2014 ANNUAL REPORT

WATER AND SEWERAGE CORPORATION

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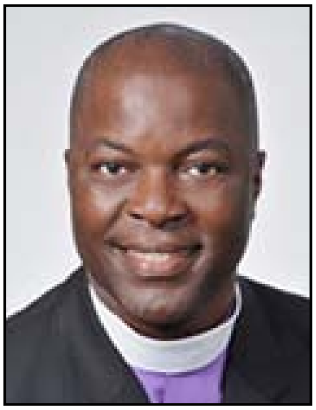
NOTE:

The 2014 Annual Report was completed in 2015 and published in 2016 and reflects the Board and Executive Management team in place at the time of Report completion.

The Board and Management wishes to acknowledge the contributions of ***Mr. Audley Hanna, Deputy Chairman,*** *January 2014 – August 2014.*

1 MESSAGE FROM THE CHAIRMAN

2014 was an excellent year for the Corporation. Water losses were reduced in New Providence by more than 2Million imperial gallons per day while revenues increased mainly due to increased sales to Baha Mar. This resulted in a $5Mn turnaround through reduced expenses and increased revenues.



Bishop Lester Cox, J.P.
Chairman

Draft legislation has been prepared to reform the sector's regulatory framework. It is expected that the eventual establishment of independent Regulators to address economic needs, along with the sector's environmental challenges, will lead to increased efficiency and customer focus in the future.

Progress and expansion are being realized in the Family Islands with new water systems approved for Mayaguana and South Andros.

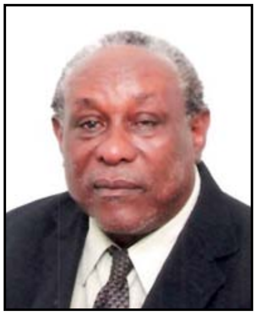
The Board of Directors is proud to have been a part of the accomplishments in 2014 and continues to play a key supportive role for realization of WSC's transformation objectives.

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

The most significant accomplishment of 2014 was the reduction of water losses or non-revenue water (NRW) in New Providence by more than 2 Million gallons per day! As a result of that accomplishment the Corporation has now saved over 1 Billion gallons under the reduction project. In incremental cost terms, this is equivalent to nearly $3 Mn in water purchases. In terms of having to construct new production facilities, it represents about $6.5 Mn.

WSC was once again called upon to host the Caribbean Water & Wastewater Association Annual Conference and successfully carried out the function in October 2014, under the theme *"Water, Waste & Energy in the Caribbean"*. The theme was meant to emphasise the links between water, waste, and energy, and how inefficiencies in each area can have adverse effects. The Corporation was especially pleased to host, given the monumental success of its NRW reduction efforts.

Other aspects of WSC's strategic plan progressed such as a detailed assessment of sewerage infrastructure on New Providence and the drafting of a Master Plan. Efforts to improve staff productivity through restructuring and outsourcing did not progress as smoothly or quickly as planned.

We also introduced online payment as a part of our efforts to improve customer service. These activities contribute towards improving WSC's efficiency and effectiveness, and to fulfilling our Mission statement:

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

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

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 2014 (see Table 4.1) shows that our performance improved in several areas compared to 2013. 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	2014	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.	99.5%	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.	96.2%	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).	290 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.	57%	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 production plants 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.

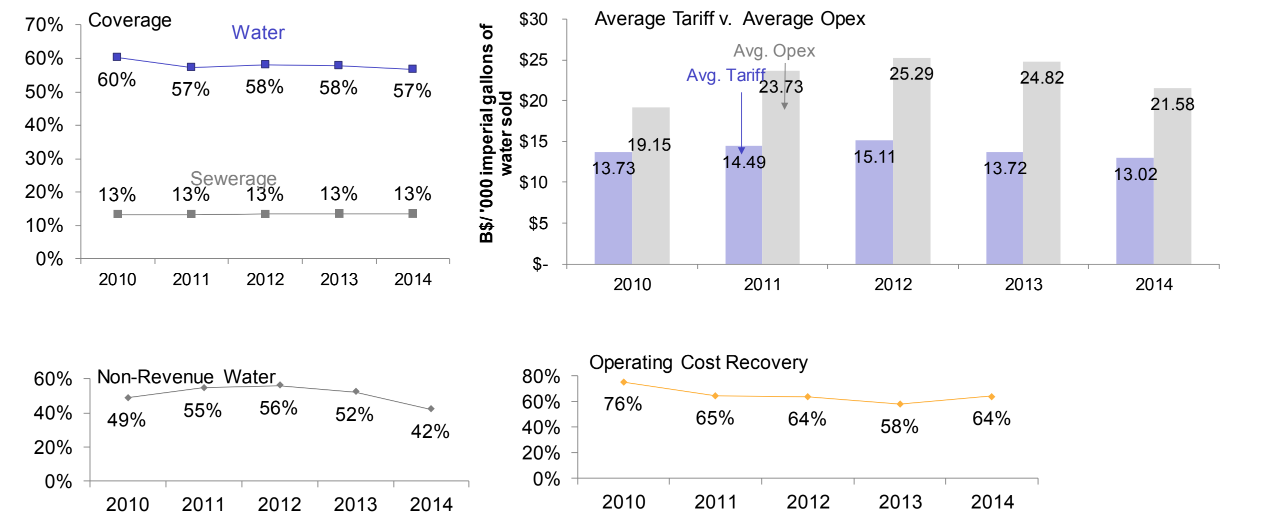
KPI	Description	2014	Target
Operational Performance			
Non-Revenue Water (NRW)	NRW is defined as water that is supplied but not billed to customers. It is very costly and must be controlled. We seek to reduce the level of NRW each year to decrease operating costs associated with water supply.	▪ NP: 4.3 MIG/day ▪ FI: 1.9 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 in 48 hours: ▪ Leaks: 73% ▪ Water: 48% ▪ Sewer: 50%	95% addressed within 48 hours by 2018
Employees per Active Water Connection	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 connections.	7.6 staff per 1,000 active water connections	5 staff per 1,000 active water connections 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.	100%	98% by 2018
Average Age Receivables	This indicator measures our efficiency in collecting outstanding payments. The quicker outstanding payments are collected, the better and the lower the average age of receivables.	105 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 that began and were completed this year, as well as multi-year capital projects that were completed.	B$18.0 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$8.4 million worth of new additions and B$9.5 million worth of transfers. Excludes the B$18.9 million worth of works in progress at the end of 2014.

2014 Performance Summary

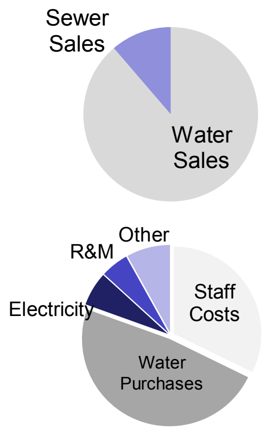
In 2014, we continued to see the impact of several of the strategic initiatives launched in 2012. In particular, one of the highlights of our 2014 performance was a significant reduction in non-revenue water which resulted in an improvement in our financial performance. This resulted in the gap between operating expenses and tariffs narrowing even though the average tariff remains significantly below cost recovery levels.

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



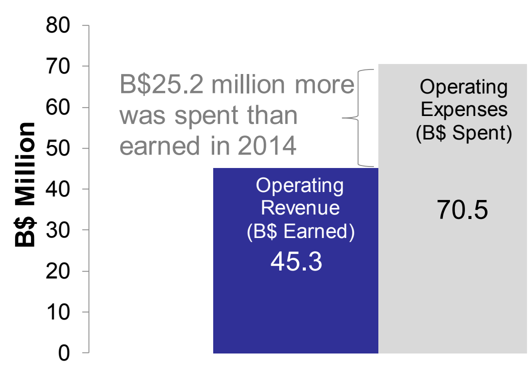
Water sales, as usual, made up almost 90 percent of total operating revenue in 2014. Revenue in 2014 was 6 percent ($2.78Mn) more than in 2013 mainly as a result of increased water and sewer sales to Baha Mar. Operating expenses before depreciation decreased by over 3 percent ($2.45Mn) mostly due to a decrease in water purchases, the main cost driver.

Figure 4.2: Summary of Operating Revenue and Operating Expenses



Operating Revenue	B$ Million	Percent
Water Sales	40.2	89%
Sewer Sales	5.1	11%
Operating Revenue	45.3	100%

Operating Expenses	B$ Million	Percent
Staff Costs	22.7	32%
Water Purchases	34.0	48%
Electricity	4.4	6%
R&M	3.6	5%
Other	5.7	8%
Operating Expenses	70.5	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, barging, and other adjustments.

Note: In this and other figures, the total values may not always be equal to the sum of its components due to rounding.

