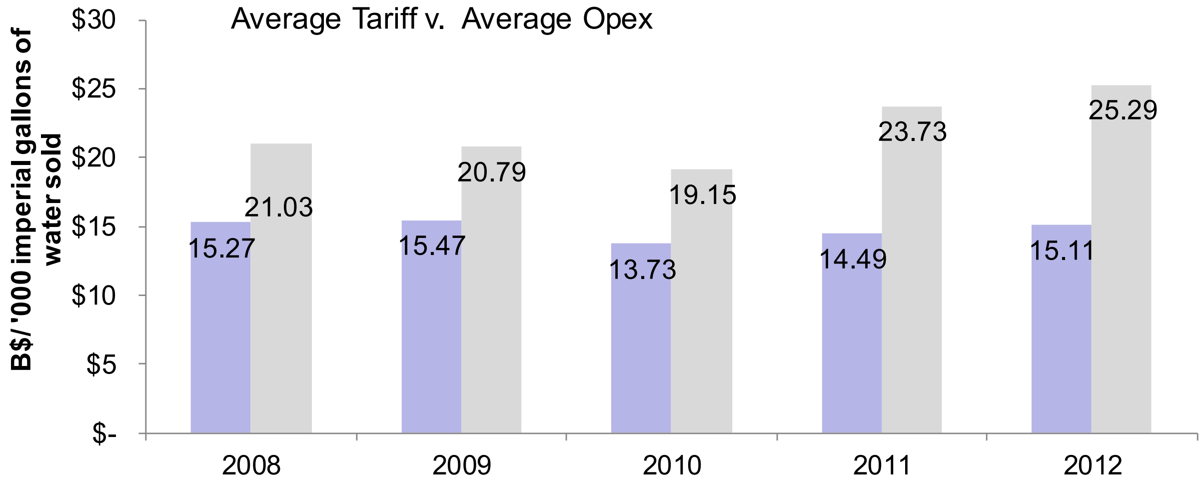


Figure 6.7 below shows the change in operating revenue raised from water sales compared to the operating costs incurred to provide water service. This is the average water tariff and average water operating costs, respectively.

Because water services make up the majority of WSC's business, the figure below accurately captures the trend in our operations. The results from 2012 were similar to the trend in previous years, where operating expenses exceeded operating revenue. The same revenue and cost drivers discussed previously are responsible for the changes seen in the average water tariff and the average water operating costs.

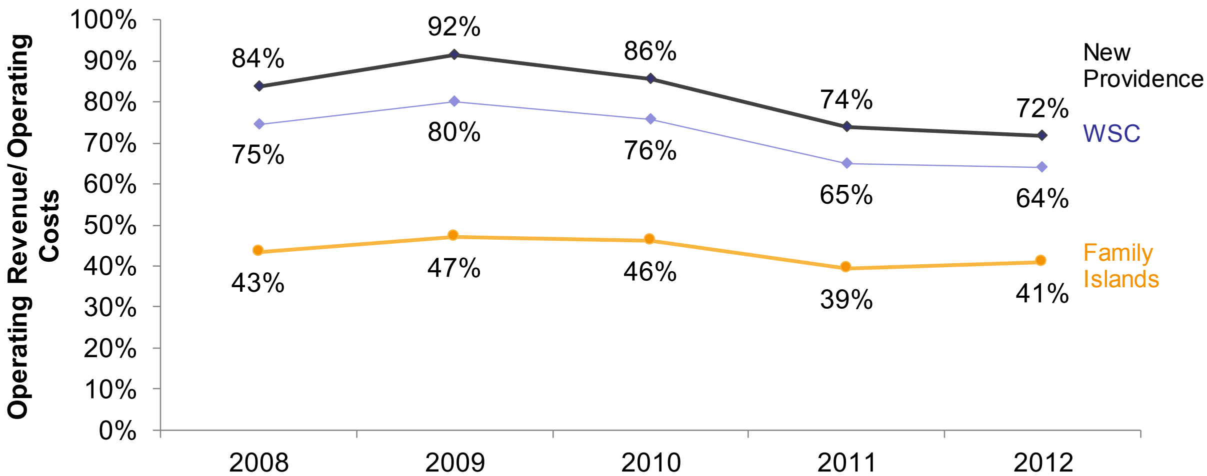
Figure 6.7: Average Water Tariff v. Average Water Operating Expenses (2008-2012)



Average tariff is calculated as the operating revenue from water sales divided by the volume of water sold. Average operating cost is calculated as the operating costs associated with water as well as a portion of admin costs, divided by the volume of water sold.

Operating cost recovery measures the percent of operating costs covered with operating revenue. Operating cost recovery above 100 percent means that operating costs are covered with operating revenue. Figure 6.8 shows the WSC's operating cost recovery since 2008, and distinguishes between cost recovery in New Providence and Family Islands. It closely follows the trend in the average water tariff compared to the average water operating costs (see Figure 6.7). The more operating expenses exceed operating revenue, the lower the operating cost recovery.