5 Strategic Initiatives Carried Out in 2014

The focus in 2014 was to continue progressing with the strategic initiatives launched in 2012. WSC is committed to carrying out these initiatives in a timely manner, in order to achieve our objectives by the target years set. Table 5.1 presents the strategic initiatives launched in 2012 that we continued to execute in 2014, and new initiatives launched in 2014.

Table 5.1: Strategic Initiatives Carried Out in 2014

Initiative	Progress in 2014
Reduce Non-Revenue Water (NRW)	MIYA (the firm hired to execute our NRW reduction program) continued with the implementation of the Strategic Plan developed in 2012 to reduce NRW in New Providence.
Implement a New Organizational Structure	Implementation of the New Organizational Structure continued with a review of some of the business processes of the company.
Public Relations & Customer Win-Back Campaign	Barefoot Marketing developed a marketing and public relations plan to assist in rebranding WSC.
Prepare a master plan and rehabilitate wastewater treatment plants (WWTP)	Adin Holdings (the firm hired to prepare the Master Plan), completed a Diagnostic Report and commenced preparation of the Wastewater Master Plan for New Providence.
Update the legal and regulatory framework	Contract awarded to Hunton & Williams (USA), in association with Ferreira & Co. (Bahamas) and SEV Consulting (Bahamas) to prepare draft legislation and by-laws for the economic and environmental regulators.

In 2014, we received US$20.7 million in disbursements from the Inter-American Development Bank (IDB) and spent US$17.7 million. This is a part of the US$81.0 million loan that we executed in 2011 to finance our strategic initiatives.

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

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.

In 2013, MIYA began implementing the Strategic Plan to reduce NRW in New Providence, which was developed in 2012. Additionally, the second Baseline Survey was completed in June 2013. The NRW reduction targets were revised (see Table 5.2) according to the findings of the Baseline Survey.

MIYA accelerated its program in 2014 and significantly exceeded its target of 5.5 million imperial gallons per day. In two years of implementation, NRW has been reduced from 6.9 million imperial gallons per day (58 percent of water supplied) in 2012, to 4.3 million imperial gallons per day (42 percent of water supplied). A total of 1 billion gallons of water has been saved since the project started.

Table 5.2: Revised NRW Reduction Targets for New Providence

New Providence NRW	Historic				Estimated Reduction Under Contract (Revised)[4]						
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
MIG/Day	6.6[5]	6.9[6]	6.4[7]	4.3[8]	3.9	3.2	2.5	2.5	2.0	2.0	2.0

Strategic Initiative 2: Implement a New Organizational Structure

We launched the initiative to implement a New Organizational Structure with the objective of becoming a more efficient company. The proposed organizational structure is designed to reduce bureaucracy, ensure that related functions or dependent functions are grouped together, and allow the WSC to focus on its core functions. The proposed 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 2014, a the proposed organization structure was refined/updated, and draft Terms of Reference prepared for areas that we propose to outsource to the private sector to improve productivity. We also reviewed several key business processes and identified ways to improve their efficiency.

Strategic Initiative 3: Implement Public Relations & Customer Win-Back Campaigns

Barefoot Marketing (Bahamas) prepared and began implementation of the Public Relations Campaign aimed at rebranding the Corporation and winning back customers. The objectives are to improve the relationship and communications with our customers, ensure awareness and buy-in of our initiatives by customers and staff, and carry out a Customer Win-Back campaign to expand our customer base. Our collaboration with Barefoot Marketing will also build internal capacity to launch Public Relations Campaigns in the future.

Strategic Initiative 4: 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. Consultants—Adin Holdings (Israel) and Integrated Building Services (Bahamas)—were contracted in November 2013 to develop the Wastewater Master Plan and to prepare detailed designs for critical sewerage infrastructure rehabilitation. The contract for this consultancy is worth US$0.98 million and US$15Million is allocated under the IDB loan for the infrastructure works identified.

A Diagnostic Report was completed during 2014 giving a very detailed assessment on the existing sewerage system and identifying the critical needs to be addressed under the loan program. Adin also

[4] MIYA, "Re: Revised annual NRW targets." 19 January 2015.

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

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

[7] Annual Project Implementation Report for 2013, (Executive Summary) states that the "total validated volume of NRW of 2,328.41 MIG (6.38 MIGPD).".

[8] 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 was completed in 2013 using 2012 data, and the targets were adjusted to reflect the latter results as per the contract which specifies that the 2012 NRW level will be the contractual baseline.

commenced work on the Master Plan with expected submission of the draft Master Plan during the second quarter of 2015. Based on preliminary estimates and the conditions encountered, the scope of works originally envisioned under the IDB loan program have been revised within the budget available ($15Mn). Critical works were estimated to cost $26Mn.

Table 5.3: Expected Outcomes of Strategic Initiative 4

Expected Outcomes	Baseline (2012)	2014	Revised Target (2016)
WWTP rehabilitated and disposal wells constructed	0	0	5
Lift stations rehabilitated	0	0	13
Collection systems and force mains rehabilitated/installed (miles)	0	0	1
Wastewater Master Plan prepared	0	0	1
Flow treated daily (million gallons per day)	2.1	2.2	6.5

Strategic Initiative 5: 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 and sewerage 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. The latter includes assisting in the provision of proper facilities and the necessary human resources.

The draft legislation and bye-laws for both regulators, and the (new) WSC was completed in the third quarter of 2014. It is presently under review by the Regulatory Reform Committee members. Data associated with proper resourcing of the regulators has also been collected by the consultant in order to prepare the second report on the organization structure and business plan for the regulators.

6 WSC's Performance in 2014

There have been several improvements in WSC's 2014 performance of which the most notable was the reduction in our Non-Revenue Water (NRW). This trend is expected to continue in future years thanks to the strategic initiative to reduce NRW in New Providence.

Despite these improvements, we continued to face challenges that affected our operational and financial performance. Staffing costs increased and the tariffs remain below efficient cost recovery levels. Table 6.1 summarizes the key operating statistics that capture the changes in our performance during the last three years.

Table 6.1: WSC's Key Operating Statistics Performance (2012-2014)

Indicator	Units	2012	2013	2014	Performance Rating
Operational Indicators					
NRW (Volume)*	IG/connection/day	151	141	108	◔
NRW (%)	%	56	52	42	◑
Collection Rate	%	89	90	100	●
Staff Efficiency	Employees per 1,000 customers[9]	7.1	7.4	7.6	◔
Financial Indicators					
Average Tariff	B$/'000 IG	15.31	13.72	13.02	◑
Average OPEX	B$/'000 IG	25.62	24.82	21.58	◔
Operating cost recovery	%	64	58	64	◔
EBITDA Margin	%	-56	-72	-56	◔
Net Income (Loss)	B$ millions	(11.2)	(14.5)	(2.0)	◔
Annual Capital Expenditure[10]	B$ millions	13.7	30.9	18.0	◑
Operating Subsidies	B$ millions	32.3	29.9	40.0	◔
Capital Subsidies	B$ millions	0.8	5.6	6.0	◕

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.

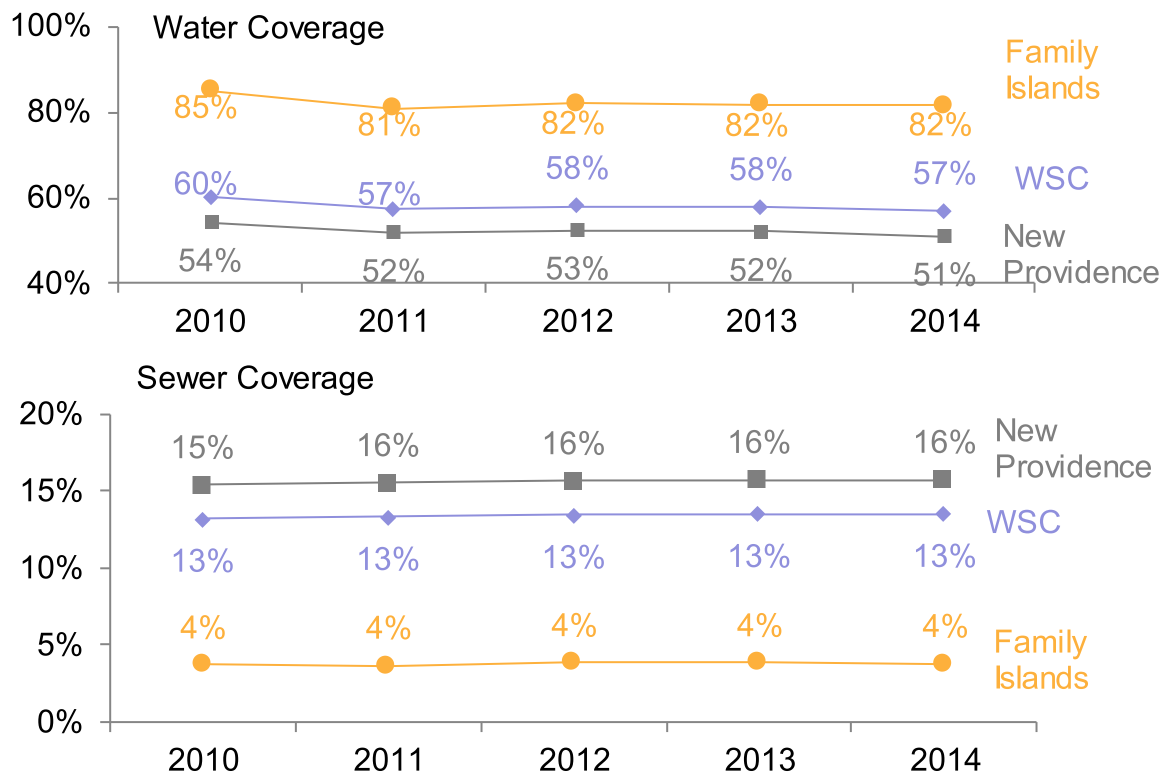
[9] This includes contract employees.

[10] This represents the value of capital projects which began and ended during the year (referred to as additions in our PPE schedule) and multi-year projects which were completed this year (referred to as transfers in our PPE schedule). Includes B$8.4 million worth of new additions and B$9.6 million worth of transfers (works that were completed in 2014). Excludes the B$18.9 million worth of works started in 2014 but still in progress at the end of 2014.

6.1 Coverage

WSC is the largest service provider in the sector in The Bahamas. We provide water service to 15 islands and sewerage service in two islands (New Providence and Abaco). The number of water and sewerage customers did not change significantly in 2014, though overall water coverage decreased from 58 percent in 2013 to 57 percent in 2014. Sewer coverage remained at 13 percent (see Figure 6.1).[11]

Figure 6.1: Water and Sewerage: Customers and Coverage (2010-2014)

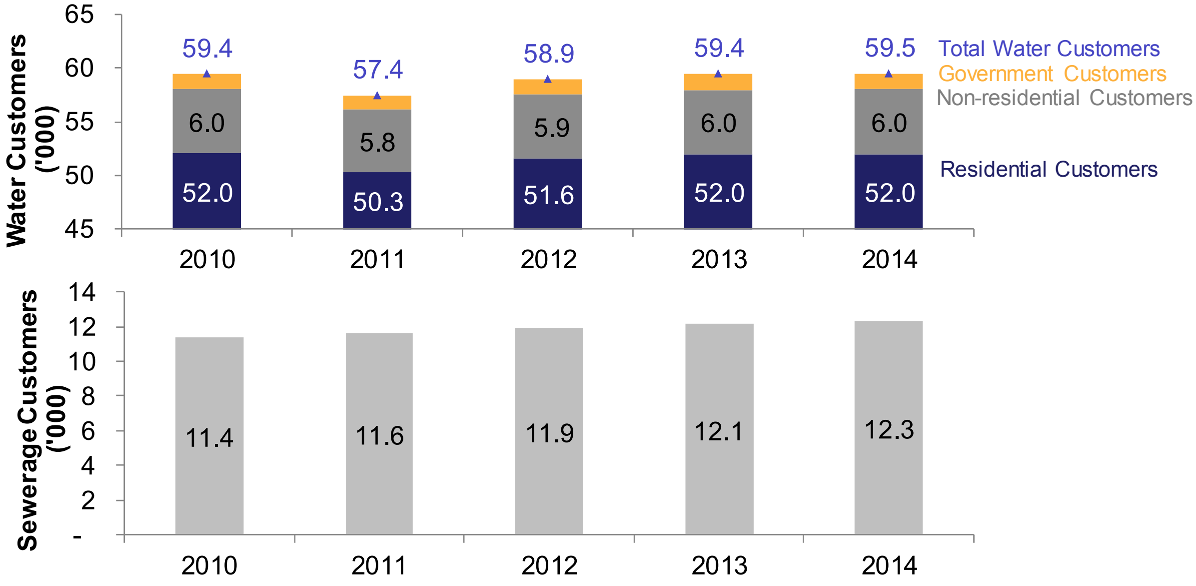


Under the New Providence NRW reduction initiative, accounts that have had no consumption for more than one year, are targeted for disconnection as they can contribute to water losses Over 2,000 connections were disconnected during 2014 under this activity. This decrease was offset by an almost equal increase in new customers. While the total number of water customers remained fairly stable, coverage declined as a result of an increase in the number of households in WSC's service area.

The number of sewer customers increased by just over 200 (see Figure 6.2).

[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 (2010-2014)



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

Table 6.2: Active Connections by Region (2010-2014)

Region	Water		Sewerage	
	2010	2014	2010	2014
New Providence	42,729	42,694	10,794	11,695
Family Islands	16,678	16,775	598	646
Total	**59,407**	**59,469**	**11,392**	**12,341**

As a result of non-revenue water (NRW) reduction, total water supplied decreased by 531 million imperial gallons (9 percent) from 2013. About three quarters of the water (4.1 billion imperial gallons) was supplied using reverse osmosis, and the remaining quarter was supplied using wells (groundwater) as shown in 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 (2010-2014)

Item	Unit	Value				
Water Supplied		**2010**	**2011**	**2012**	**2013**	**2014**
Total	Million Imperial Gallons	5,332	5,565	5,893	5,877	5,346
Reverse Osmosis (RO)	%	55%	59%	75%	76%	76%
Barging	%	17%	16%	0%	0%	0%
Wells	%	28%	25%	25%	24%	24%

6.2 Operating Performance

NRW was significantly reduced in 2014 as a result of the strategic initiative launched in 2012. Other areas of operational performance such as staff efficiency and the percent of complaints addressed within 48 hours worsened.

6.2.1 Quality of Service

In addition to having a quality product, good quality of service also means providing customers with water when they need it and addressing complaints quickly. Our performance inthis area in 2014 was much better than in 2013.

Continuity of Service

The consistency of supply has improved greatly during 2014. The substantial reduction in NRW for 2014 meant that WSC did not have to ration water at all during the year. In fact, for the first time in several years, the desalinated water supplier in New Providence was able to comfortably shut down the plant for regular maintenance without adversely affecting supply to customers.

Customer Complaints

In 2014, the number of complaints received from customers fell significantly. In2014, we received a total of 7,428 complaints, about 1,000 less than we received in 2013. However, we have not yet reached our 2018 target of addressing 95 percent of complaints within 48 hours. In 2014, we addressed the following percentage of the complaints we received within 48 hours: 73 percent of water leak complaints, 48 percent of other water complaints, and 50 percent of sewer complaints. This is partially the result of a new policy for leak repairs that requires full replacement of the service line if a leak develops. This was introduced in 2014 as a part of improved working practices aimed at reducing NRW and improving service.

Water Quality

WSC monitors the quality of the water supplied through continuous testing. Water samples tested in 2014 showed that the quality of the water supplied in New Providence is very good as shown in our Corporate and Performance Targets table. Of the over 200 samples taken at our pumping stations in New Providence, all were E.coli free, 99.5% had residual chlorine present, and 96.2% were clear.

Table 6.4: Results of Water Samples Tested in New Providence (2014)

Water Quality Indicator	Definition	Calculating Formula	Compliance
Escherichia Coli (E. coli) Bacteria	These bacteria are specific inhabitants of the animal or human gut and are indicators of possible contamination with harmful bacteria. Because they occur in larger numbers and survive longer than many harmful bacteria, they are good indicators of quality. The presence of these bacteria in water is an indication of contamination by pollution such as sewage. **They must be absent from any drinking water sample.** Any detection must be investigated as a matter of urgency as their presence in drinking water supplies could cause intestinal infections, dysentery, hepatitis, typhoid fever, cholera and other illnesses.	**# of complying samples/total # of samples taken (x100)**	100%
Residual Chlorine (Disinfection)	When chlorine is added to water to kill bacteria, some of it is used up in the process. Some remains **'free chlorine'** to kill microorganisms, thus ensuring that the water remains safe as it passes through the system to your home.	**# of complying samples/total # of samples taken (x100)**	99.5%
Appearance	Water should be **clear and bright**, but may occasionally show a slight reddish or yellowish tint caused by natural organic matter of the water, or by iron from old cast-iron mains.	**# of complying samples/total # of samples taken (x100)**	96.2%
Chloride (salinity)	Chloride comes from the rocks through which the water has passed. It is not harmful to health. In The Bahamas, its presence in groundwater is influenced by seawater intrusion. The aesthetic objective for chloride is 250 mg/l. At concentrations above 250 mg/l, chloride may impart an undesirable **"salty"** taste to water.	**Simple average salinity based on samples taken throughout the year**	331mg/L

Operationally, during the Year 2014, the Water Quality Laboratory executed 158 sampling and analytical jobs consisting of over 1,800 samples collected and almost 56,000 analyses performed for the Family Islands. Overall, Family Island water quality compliance was good but improvements are required 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.