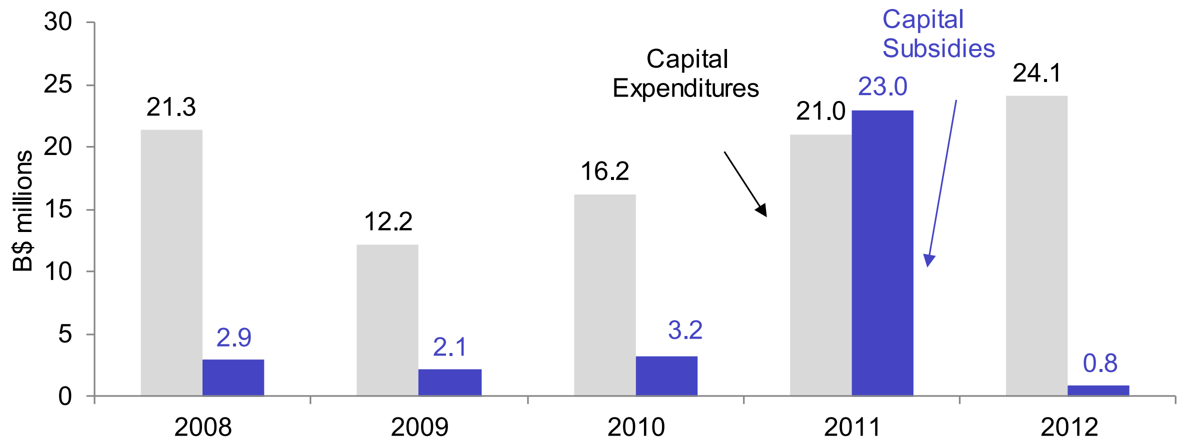
Figure 6.8: Cost Recovery (2008-2012)



6.3.2 Capital Expenditures

In 2012, capital expenditures amounted to B$24.1 million.[15] The amount of direct capital subsidies we received from the Government decreased substantially from the previous year. While direct capital subsidies in 2011 were B$23.0 million, in 2012 they were less than B$1 million (see Figure 6.9).

Figure 6.9: Capital expenditures v. Capital Subsidies (2008-2012)



The value of projects completed this year was B$13.7 million.[16] The balance of B$10.3 million was associated to value of our capital works in progress. The most important ongoing capital projects were the water mains components of the New Providence Road Improvement Project and the Airport Gateway Project. These were substantially completed during the year, resulting in marked improvements in water transmission system reliability.

Among the projects completed were the new 24-inch transmission main along Robinson Road/Prince Charles Drive (commissioned during February 2012) and the new 20-inch transmission main along John F. Kennedy Drive (commissioned during December 2012). Over 25 miles of pipe were laid under these projects.

The internal Mains Renewal Programme continued during the year with approximately 10 miles of water mains replaced with the focus on replacing unlined iron mains to reduce the incidences of red water. Some of the areas included: Ridgeland Park West, Gleniston Gardens South, St. Andrew's Drive, Ross Corner, Minnie Street, Virginia Street and Augusta Street.

[15] Includes B$6.60 million worth of new additions and B$7.13 million worth of transfers, and B$10.34 million worth of works in progress.

[16] This figure captures expenditures on capital projects which began and were completed this year, as well as multi-year capital projects that were completed.

Water and Sewerage Corporation

AUDITED FINANCIAL STATEMENTS

DECEMBER 2012

TABLE OF CONTENTS

PKF
Chartered Accountants

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, 2012, 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 our 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, we 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.

PKF
Chartered Accountants

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 $65,910,388 at December 31, 2012, 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, 2012 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

April 26, 2013
Nassau, Bahamas

WATER AND SEWERAGE CORPORATION

PKF Chartered Accountants

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2012

(Expressed in Bahamian Dollars)

	Notes	2012	2011
PROPERTY, PLANT & EQUIPMENT	5	**253,937,555**	**249,616,100**
CURRENT ASSETS			
Cash at bank		3,406,067	2,344,771
Accounts receivable	6	13,148,549	8,641,920
Materials and supplies		1,524,064	1,446,131
Prepaid expenses and deposits		121,131	114,574
		18,199,811	**12,547,396**
CURRENT LIABILITIES			
Bank overdraft	7	4,430,081	2,379,110
Accounts payable and accrued liabilities	8	75,085,260	66,700,038
Customers' deposits		4,040,505	4,056,920
Current portion of long-term debt	9	554,353	564,705
		84,110,199	**73,700,773**
NET CURRENT LIABILITIES		**(65,910,388)**	**(61,153,377)**
LONG-TERM DEBT - Non Current Portion	9	(16,690,568)	(5,953,408)
NET ASSETS		**$ 171,336,599**	**$ 182,509,315**
EQUITY (Page 7)		**$ 171,336,599**	**$ 182,509,315**

Approved by the Board of Directors and authorized for issuance on April 26, 2013:

Chairman **Board Member**

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

WATER AND SEWERAGE CORPORATION
STATEMENT OF COMPREHENSIVE LOSS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Expressed in Bahamian Dollars)

PKF Chartered Accountants

	Notes	2012	2011
OPERATING REVENUE			
Water		39,448,916	37,359,467
Sewerage		4,752,333	4,660,945
		44,201,249	**42,020,412**
OPERATING EXPENSES	11		
Water		50,946,728	46,006,824
Sewerage		2,413,696	2,739,879
General and administrative		14,865,755	16,083,323
		68,226,179	**64,830,026**
Loss from operations before depreciation		**(24,024,930)**	**(22,809,614)**
Depreciation	5,12	(12,416,877)	(12,684,598)
OPERATING LOSS		**(36,441,807)**	**(35,494,212)**
Other income		9,049	15,110
Miscellaneous (loss)/income	22	(5,731,125)	1,071,898
Amortization of deferred income		3,123,587	2,982,002
Net foreign exchange loss		(20,357)	(31,357)
Finance charges	14	(4,453,259)	(4,861,396)
Net loss before government subsidy		**(43,513,912)**	**(36,317,955)**
Government subsidy	13	32,296,000	32,013,090
NET OPERATING LOSS		**(11,217,912)**	**(4,304,865)**
Other comprehensive loss:			
Actuarial loss on defined benefit plan		(847,800)	(248,200)
		(847,800)	(248,200)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**$ (12,065,712)**	**$ (4,553,065)**