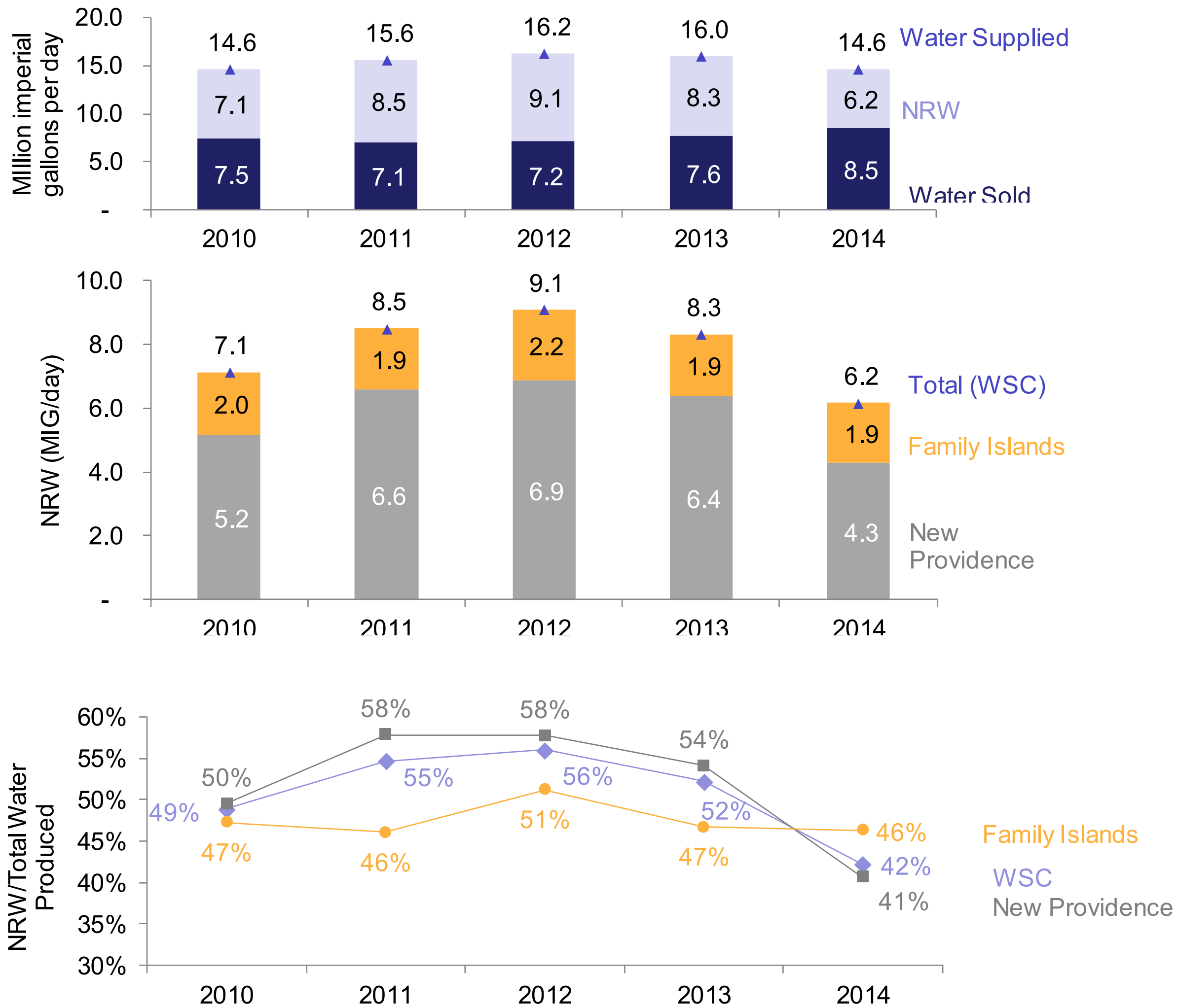
Table 6.5: Results of Water Samples Tested in the Family Islands (2013)

	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 (192)	97.4	87.5	28.6
Andros Water Systems (279)	99.3	93.9	41.6
Acklins/Long Cays Water Systems (102)	93.1	85.3	87.3
Berry Islands Water System (57)	100.0	73.7	0.0
Bimini Water System (99)	99.0	88.9	25.3
Cat Island Water System (40)	100.0	100.0	97.5
Crooked Island Water System (40)	95.0	67.5	0.0
Eleuthera Water Systems (325)	99.4	96.9	61.2
Exuma & Cays Water System (246)	100.0	93.1	67.9
Inagua Water System (78)	88.5	69.2	46.2
Long Island Water Systems (168)	100.0	100.0	0.0
Mayaguana Water Systems (36)	80.6	47.2	0.0
Ragged Island Water System (37)	86.5	75.7	24.3
San Salvador Water System (107)	91.6	90.7	51.4

6.2.2 Operational Efficiency

2014 was an excellent year for operational efficiency as NRW decreased by over 2 million imperial gallons per day compared to 2013 (see Figure 6.3). Despite this important improvement in our operating performance, other aspects of our operating performance declined, such as our staff efficiency.

Figure 6.3: Non-Revenue Water—Million Imperial Gallons per Day (2010-2014)



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. To address the rise of NRW, WSC hired the firm MIYA in 2012 for a period of 10 years to reduce NRW in New Providence. This initiative has already resulted in over 1 billion gallons of water being saved, which in turn allowed a significant reduction in water production/supply while meeting increased demand. This reduction is an important achievement since NRW greatly affects our financial performance. NRW decreased from 8.5 million imperial gallons per day (53 percent of water supplied) to 6.2 million imperial gallons per day (42 percent of water supplied).

Staff efficiency

Staff efficiency is calculated as the total number of employees per 1,000 active water customers, and is considered a measure of staff productivity. A lower ratio of staff per 1,000 customers implies that the staff is more productive. Staff efficiency worsened in 2014 to 7.6 staff per 1,000 customers as the result of more staff and less water customers (see Table 6.5). This is the second consecutive year where staff efficiency decreased. This will be addressed as we continue to implement our organization restructuring strategy though it may require short-term increases in the number of staff.

Table 6.5: Number of Staff and Staff Efficiency

	2010	2011	2012	2013	2014
Number of Staff	447	452	432	433	438
Staff Efficiency	7.3	7.5	7.1	7.4	7.6

Collection rate

The collection rate—the amount collected as a percent of the total amount billed for sales—improved in 2014 to 100 percent compared to 90 percent in 2013.

6.3 Financial Performance

As a result of the dramatic decrease in NRW, 2014 was an important year for WSC in terms of its financial performance. Over the past decade, WSC's financial performance has gradually worsened and pre-subsidy loss has grown each year (with exception of 2009). This downward trend was arrested in 2014 as pre-subsidy loss in 2014 was 5 percent lower than in 2013. While we still continue to incur high operating losses and require Government support due to low tariffs, this marks an important change and one we will work hard in the coming years to maintain (and improve).

However, WSC still continues to face tough challenges that negatively affect its financial performance. Tariffs are well below cost recovery levels and, as a result, the reform of the regulatory framework for water and sewerage sector remains very important. An effective regulatory framework will ensure that tariffs are set at a level that allows recovery of reasonable operating costs while ensuring efficient operations and good customer service.

[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.

6.3.1 The WSC's Revenues, Operating Costs, and Cost Recovery

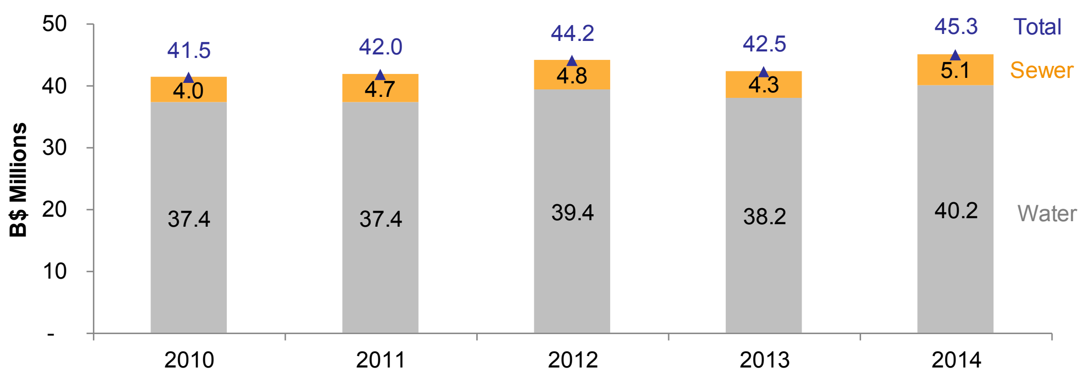
In 2014, operating losses decreased due to decreased operating costs and an increased Government subsidy. While tariffs only recovered 64 percent of operating costs in 2014, this was a great improvement over 2013 when only 58 percent of operating costs were recovered. For New Providence operating cost recovery was 75 percent in 2014 compared to 65 percent in 2013, and for Family Islands it fell to 35 percent in 2014 compared to 37 percent in 2013. Despite the challenges, several important improvements were made in our financial performance. Notably, this is the second consecutive year that the average operating expenses per thousand imperial gallons sold was reduced, in large part, due to the reduction in NRW. This means that we purchased and produced less water while still meeting an increased demand.