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

WATER AND SEWERAGE CORPORATION

NEW PROVIDENCE STATEMENT OF COMPREHENSIVE (LOSS)/INCOME

FOR THE YEAR ENDED DECEMBER 31, 2012

(Expressed in Bahamian Dollars)

PKF Chartered Accountants

	Notes	2012	2011
OPERATING REVENUE			
Water		32,700,003	30,809,349
Sewerage		4,407,040	4,551,875
		37,107,043	**35,361,224**
OPERATING EXPENSES			
Water		37,484,950	34,249,643
Sewerage		2,413,696	2,741,390
General and administrative		10,968,866	10,903,924
		50,867,512	**47,894,957**
Loss from operations before depreciation		**(13,760,469)**	**(12,533,733)**
Depreciation		(9,107,902)	(9,403,332)
OPERATING LOSS		**(22,868,371)**	**(21,937,065)**
Other income		8,521	14,154
Miscellaneous (loss)/income	22	(5,898,640)	976,737
Amortization of deferred income		2,442,326	2,307,954
Net foreign exchange loss		(20,357)	(31,357)
Finance charges		(4,307,054)	(4,716,332)
Net loss before government subsidy		**(30,643,575)**	**(23,385,909)**
Government subsidy	13	24,251,000	25,758,090
NET OPERATING (LOSS)/PROFIT		**(6,392,575)**	**2,372,181**
Other comprehensive (loss)/income:			
Actuarial loss on defined benefit plan		(701,978)	(205,501)
		(701,978)	(205,501)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		**$ (7,094,553)**	**$ 2,166,680**

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

WATER AND SEWERAGE CORPORATION
FAMILY ISLANDS STATEMENT OF COMPREHENSIVE LOSS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Expressed in Bahamian Dollars)

	Notes	2012	2011
OPERATING REVENUE			
Water		6,748,913	6,550,118
Sewerage		345,293	109,070
		7,094,206	**6,659,188**
OPERATING EXPENSES			
Water		13,461,778	11,757,181
Sewerage		-	(1,511)
General and administrative		3,896,889	5,179,399
		17,358,667	**16,935,069**
Loss from operations before depreciation		**(10,264,461)**	**(10,275,881)**
Depreciation		(3,308,975)	(3,281,266)
OPERATING LOSS		**(13,573,436)**	**(13,557,147)**
Other income		528	956
Miscellaneous income	22	167,515	95,161
Amortization of deferred income		681,261	674,048
Net foreign exchange loss		-	-
Finance charges		(146,205)	(145,064)
Net loss before government subsidy		**(12,870,337)**	**(12,932,046)**
Government subsidy	13	8,045,000	6,255,000
NET OPERATING LOSS		**(4,825,337)**	**(6,677,046)**
Other comprehensive loss:			
Actuarial loss on defined benefit plan		(145,822)	(42,699)
		(145,822)	(42,699)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**$ (4,971,159)**	**$ (6,719,745)**

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, 2012
(Expressed in Bahamian Dollars)

	(Note 10) Equity contributions	Accumulated deficit	(Note 21) Valuation adjustment	Deferred income	Total equity
Balance at January 1, 2011	**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)**
Contribution to projects completed during the year	-	-	-	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**
Contributions (Note 10)	817,638	-	-	-	**817,638**
Distributions (Note 10)	(1,756,502)	-	-	-	**(1,756,502)**
Net operating loss	-	(11,217,912)	-	-	**(11,217,912)**
Other comprehensive loss for the year (Page 4)	-	(847,800)	-	-	**(847,800)**
Contributions to projects completed during the year (Note 8)	-	-	-	306,674	**306,674**
Third party infrastructure capitalized	-	-	-	4,648,773	**4,648,773**
Amortization of deferred income	-	-	(1,416,834)	(1,706,753)	**(3,123,587)**
Balance at December 31, 2012	**$ 167,080,154**	**$ (96,120,313)**	**$ 45,308,476**	**$ 55,068,282**	**$ 171,336,599**

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

WATER AND SEWERAGE CORPORATION

CASHFLOW STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2012

(Expressed in Bahamian Dollars)

PKF Chartered Accountants

	Notes	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:			
Total comprehensive loss for the year		**(12,065,712)**	**(4,553,065)**
Non-cash items:			
Depreciation	5	12,416,877	12,684,598
Loss on asset disposals	22	(6,358,465)	-
Amortization of deferred income (Page 7)		(3,123,587)	(2,982,003)
(Decrease)/increase in non-cash operating working capital		3,777,688	(8,696,983)
Net Cash Used in Operating Activities		**(5,353,199)**	**(3,547,453)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of long-term debt		10,726,808	(597,079)
Contributions to capital projects		306,674	1,665,319
Equity contributions	10	817,638	22,973,354
Equity distributions	10	(1,756,502)	(1,610,356)
Transfer of third party infrastructure (Page 7)		4,648,773	4,250,391
Net Cash Provided by Financing Activities		**14,743,391**	**26,681,629**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property, plant & equipment (net)	23	(10,379,867)	(21,007,967)
Valuation adjustment	21	-	1,056,924
Net Cash Used in Investing Activities		**(10,379,867)**	**(19,951,043)**
NET (DECREASE)/ INCREASE IN CASH AND BANK BALANCES		**(989,675)**	**3,183,133**
Net Cash and Bank balances, beginning of year		(34,339)	(3,217,472)
Net Cash and Bank balances, end of year		**$ (1,024,014)**	**$ (34,339)**
Net Cash and Bank balances are represented by:			
Cash at bank		3,406,067	2,344,771
Bank overdraft		(4,430,081)	(2,379,110)
		$ (1,024,014)	**$ (34,339)**

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

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, 2012 was 427 (449 in 2011).