WSC continued to rely heavily on subsidies, which only partially covered operating losses. We expect the strategic initiatives being implemented to improve our financial performance in the coming years by reducing NRW, increasing our customer base, and adjusting tariffs to better reflect the reasonable costs of providing service.

Operating Revenue

Water sales continued to account for almost 90 percent of our operating revenue in 2014. Operating revenues increased mainly due to increased water sales to the Baha Mar Resort. Despite the increased volume of water sold and the increase in sales revenue, average tariffs continued to decline as a result of increased sales to customers who have lower bulk-supply rates (see Figure 6.4 and Figure 6.7).

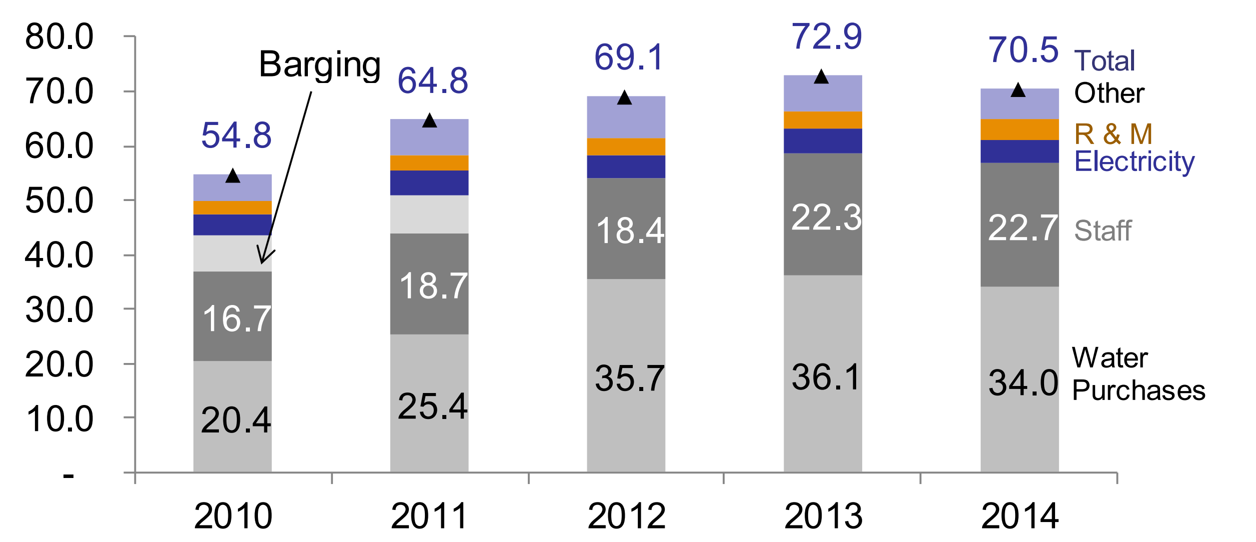
Figure 6.4: Operating Revenue (2010-2014)



Operating Costs

Operating costs decreased this year (see Table 6.5) ending a multi-year upward trend. The greatest expenditures incurred were for purchasing water (48 percent of operating expenditures), and paying staff salaries and pensions (32 percent of operating expenditures).

Figure 6.5: Operating Costs (2010-2014)



Water purchases

The cost for purchasing water generally increases annually as each contract has annual escalation clauses that increase the price of water purchased from reverse osmosis (RO) suppliers. Under the major RO contracts (New Providence) and some minor contracts (Family Islands), there are also fixed components and, fuel and electricity are pass through costs within certain performance guarantee limits. The global reduction in the price of fuel has had a stabilizing effect on the price of water.

The (New Providence) Windsor RO contract expired in July 2013 and is presently on a month to month arrangement until the Government determines whether to extend it for the optional 5 years or to tender for, and engage, a new supplier. This delay 'postpones' a $2.10 per thousand imperial gallons unit price reduction (approx. B$1.5Million per year) that would be associated with the optional 5 year extension.

Despite not enjoying the potential savings at Windsor RO, water purchases were still reduced by just over $2Mn in 2014 mainly because of our reductions in NRW, which allowed WSC to increase the volume of water sold while reducing production/supply volumes. The global decrease in fuel prices also contributed to the reduced cost of water.

Staff costs

Staffing costs saw a very modest increase in 2014 despite the addition of six employees. WSC was involved in negotiations with both Unions (Non-Management and Management) as previous agreements expired in 2013. New Industrial Agreements are expected to be executed during 2015.

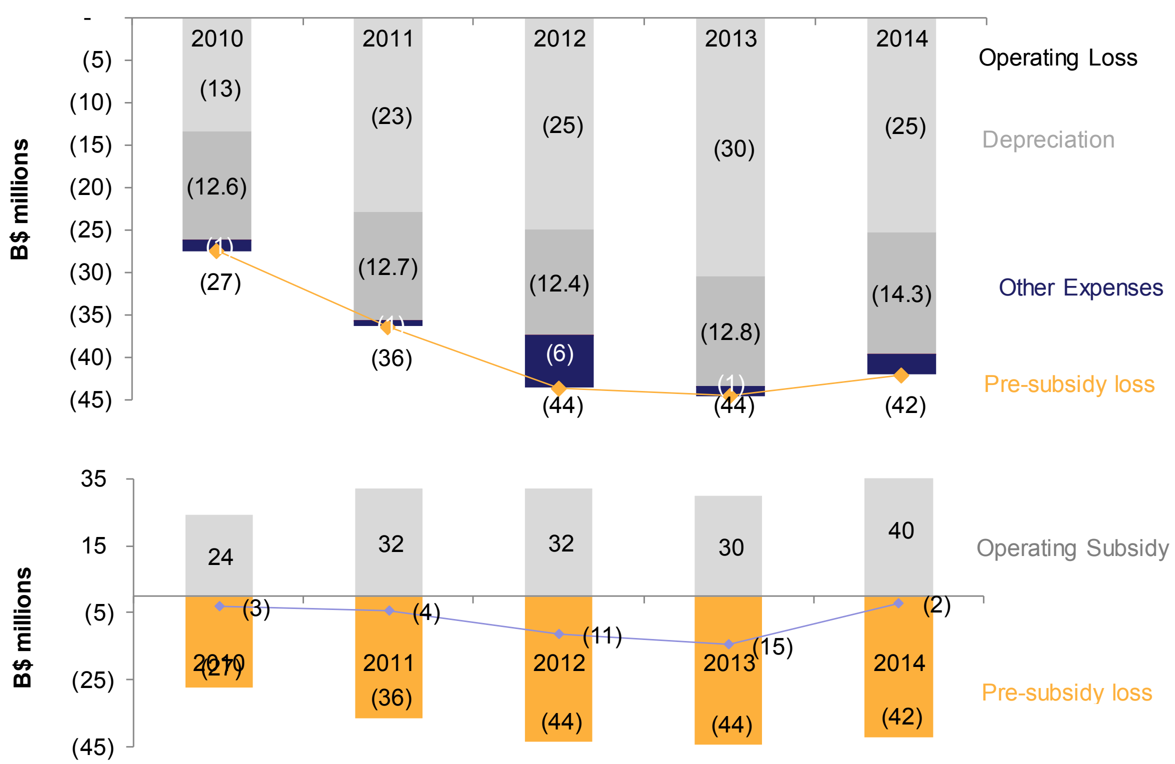
Staffing costs have two major components: compensation for active employees and pension payments for retired employees.

Active employee compensation has four major components: salaries (74 percent of total compensation in 2014), pension contributions for active employees (12 percent of total compensation in 2014), medical insurance (10 percent of total compensation in 2014), and National Insurance (4 percent of total compensation in 2014).

Cost recovery

The 2014 pre-subsidy loss, including depreciation, interest, and other non-operating expenses, to was B$42.0 million (see Figure 6.6). However, the Government provided an operating subsidy of B$40.0 million in 2014, which reduced the net loss to B$2.0 million (see Figure 6.6 below). This subsidy was $10.0 million more than in 2013.

Figure 6.6: Net Loss and Operating Subsidy (2010-2014)



Operating losses have been incurred for well over 10 years due mainly to a tariff that is below cost recovery levels. This low tariff, in addition to other operational challenges, has led WSC to rely heavily on subsidies, which only partially cover losses. The last tariff increase was in 1999.

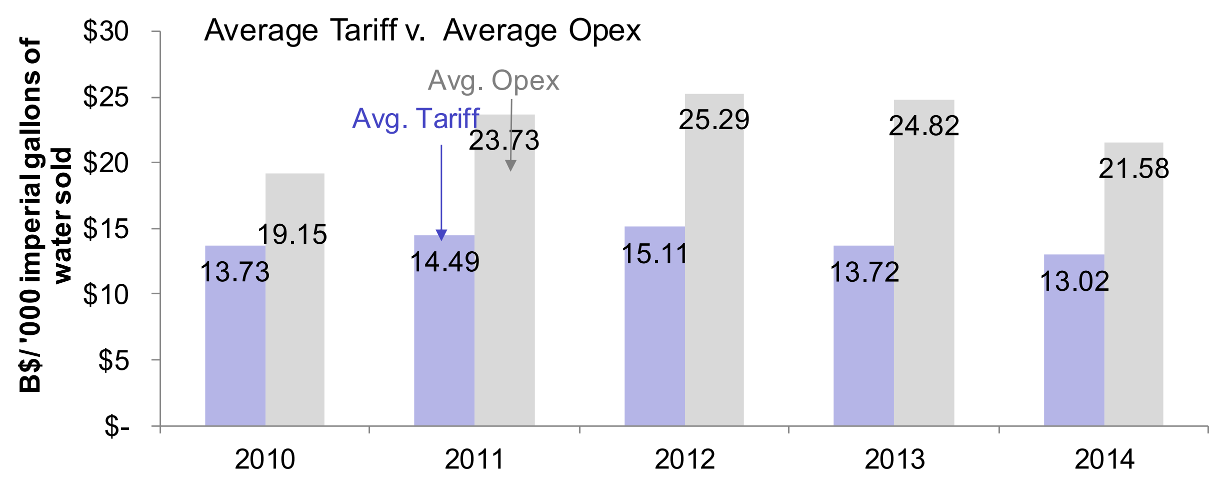
Figure 6.7 below shows the change in operating revenue raised from water sales compared to operating costs incurred to provide water service (on the basis of each one thousand imperial gallons of water sold). These are referred to as the average water tariff and average water operating costs, respectively.

Water services make up the majority of WSC's business; therefore, the figure below accurately captures the trend in WSC operations. The results from 2014 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. However, in 2014 average operating costs decreased.

In 2014, an average of B$13.02 per thousand imperial gallons of water sold was earned and operating expenses of B$21.58 per thousand imperial gallons of water sold was incurred. This means that, on average, WSC lost B$8.56 per thousand imperial gallons of water sold compared to $11.10

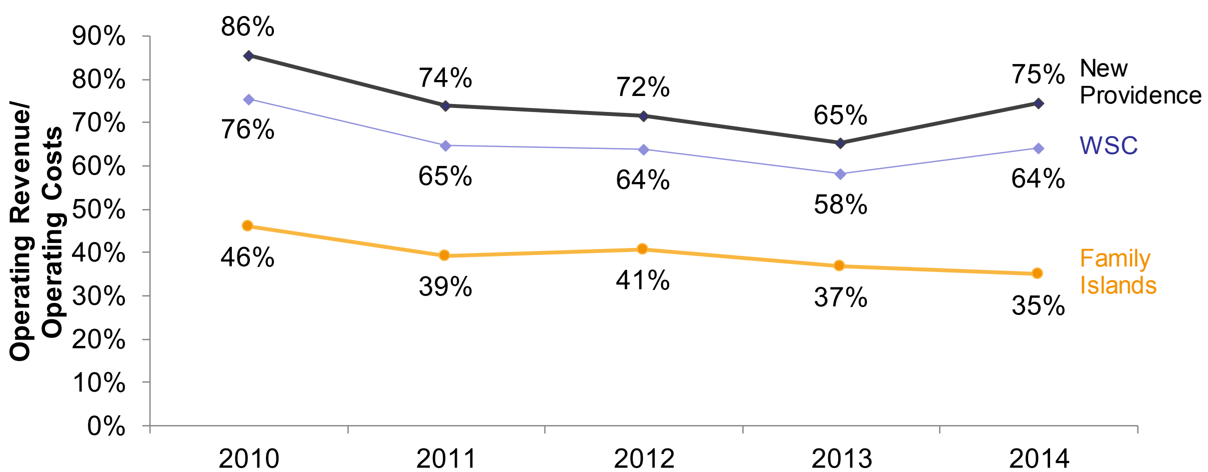
per thousand imperial gallons of water sold in 2013. This is a 23 percent improvement with respect to the efficient provision of water services to our customers

Figure 6.7: Average Water Tariff v. Average Water Operating Costs (2010-2014)



The operating cost recovery in 2014 was 64 percent and marks the first time in the past five years that we have had an upward trend in our cost recovery (see Figure 6.8).

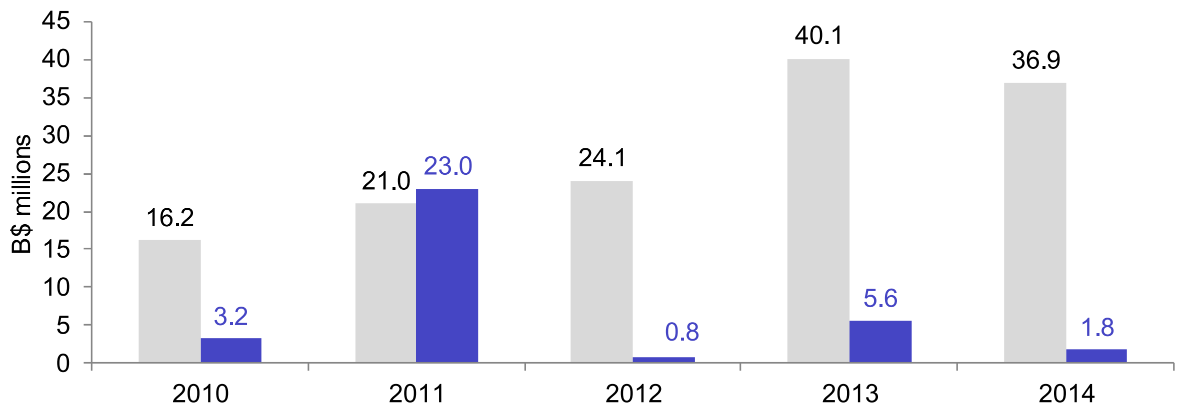
Figure 6.8: Operating Cost Recovery



6.3.2 Capital Expenditures

In 2014, capital expenditures amounted to B$36.9 million.[14] 96 percent of total capital expenditures were invested in New Providence. The capital subsidies that were received from the Government decreased from B$5.6 million in 2013 to B$1.8 million in 2014. Figure 6.9 shows capital expenditures in the past five years, compared to capital subsidies that were received from the Government.

Figure 6.9: Capital expenditures vs. Capital Subsidies (2010-2014)



The Mains Renewal programme in New Providence continued during the year with just over 8 miles of water mains installed. Our focus continues to be replacement of unlined iron mains to reduce the incidences of red water. Some of the areas included: Bain Town, Carmichael, Chippingham, East Bay Street, Faith Avenue, Fort Fincastle, Oakesfield, Village Road, Palmdale, and Wulf Road. Work also continued on the Gladstone Road Wastewater Treatment Plant which is intended to serve Baha Mar Resort and surrounding areas

In the Family Islands, major improvement and expansion works commenced in Mayaguana in conjunction with the road improvement project while refurbishment of the storage tanks at the Naval Base in Eleuthera was also started.

In addition, investments were made in water service lines, sewer treatment plants, and sewer connections. B$18.9 million was also invested in capital works which were ongoing in 2014, but which were not completed in 2014. Some of these works are associated with the NRW reduction project.

[14] Includes B$8.4 million worth of new additions and B$9.6 million worth of transfers, and B$18.9 million worth of works in progress that has yet to be completed.

AUDITED FINANCIAL STATEMENTS 2014

WATER AND SEWERAGE CORPORATION

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BAKER TILLY
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
WATER AND SEWERAGE CORPORATION

We have audited the accompanying financial statements of Water and Sewerage Corporation ("the Corporation"), which comprise the statement of financial position as at December 31, 2014 and the statements of comprehensive loss, changes in equity and cash flows 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 audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control 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. 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.