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 the financial statements in conformity with International Financial Reporting Standards (IFRS) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the year. Actual results can differ from those estimates. IFRS include International Accounting Standards (IAS) and interpretations issued by the International Accounting Standards Board (IASB). 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 2012

The following standards have been applied by the Corporation:

IFRS 7 Financial Instruments Disclosures: The amended standard requires detailed disclosures about transfer transactions of financial assets, and specifically when a disproportionate number of transfer transactions are undertaken near the end of an accounting period. The amendments are effective for years commencing on or after January 1, 2012.

2. BASIS OF PREPARATION (Continued)

(c) IFRS effective in 2012 but not relevant

The following amendments were mandatory for accounting periods beginning on or after January 1, 2012 but are not relevant to the operations of the Corporation.

-IAS 12 Income Taxes5: The amendment assumes that the recovery of investment properties held under IAS 40 Investment Properties will primarily be through sale.

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.

(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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Property, plant & equipment and depreciation (Continued)

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. The resulting valuation adjustment was credited to deferred income.

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

Gains or losses on retirements are recorded against the valuation reserve. Gains or losses on other disposals are included in the statement of comprehensive (loss)/income.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Property, plant & equipment and depreciation (Continued)

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.

(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

New Subdivisions
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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Deferred income (Continued)

Valuation Adjustment

The valuation adjustment, which is further described in Note 3(d), was credited to deferred income and is being 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.

(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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Financial instruments (Continued)

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 unrecoverable 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.

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 balances

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.

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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.

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 two years, by the following amounts:

	$
2012	3,576,900
2013	3,684,300
2014	3,794,900

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 amortization 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 two years, by the following amounts:

	$
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(h) and 16(b) for disclosure of the key sources of estimation uncertainty relating to collectibility of receivables.

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 2012	Additions	Disposals	Valuation Additions	Valuation Disposals	Transfers	December 31 2012
Land and wellfields	5,376,210	-	-	-	-	-	**5,376,210**
Buildings	5,634,468	255	-	-	-	160,850	**5,795,573**
Dock installations	490,070	-	(490,070)	-	-	-	**-**
Harbour improvements	17,077,254	-	(17,077,254)	-	-	-	**-**
Water pumping stations	1,875,167	63,002	-	-	-	586,826	**2,524,995**
Sewer lift stations	5,360,111	345,923	-	-	-	171,920	**5,877,954**
Storage tanks and reservoirs	20,650,714	197,922	-	-	-	258,278	**21,106,914**
Transmission and distribution mains	185,854,396	65,672	(1,662,908)	-	-	3,274,372	**187,531,532**
Water service lines	36,771,324	1,984,364	(442,064)	-	-	1,667,886	**39,981,510**
Sewer collection systems and mains	89,767,492	1,461,373	-	-	-	335,269	**91,564,134**
Sewer connections	7,119,724	980,398	-	-	-	152,088	**8,252,210**
Sewer treatment plants	9,636,371	10,085	-	-	-	134,000	**9,780,456**
Water meters	14,053,264	40,561	-	-	-	385,693	**14,479,518**
Garage plant and equipment	2,616,017	706,055	-	-	-	-	**3,322,072**
Other equipment	6,845,347	268,695	-	-	-	-	**7,114,042**
Automotive equipment	2,689,494	476,325	(58,143)	-	-	-	**3,107,676**
	411,817,423	**6,600,630**	**(19,730,439)**	**-**	**-**	**7,127,182**	**405,814,796**
Work-in-progress	**10,486,548**	**17,453,265**	**-**	**-**	**-**	**(7,127,182)**	**20,812,631**
Total	**$ 422,303,971**	**$ 24,053,895**	**$ (19,730,439)**	**-**	**$ -**	**$ -**	**$ 426,627,427**
				(See Note 21)	**(See Note 21)**		

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5. PROPERTY, PLANT & EQUIPMENT (Continued)

Accumulated depreciation	January 1 2012	Depreciation expense	Disposals	Valuation Disposals	December 31 2012
Land and wellfields	4,064,851	71,123	-	-	**4,135,974**
Buildings	1,187,226	151,722	460	-	**1,339,408**
Dock installations	651,849	-	(651,849)	-	**-**
Harbour improvements	11,368,558	-	(11,368,558)	-	**-**
Water pumping stations	1,066,622	60,569	1,215	-	**1,128,406**
Sewer lift stations	3,191,255	185,782	1,303	-	**3,378,340**
Storage tanks and reservoirs	12,605,435	463,448	168,462	-	**13,237,345**
Transmission and distribution mains	67,208,707	4,317,943	(1,115,887)	-	**70,410,763**
Water service lines	14,095,225	2,370,027	(188,241)	-	**16,277,011**
Sewer collection systems and mains	31,931,256	2,232,514	-	-	**34,163,770**
Sewer connections	2,073,956	177,685	-	-	**2,251,641**
Sewer treatment plants	3,638,616	458,792	-	-	**4,097,408**
Water meters	9,116,345	1,360,573	-	-	**10,476,918**
Garage plant and equipment	2,044,255	116,765	638,870	-	**2,799,890**
Other equipment	6,314,228	174,104	142,187	-	**6,630,519**
Automotive equipment	2,129,487	275,830	(42,838)	-	**2,362,479**
Total	**$ 172,687,871**	**$ 12,416,877**	**$ (12,414,876)**	**$ -** (See Note 21)	**$ 172,689,872**
Net book value 2012	**$ 249,616,100**				**$ 253,937,555**
Net book value 2011	**$ 243,406,580**				**$ 249,616,100**

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5. PROPERTY, PLANT & EQUIPMENT (Continued)

New Providence

Cost	January 1 2012	Additions	Disposals	Valuation Additions	Valuation Disposals	Transfers	December 31 2012
Land and wellfields	191,200	-	-	-	-	-	**191,200**
Buildings	5,358,186	-	-	-	-	160,850	**5,519,036**
Dock installations	490,070	-	(490,070)	-	-	-	**-**
Harbour improvements	17,077,254	-	(17,077,254)	-	-	-	**-**
Water pumping stations	168,671	96,467	-	-	-	490,389	**755,527**
Sewer lift stations	5,225,305	345,923	-	-	-	171,920	**5,743,148**
Storage tanks and reservoirs	13,046,556	(19,362)	-	-	-	136,000	**13,163,194**
Transmission and distribution mains	103,179,049	51,375	(1,780,316)	-	-	3,118,650	**104,568,758**
Water service lines	29,487,046	1,877,414	(442,064)	-	-	1,580,752	**32,503,148**
Sewer collection systems and mains	89,150,827	1,461,373	-	-	-	335,269	**90,947,469**
Sewer connections	7,010,901	980,398	-	-	-	152,088	**8,143,387**
Sewer treatment plants	9,376,941	10,085	-	-	-	134,000	**9,521,026**
Water meters	10,383,632	40,561	-	-	-	253,725	**10,677,918**
Garage plant and equipment	2,076,432	549,610	-	-	-	-	**2,626,043**
Other equipment	6,680,413	263,349	-	-	-	-	**6,943,762**
Automotive equipment	1,710,329	332,219	(28,432)	-	-	-	**2,014,116**
	300,612,812	5,989,412	(19,818,136)	-	-	6,533,643	**293,317,732**
Work-in-progress	7,715,964	16,827,138	-	-	-	(6,533,643)	**18,009,459**
Total	**$ 308,328,776**	**$ 22,816,550**	**$ (19,818,136)**	**$ -**	**$ -**	**$ -**	**$ 311,327,191**

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5. **PROPERTY, PLANT & EQUIPMENT (Continued)**

New Providence

Accumulated depreciation/impairment	January 1 2012	Depreciation expense	Disposals	Valuation Adjustments	Valuation Disposals	Transfers	December 31 2012
Buildings	1,150,668	140,324	460	-	-	-	1,291,452
Dock installations	651,849	-	(651,849)	-	-	-	-
Harbour improvements	11,368,558	-	(11,368,558)	-	-	-	-
Water pumping stations	106,430	7,223	323	-	-	-	113,976
Sewer lift stations	3,056,449	185,782	1,303	-	-	-	3,243,534
Storage tanks and reservoirs	8,594,917	256,608	221	-	-	-	8,851,746
Transmission and distribution mains	34,703,626	2,341,632	(1,060,448)	-	-	-	35,984,810
Water service lines	9,095,882	1,934,406	(188,241)	-	-	-	10,842,047
Sewer collection systems and mains	31,314,591	2,232,514	-	-	-	-	33,547,105
Sewer connections	1,965,133	177,685	-	-	-	-	2,142,818
Sewer treatment plants	3,573,907	446,991	-	-	-	-	4,020,898
Water meters	6,773,543	992,510	-	-	-	-	7,766,053
Garage plant and equipment	1,788,913	57,316	534,512	-	-	-	2,380,741
Other equipment	6,177,459	166,736	137,195	-	-	-	6,481,390
Automotive equipment	1,423,885	168,268	(14,617)	-	-	-	1,577,536
Total	**$ 121,745,810**	**$ 9,107,995**	**$ (12,609,699)**	**$ -**	**$ -**	**$ -**	**$ 118,244,106**
Net book value 2012	**$ 186,582,966**						**$ 193,083,085**
Net book value 2011	**$ 179,650,107**						**$ 186,582,966**

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5. PROPERTY, PLANT & EQUIPMENT (Continued)

Family Islands

Cost	January 1 2012	Additions	Disposals	Valuation Disposals	Transfers	December 31 2012
Buildings	276,282	255	-	-	-	**276,537**
Land and wellfields	5,185,010	-	-	-	-	**5,185,010**
Water pumping station	1,706,496	(33,465)	-	-	96,437	**1,769,468**
Water service lines	7,284,278	106,950	-	-	87,134	**7,478,362**
Water meters	3,669,632	-	-	-	131,968	**3,801,600**
Sewer lift stations	134,806	-	-	-	-	**134,806**
Sewer treatment plants	259,430	-	-	-	-	**259,430**
Storage tanks and reservoirs	7,604,158	217,284	-	-	122,278	**7,943,720**
Sewer collection systems & mains	616,665	-	-	-	-	**616,665**
Sewer connections	108,823	-	-	-	-	**108,823**
Transmission & distribution mains	82,675,347	14,297	117,408	-	155,722	**82,962,774**
Other equipment	164,934	5,346	-	-	-	**170,280**
Garage plant & equipment	539,586	156,445	-	-	-	**696,031**
Automotive equipment	979,165	144,106	(29,711)	-	-	**1,093,560**
	111,204,612	611,218	87,697	-	593,539	**112,497,066**
Work-in-progress	2,770,584	626,127	-	-	(593,539)	**2,803,172**
Total	**$ 113,975,196**	**$ 1,237,345**	**$ 87,697**	**$ -**	**$ -**	**$ 115,300,238**