INDEPENDENT AUDITORS' REPORT (continued)

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2014 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our report, we draw attention to Note 12 of the financial statements which states that as at December 31, 2014, the Corporation's current liabilities exceeded its current assets by $86,463,931 (2013: $92,945,732) and it has an accumulated deficit of $134,391,914 (2013: $132,848,581). These conditions, along with other matters as set forth in Note 12, indicate the existence of material uncertainties which may cast significant doubt about the Corporation's ability to continue as a going concern without the continued financial support of the Government of The Bahamas.

Baker Tilly Gomez

CHARTERED ACCOUNTANTS

April 30, 2015
Nassau, Bahamas

WATER AND SEWERAGE CORPORATION

Statement of Financial Position

December 31, 2014
(Expressed in Bahamian dollars)

	2014	2013
PROPERTY, PLANT AND EQUIPMENT (Note 4)	$299,627,223	$279,868,653
CURRENT ASSETS		
Cash at bank	7,916,486	5,042,580
Accounts receivable (Note 5)	12,983,003	13,826,282
Materials and supplies	1,550,556	1,408,258
Prepaid expenses and deposits	118,055	12,791
Total current assets	22,568,100	20,289,911
CURRENT LIABILITIES		
Bank overdraft (Note 6)	3,264,381	3,891,770
Accounts payable and accrued liabilities (Note 7)	22,331,947	28,121,842
Defined benefit pension liability (Note 14)	78,477,000	76,542,700
Customers' deposits	4,280,049	4,172,675
Current portion of long-term debt (Note 8)	678,654	506,656
Total current liabilities	109,032,031	113,235,643
NET CURRENT LIABILITIES	(86,463,931)	(92,945,732)
LONG-TERM DEBT (Note 8)	(58,963,376)	(34,482,968)
NET ASSETS	$154,199,916	$152,439,953
EQUITY	$154,199,916	$152,439,953

See accompanying notes. See Independent Auditors' Report on pages 1 and 2.

Approved on behalf of the Board of Directors:

Director **Director**

WATER AND SEWERAGE CORPORATION

Statement of Comprehensive Loss

For the year ended December 31, 2014

	2014	2013
OPERATING REVENUE		
Water	$ 40,177,645	$ 38,221,044
Sewerage	5,109,088	4,282,361
	45,286,733	42,503,405
OPERATING EXPENSES		
Water (Note 10)	47,535,143	50,971,473
Sewerage (Note 10)	2,773,916	2,780,365
General and administrative (Note 10)	20,174,288	19,183,936
	70,483,347	72,935,774
Loss from operations before depreciation	(25,196,614)	(30,432,369)
Depreciation (Notes 4, 11)	(14,275,979)	(12,839,813)
OPERATING LOSS	(39,472,593)	(43,272,182)
Other income (expenses)		
Amortization of deferred income/valuation adjustment	3,828,707	3,626,408
Other income	2,147	1,842
Finance charges (Note 13)	(3,940,001)	(3,987,715)
Miscellaneous loss (Note 20)	(2,402,637)	(801,108)
Net foreign exchange loss	(34,868)	(25,329)
	(2,546,652)	(1,185,902)
Net loss before government subsidy	(42,019,245)	(44,458,084)
Government subsidy (Note 12)	39,989,012	29,935,000
NET OPERATING LOSS	(2,030,233)	(14,523,084)
Other comprehensive income (loss)		
Item that will not be reclassified subsequently to profit or loss		
Actuarial gain (loss) on defined benefit plan (Note 14)	486,900	(315,100)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	$(1,543,333)	$(14,838,184)

See accompanying notes. See Independent Auditors’ Report on pages 1 and 2.

WATER AND SEWERAGE CORPORATION

Statement of Comprehensive Income (Loss) – New Providence

For the year ended December 31, 2014

	2014	2013
OPERATING REVENUE		
Water	$33,812,064	$31,797,100
Sewerage	5,021,444	4,113,176
	38,833,508	35,910,276
OPERATING EXPENSES		
Water	33,739,917	37,402,455
Sewerage	2,773,916	2,780,365
General and administrative	15,501,057	14,862,848
	52,014,890	55,045,668
Loss from operations before depreciation	(13,181,382)	(19,135,392)
Depreciation	(10,883,550)	(9,523,257)
OPERATING LOSS	(24,064,932)	(28,658,649)
Other income (expenses)		
Amortization of deferred income/valuation adjustment	3,147,446	2,945,147
Other income	1,943	1,457
Finance charges	(3,815,927)	(3,866,765)
Miscellaneous loss	(2,391,637)	(801,108)
Net foreign exchange loss	(34,866)	(25,329)
	(3,093,041)	(1,746,598)
Net loss before government subsidy	(27,157,973)	(30,405,247)
Government subsidy	34,889,012	24,925,000
NET OPERATING INCOME (LOSS)	7,731,039	(5,480,247)
Other comprehensive income (loss)		
Item that will not be reclassified subsequently to profit or loss		
Actuarial gain (loss) on defined benefit plan	404,127	(260,892)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	$ 8,135,166	$ (5,741,139)

See accompanying notes. See Independent Auditors' Report on pages 1 and 2.

WATER AND SEWERAGE CORPORATION

Statement of Comprehensive Loss – Family Islands

For the year ended December 31, 2014

	2014	2013
OPERATING REVENUE		
Water	$ 6,365,581	$ 6,423,944
Sewerage	87,644	169,185
	6,453,225	6,593,129
OPERATING EXPENSES		
Water	13,795,226	13,569,018
General and administrative	4,673,231	4,321,088
	18,468,457	17,890,106
Loss from operations before depreciation	(12,015,232)	(11,296,977)
Depreciation	(3,392,429)	(3,316,556)
OPERATING LOSS	(15,407,661)	(14,613,533)
Other income (expenses)		
Amortization of deferred income/valuation adjustment	681,261	681,261
Other income	204	385
Finance charges	(124,076)	(120,950)
Miscellaneous income	(11,000)	-
	546,389	560,696
Net loss before government subsidy	(14,861,272)	(14,052,837)
Government subsidy	5,100,000	5,010,000
NET OPERATING LOSS	(9,761,272)	(9,042,837)
Other comprehensive income (loss)		
Item that will not be reclassified subsequently to profit or loss		
Actuarial gain (loss) on defined benefit plan	82,773	(54,208)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	$(9,678,499)	$(9,097,045)

See accompanying notes. See Independent Auditors' Report on pages 1 and 2.

WATER AND SEWERAGE CORPORATION

Statement of Changes in Equity

For the year ended December 31, 2014

	Equity Contributions	Accumulated Deficit	Valuation Adjustment	Deferred Income	Total Equity
Balance at December 31, 2012	$167,080,154	$(118,010,397)	$45,308,476	$55,068,282	$149,446,515
Contributions (Note 9)	5,605,480	-	-	-	5,605,480
Distributions (Note 9)	(1,746,191)	-	-	-	(1,746,191)
Net operating loss	-	(14,523,084)	-	-	(14,523,084)
Other comprehensive loss for the year	-	(315,100)	-	-	(315,100)
Contribution to projects completed during the year	-	-	-	1,416,606	1,416,606
Third-party infrastructure	-	-	-	16,182,135	16,182,135
Amortization of deferred income	-	-	(1,416,834)	(2,209,574)	(3,626,408)
Balance at December 31, 2013	$170,939,443	$(132,848,581)	$43,891,642	$70,457,449	$152,439,953
Contributions (Note 9)	1,786,308	-	-	-	1,786,308
Distributions (Note 9)	(1,734,800)	-	-	-	(1,734,800)
Net operating loss	-	(2,030,233)	-	-	(2,030,233)
Other comprehensive income for the year	-	486,900	-	-	486,900
Contribution to projects completed during the year	-	-	-	174,522	174,522
Third-party infrastructure	-	-	-	6,905,973	6,905,973
Amortization of deferred income/valuation adjustment	-	-	(1,416,831)	(2,411,876)	(3,828,707)
Balance at December 31, 2014	$170,990,951	$(134,391,914)	$42,474,811	$75,126,068	$154,199,916