5. PROPERTY, PLANT & EQUIPMENT (Continued)

Family Islands

Accumulated depreciation/impairment	January 1 2012	Depreciation expense	Disposal	December 31 2012
Buildings	36,558	11,398	-	**47,956**
Land and wellfields	4,064,851	71,123	-	**4,135,974**
Water pumping station	960,192	53,346	892	**1,014,430**
Water service lines	4,999,343	435,621	-	**5,434,964**
Water meters	2,342,802	368,063	-	**2,710,865**
Sewer lift stations	134,806	-	-	**134,806**
Sewer treatment plants	64,709	11,801	-	**76,510**
Storage tanks and reservoirs	4,010,518	206,840	168,241	**4,385,599**
Sewer collection systems & mains	616,665	-	-	**616,665**
Sewer connections	108,823	-	-	**108,823**
Transmission & distribution mains	32,505,081	1,976,311	(55,439)	**34,425,953**
Other equipment	136,769	7,368	4,992	**149,129**
Office furniture & equipment	-	-	-	**-**
Radios	-	-	-	**-**
Garage plant & equipment	255,342	59,449	104,358	**419,149**
Automotive equipment	705,602	107,562	(28,221)	**784,943**
Total	**$ 50,942,061**	**$ 3,308,882**	**$ 194,823**	**$ 54,445,766**
Net book value 2012	**$ 63,033,135**			**$ 60,854,472**
Net book value 2011	**$ 63,756,473**			**$ 63,033,135**

6. ACCOUNTS RECEIVABLE

These are comprised of the following:

	2012	2011
New Providence:		
Water	25,527,522	21,097,786
Sewerage	4,949,594	4,458,005
	30,477,116	25,555,791
Less: Allowance for doubtful accounts	(20,334,163)	(18,864,560)
	10,142,953	6,691,231
Other	858,231	108,541
	11,001,184	6,799,772
Family Islands:		
Water	8,638,041	8,279,909
Sewerage	261,384	39,928
	8,899,425	8,319,837
Less: Allowance for doubtful accounts	(6,831,371)	(6,560,595)
	2,068,054	1,759,242
Other	79,311	82,906
	2,147,365	1,842,148
Total	**$ 13,148,549**	**$ 8,641,920**

Included in the above receivables for New Providence water and sewerage is an amount of $6,694,259 (2011: $3,598,243) due from Government ministries, departments and corporations.

Included in the above water and sewerage receivables for Family Islands is an amount of $731,699 (2011: $557,655) due from Government ministries, departments and corporations.

Provision for doubtful accounts	2012	2011
Opening balance	25,425,155	26,335,188
Amounts written-off during the year	(883,530)	(3,123,984)
Increase in doubtful debts provided for	2,623,910	2,213,951
Closing balance	**$ 27,165,535**	**$ 25,425,155**

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:

	2012	2011
New Providence:		
Trade payables	8,592,050	5,122,082
Contributions to capital projects in progress (See below)	2,431,485	2,161,397
Defined benefit pension liability (Included in Note 15)	44,982,783	42,161,653
Accrued liabilities	6,192,827	4,783,218
	62,199,145	54,228,350
Family Islands:		
Trade payables	445,731	1,116,365
Contributions to capital projects in progress (See below)	264,419	412,940
Defined benefit pension liability (Included in Note 15)	7,071,734	6,485,563
Accrued liabilities	5,104,231	4,456,820
	12,886,115	12,471,688
Total	**$ 75,085,260**	**$ 66,700,038**

New Providence accounts payable and accrued liabilities include $2,649,966 (2011: $831,051) due to Government ministries, departments and corporations.

Family Island accounts payable and accrued liabilities include $2,891,612 (2011: $1,582,061) due to Government ministries, departments and corporations.

Contributions to capital projects in progress:

	New Providence	Family Island	Total
Liability at January 1, 2012	2,161,397	412,940	2,574,337
Contributions received during the year	429,941	(1,700)	428,241
Contributions to projects completed during the year	(159,853)	(146,821)	(306,674)
Liability at December 31, 2012	**$ 2,431,485**	**$ 264,419**	**$ 2,695,904**

9. LONG-TERM DEBT

These comprise the following:

	2012	2011
(a) Inter-American Development Bank	17,197,224	6,412,368
(b) British American Financial	47,697	105,745
	17,244,921	6,518,113
Less: Amounts due within one year	(554,353)	(564,705)
	$ 16,690,568	**$ 5,953,408**

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 a rate per annum as determined by the preceding Semester's Cost of Single Currency Qualified Borrowings. 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, 2012 is $5,899,379 ($6,412,368 in 2011).

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. $ 11,297,845 had been drawn from the loan as at December 31, 2012 ($0 in 2011). 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.

9. LONG-TERM DEBT (Continued)

(b) British American Financial

The Corporation entered into a financing arrangement of $ 257,480 to purchase equipment. This arrangement, which commenced in October 2008,was payable in 60 monthly installments of $5,534, inclusive of interest. The outstanding balance at December 31, 2012 is $47,696 ($105,745 in 2011).

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

	2012	2011
1-5 years	5,266,625	2,074,321
More than 5 years	11,423,943	3,879,087
	$ 16,690,568	**$ 5,953,408**

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	2012 Total	2011 Total
Balance at January 1	121,298,051	46,720,967	**168,019,018**	**146,656,020**
Contributions	521,393	296,245	**817,638**	**22,973,354**
Distributions	-	(1,756,502)	**(1,756,502)**	**(1,610,356)**
Balance at December 31	**$ 121,819,444**	**$ 45,260,710**	**$ 167,080,154**	**$ 168,019,018**

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11. OPERATING EXPENSES

	2012	2011
Water:		
Purchase of water	35,672,817	25,416,145
Staffing expense	6,378,522	5,792,036
Shipping charter hire	-	3,730,667
Fuel and oil	739,679	3,839,932
Electricity	3,187,976	3,332,696
Bad debts and sundry provisions	2,268,191	1,859,031
Repairs and maintenance	1,857,156	1,228,546
Office services	247,532	231,191
Chemicals	124,324	121,573
Travel	176,726	195,899
Outside services	113,573	82,183
Other shipping	3,662	13,095
Public relations	6,998	7,086
Data processing	6,806	8,174
Claims and damages	223	-
Training	29,603	18,971
Miscellaneous	132,940	129,599
	50,946,728	46,006,824

	2012	2011
Sewerage:		
Electricity	648,801	770,169
Staffing expense	998,921	887,637
Repairs and maintenance	361,674	683,790
Fuel and oil	32,803	31,931
Bad debts and sundry provisions	355,719	354,920
Office services	7,102	-
Training	281	-
Data processing	240	181
Chemicals	5,861	2,070
Miscellaneous	2,294	9,181
	2,413,696	2,739,879

11. OPERATING EXPENSES (Continued)

	2012	2011
General and administrative:		
Staffing expense	9,829,064	10,834,365
Administrative overhead	1,143,616	1,139,516
Professional and consultancy fees	1,020,841	1,467,922
Office services	584,465	528,510
Repairs and maintenance	599,582	524,252
Electricity	347,736	308,477
Data processing	362,375	396,579
Public relations	192,838	112,419
Training	247,902	169,431
Bank charges	151,074	216,870
Travel	15,594	26,154
Fuel and oil	182,029	163,575
Audit fees	47,500	55,771
Claims and damages	9,168	16,212
Chemicals	7,571	3,238
Miscellaneous	124,400	120,032
	14,865,755	16,083,323
Total	**$ 68,226,179**	**$ 64,830,026**

12. DEPRECIATION

	2012	2011
Water	8,960,330	8,919,523
General and administrative	388,195	809,266
Sewerage	3,068,352	2,955,809
	$ 12,416,877	**$ 12,684,598**

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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 2012, the Corporation received $32,296,000 (2010: $ 32,013,090) from the Government in the form of a subsidy to assist with the cost of operations.

14. FINANCE CHARGES

Finance charges comprise the following:

	2012	2011
Interest on pension obligation (See Note 15)	4,349,700	4,474,300
Interest and commitments fees on long-term debt	38,445	41,501
Interest on bank overdraft	50,774	144,880
Other	14,340	200,715
	$ 4,453,259	**$ 4,861,396**

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 $17,801,800 (2011: $17,733,500).

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 first quarter of 2012, totaled $3,862,800 (2011: $1,106,247). Reimbursements of $608,074 were received (2011: $1,157,531).

	2012	2011	2010
Present value of funded obligations at December 31	91,746,400	87,779,400	74,766,300
Fair value of plan assets at December 31	17,801,800	17,733,500	19,380,000
Present value of unfunded obligations at December 31	109,548,200	105,512,900	94,146,300
Unrecognized actuarial losses	(21,505,200)	(20,958,847)	(11,109,400)
Unrecognized past service cost	(384,900)	(439,900)	(502,800)
Liability recognized in statement of financial position at December 31	**$ 87,658,100**	**$ 84,114,153**	**$ 82,534,100**

15. PENSION PLAN (Continued)

	2012	2011	2010
Current service cost	2,794,200	2,394,400	2,343,000
Interest on obligation (See Note 14)	4,349,700	4,474,300	4,304,600
Expected return on plan assets	(956,600)	(1,200,500)	(1,210,400)
Net actuarial loss recognized in year	847,800	248,200	335,100
Past service cost	55,000	62,900	62,800
	7,090,100	5,979,300	5,835,100
Less: Previously accrued pension expense	-	-	-
Pension expense for the year	**$ 7,090,100**	**$ 5,979,300**	**$ 5,835,100**

The actual net return on plan assets during the year was $749,600 (2011: $174,365).

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

	2012	2011	2010
Net liability at January 1	48,647,153	43,774,100	39,412,200
Pension expense for the year	7,090,100	5,979,300	5,835,100
Contributions paid	(3,682,800)	(1,106,247)	(1,473,200)
Net liability at December 31 (See Note 8**)**	**$ 52,054,453**	**$ 48,647,153**	**$ 43,774,100**

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

	2012	2011	2010
Discount rate	5.00% p.a.	5.00% p.a.	6.00% p.a.
Expected rate of return on plan assets	5.00% p.a.	5.50% p.a.	6.50% p.a.
Expected rate of salary increase	3.00% p.a.	3.00% p.a.	4.00% p.a.

Defined Benefit Pension Plan

	2012	2011	2010	2009
	$	$	$	$
Defined benefit obligations	(91,746,400)	(87,779,400)	(74,766,300)	(71,916,000)
Plan assets	17,801,800	17,733,500	19,380,000	19,511,500
Deficit	(73,944,600)	(70,045,900)	(55,386,300)	(52,969,900)
Experience adjustments on plan liabilities	1,187,200	2,371,184	(1,039,100)	(2,298,800)
Experience adjustments on plan assets	(207,000)	(1,026,135)	(128,300)	(442,000)

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 $1.80 million (2011: $2.80 million) which can be used as an additional means of easing liquidity risks if necessary.

2012	**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**
	$	**$**	**$**	**$**	**$**	**$**
Financial Liabilities						
Non-current debt	-	-	-	5,266,625	11,423,943	**16,690,568**
Trade and other payables	75,085,260	-	-	-	-	**75,085,260**
Bank overdraft	4,430,081	-	-	-	-	**4,430,081**
Current portion of long-term debt	5,117	263,697	285,539	-	-	**554,353**
	79,520,458	**263,697**	**285,539**	**5,266,625**	**11,423,943**	**96,760,262**

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**
	68,938,679	**262,667**	**297,428**	**2,074,321**	**3,879,087**	**75,452,182**

(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.

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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, not withstanding 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.

			Past due but not impaired				
2012	**Carrying amount**	**Neither impaired nor past due**	**31 - 60 days**	**61 - 90 days**	**91 - 120 days**	**More than 121 days**	**Total**
Accounts receivable	13,148,549	1,463,055	976,605	499,469	208,051	4,691,347	**7,838,527**
2011							
Accounts receivable	8,641,920	1,253,684	279,778	319,486	321,962	2,666,643	**4,841,553**

(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.

			If interest rates were .5% higher		If interest rates were .5% lower	
2012	**Carrying amount**	**Average interest rate %**	**Profit for the year**	**Equity**	**Profit for the year**	**Equity**
IDB	17,197,224	2.00	89,426	89,426	(82,547)	(82,547)

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(h):

	Loans and receivables $	Other financial instruments $	Available for sale $	Total $
2012				
Financial assets				
Cash at bank	-	3,406,067	-	**3,406,067**
Accounts receivable	13,148,549	-	-	**13,148,549**
Other current assets	-	121,131	-	**121,131**
	13,148,549	3,527,198	-	**16,675,747**
Financial liabilities				
Non-current borrowings	-	16,690,568	-	**16,690,568**
Trade and other payables	-	75,085,260	-	**75,085,260**
Bank overdraft	-	4,430,081	-	**4,430,081**
Current portion of long-term debt	-	554,353	-	**554,353**
Customer deposits	-	4,040,505	-	**4,040,505**
	-	100,800,767	-	**100,800,767**
2011				
Financial assets				
Cash at bank	-	2,344,771	-	**2,344,771**
Accounts receivable	8,641,920	-	-	**8,641,920**
Other current assets	-	114,574	-	**114,574**
	8,641,920	2,459,345	-	**11,101,265**
Financial liabilities				
Non-current borrowings	-	5,953,408	-	**5,953,408**
Trade and other payables	-	66,700,038	-	**66,700,038**
Bank overdraft	-	2,379,110	-	**2,379,110**
Current portion of long-term debt	-	564,705	-	**564,705**
Customer deposits	-	4,056,920	-	**4,056,920**
	-	79,654,181	-	**79,654,181**

18. RELATED PARTY TRANSACTIONS

Key management compensation:

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

	2012	2011
Short-term employee benefits	1,599,982	1,057,866
Post employment benefits	-	-
Termination benefits	-	-
	$ 1,599,982	**$ 1,057,866**

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, 2012:

(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:

	$
2013	29,597,000
2014	28,741,700
2015	28,741,700
2016	28,726,100
2017	28,726,100

(b) Rental agreements for which annual costs are $146,381 (2011: $146,381).

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 adjustment is made up as follows:

	Notes	2012 $	2011 $
COST			
Valuation additions (Page 16)	5	-	-
Less disposals (Page 16)	5	-	(1,773,686)
		-	**(1,773,686)**
ACCUMULATED DEPRECIATION			
Additions (Page 17)	5	-	-
Less disposals (Page 17)	5	-	(716,762)
		-	**(716,762)**
VALUATION ADJUSTMENT		**$ -**	**$ (1,056,924)**

22. MISCELLANEOUS (LOSS)/ INCOME

This is comprised of the following:

	2012	2011
(Loss)/profit on asset disposals	(6,358,465)	491,559
Miscellaneous income	627,340	580,339
	$(5,731,125)	**$ 1,071,898**

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23. ACQUISITION OF PROPERTY, PLANT & EQUIPMENT

The amount of the acquisition of property, plant & equipment reported on the cashflow statement is made up as follows:

	Notes	2012 $	2011 $
COST			
Additions (Page 16)	5	24,053,895	20,129,579
Less disposals (Page 16)	5	(19,730,439)	(2,487,414)
		4,323,456	**17,642,165**
ACCUMULATED DEPRECIATION			
Less disposals (Page 17)	5	(12,414,876)	(2,308,877)
		(12,414,876)	**(2,308,877)**
LOSS ON DISPOSAL OF ASSETS		(6,358,465)	-
VALUATION ADJUSTMENT		-	**1,056,924**
ACQUISITION OF PROPERTY, PLANT & EQUIPMENT		**$ 10,379,867**	**$ 21,007,966**

24. SUBSEQUENT EVENT

The Corporation is finalizing negotiations to borrow $10 million to construct a 1 million imperial gallons per day Wastewater Treatment Facility at Gladstone Road. The facility, which is expected to be operational by January 1, 2014, will provide sewerage treatment and re-use water supply for a major western resort, under an initial 15-year take or pay agreement. The facility will also treat waste from surrounding subdivisions.

WATER AND SEWERAGE CORPORATION

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