WATER AND SEWERAGE CORPORATION
Statement of Cash Flows

For the year ended December 31, 2014

	2014	2013
Cash flows from operating activities:		
Net operating loss	$(2,030,233)	$(14,523,084)
Adjustments to reconcile net operating loss to cash provided by (used in) operating activities:		
Depreciation	14,275,979	12,839,813
Loss on asset disposals	2,327,962	1,295,917
Amortization of deferred income	(3,828,707)	(3,626,408)
Provision for doubtful accounts	1,504,878	2,541,611
Cash provided by (used in) operations before changes in operating assets and liabilities	12,249,879	(1,472,151)
(Increase) decrease in operating assets:		
Accounts receivable	(661,599)	(3,219,344)
Materials and supplies	(142,298)	115,806
Prepaid expenses and deposits	(105,264)	108,340
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities	(5,789,895)	5,091,098
Defined benefit pension liability	2,421,200	2,283,000
Customers' deposits	107,374	132,170
Net cash provided by operating activities	8,079,397	3,038,919
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(36,872,199)	(40,117,531)
Proceeds from disposal of property, plant and equipment	509,688	50,703
Net cash used in investing activities	(36,362,511)	(40,066,828)
Cash flows from financing activities:		
Proceeds from long-term debt	24,652,406	17,744,703
Third-party infrastructure capitalized	6,905,973	16,182,135
Equity contributions	1,786,308	5,605,480
Contribution to projects completed	174,522	1,416,606
Distributions to other government entities	(1,734,800)	(1,746,191)
Net cash provided by financing activities	31,784,409	39,202,733
Net increase (decrease) in cash and bank balances	3,501,295	2,174,824
Net cash and bank balances, beginning of year	1,150,810	(1,024,014)
Net cash and bank balances, end of year	$ 4,652,105	$ 1,150,810
Represented by:		
Cash at bank	$ 7,916,486	$ 5,042,580
Bank overdraft	(3,264,381)	(3,891,770)
	$ 4,652,105	$ 1,150,810

1. ORGANIZATION

The Water and Sewerage Corporation ("the Corporation") was established under the laws of the Commonwealth of The Bahamas in accordance with the Water and Sewerage Corporation Act of 1976 ("the Act"). The Corporation 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 registered office of the Corporation is at 87 Thompson Boulevard, Nassau, The Bahamas. The number of employees as at December 31, 2014 was 438 (2013: 436).

These financial statements were authorized to be issued by the Board of Directors on April 30, 2015.

2. ADOPTION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS

At the date of these financial statements, the following standards and amendments to the existing standards issued by the International Accounting Standards Board ("the IASB") have not been applied in these financial statements as they are not yet effective:

IFRS 9	-	Financial Instruments - effective from January 1, 2018
IFRS 14	-	Regulatory Deferral Accounts - effective from January 1, 2016
IFRS 15	-	Revenue from Contracts with Customers - effective from January 1, 2017
IFRS 10 and IAS 28 (amendments)	-	Investments in Associates and Joint Ventures - amendments regarding the sale or contribution of assets between an investor and its associate or joint venture - effective from January 1, 2016
IFRS 11 (amendments)	-	Joint Arrangements - amendments to clarify the accounting for acquisitions of an interest in a joint operation when the operation constitutes a business - effective from January 1, 2016
IFRS 10, 12, and IAS 28 (amendments)	-	Investment Entities - amendments to address issues that have risen in the context of applying the consolidation exception for investment entities - effective from January 1, 2016
IAS 19 (amendments)	-	Employee Benefits - amendments to clarify the requirements that relate to how contributions from employees or third-parties that are linked to service should be attributed to periods of service - effective from July 1, 2014
IAS 16, IAS 38 (amendments)	-	Intangible Assets - amendments regarding the clarification of acceptable methods of depreciation and amortization - effective from January 1, 2016

The Directors have concluded that the adoption of such standards and amendments is unlikely to have a significant impact on the Company's financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) *Statement of compliance*

The financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB.

The accounting policies set out below have been consistently applied to all years presented.

b) *Basis of preparation*

These financial statements have been prepared on the historical cost basis except for certain property, plant and equipment. The financial statements are expressed in Bahamian dollars, which is the functional and reporting currency of the Corporation.

c) *Use of estimates and judgments*

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results can differ from those estimates. The areas involving a higher degree of judgment, or areas where assumptions or estimates are significant to the financial statements are disclosed below:

Estimated useful lives of property, plant and equipment

The Corporation estimates the useful lives of its property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of the property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of the property, plant and equipment is based on the collective assessment of industry practice, internal technical evaluations and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Use of estimates and judgments (continued)

It was determined during the valuation review in 2010, as described further in Note 3(d), that the useful lives 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 2013 and 2014 by the following amounts:

2013	-	$3,684,300
2014	-	$3,794,900

Internally-generated assets

These include apportionment of preliminary engineering costs, based upon projects completed during the year.

Deferred income

As a part of the valuation process, management reviewed and aligned the amortization rate applied to deferred income to the estimated useful lives of privately developed infrastructure. In 2010, 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 2013 and 2014 by the following amounts:

2013	-	$610,400
2014	-	$628,800

Allowance for obsolescence on materials and supplies

The allowance for obsolescence, if any, is determined by examining stock movements on a regular basis. Changes in technology applicable to the Corporation, the age and condition of certain items are also considered in determining the allowance for obsolescence on materials and supplies. Long outstanding items are mainly retained for maintenance purposes.

Estimation of allowance for doubtful accounts

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 management's judgment regarding economic factors that might affect collection of the outstanding accounts receivable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Property, plant and equipment and depreciation

The Act states that all water and sewer 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 Crown land or others, or used by the Corporation for water supply purposes. As continued use or disposal of these land-holdings is subject to the Government's mandates, these land-holdings have been recorded in the Corporation's financial statements at $1.

Prior to 2010, property, plant and equipment constructed by the Government and third parties and transferred to the Corporation were not valued. Effective December 31, 2010, an independent advisor inventoried and valued the property, plant and equipment. The approach to valuing the above ground and underground assets was to develop an estimate of the historical cost of each asset and calculate the net book value by reference to the useful life assigned to each asset class. Land, buildings, vehicles and heavy equipment were valued based on their actual cost data in the Corporation. The valuation process resulted in an increase in property, plant and equipment and a corresponding valuation adjustment of $50,646,099 included in equity that reflected the depreciated historical costs of property, plant and equipment, both estimated and actual (see Note 3(j)).

Subsequent additions to property, plant and equipment are stated at cost less accumulated depreciation except for developer-constructed works transferred to the Corporation. Developer-constructed works transferred to the Corporation are stated at a value determined from design estimates less accumulated depreciation (see Note 3(i)).

Depreciation of property, plant and equipment is calculated using the straight-line method over the estimated useful lives of the respective assets as follows:

Description	**Life (years)**
Buildings	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 adjustment. Gains or losses on other disposals are included in the statement of comprehensive income (loss).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Property, plant and equipment and depreciation (continued)

Work-in-progress included in property, plant and equipment includes the following:

- Materials, supplies and other expenditures, valued at cost;
- Direct labor, valued at cost plus an allocated amount for labor overhead recovery;
- Indirect labor, 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 six (6) months.

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

e) Impairment of assets

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

f) Revenue recognition

Water and sewerage revenue is recognized when the related water and sewerage services are rendered. Water and sewerage charges are billed according to the bill cycles of the customers.

g) Materials and supplies

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

h) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, development, improvement and construction of a qualifying asset (including costs incurred in connection with rehabilitation works) that necessarily takes a substantial time to be ready for its intended use are capitalized as part of the cost of the asset.

i) Deferred income

Deferred income represents the remaining unamortized balance relating to impact fees, third-party infrastructure and contributions transferred to the Corporation. 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. Beginning January 1, 2007, the Corporation recognizes all developer-constructed works upon transfer to the Corporation at a value determined from design estimates.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Deferred income (continued)

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 in accounts payable until the project is complete.

The value of third-party infrastructure and contributions in respect of completed projects is included in property, plant and equipment with a corresponding value recorded in deferred income.

Deferred income is amortized to income on a straight-line basis over the estimated average useful life of the assets, which is currently estimated at 35 years.

j) Valuation adjustment

Valuation adjustment represents the remaining unamortized balance relating to the independent valuation of property, plant and equipment conducted as at December 31, 2010. Valuation adjustment is being amortized on a straight-line basis for the period of 35 years (See Note 3(d)).

k) Retirement benefit plans

The Corporation maintains two retirement benefit plans covering all permanent employees. Permanent employees, engaged before January 1, 2012, are enrolled in a defined benefit plan. Permanent employees engaged on or after January 1, 2012 are enrolled in a defined contribution plan. The assets of each plan are held in separate funds that are administered by a private insurance company.

Defined benefit plan

The amount recognized in the statement of financial position is the present value of the defined benefit obligation at the statement of financial position date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality Government of The Bahamas bonds. Past service costs are recognized immediately in the statement of comprehensive income (loss) (staffing expense). Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in other comprehensive income (loss) in the period in which they occur.

Normal retirement age is at 60 years old for all members. Pensions are payable for life and guaranteed for five (5) years at any event. Early retirement with unreduced benefits is permitted after completion of thirty (30) years of continuous service. Members may also retire early due to ill-health at any time with unreduced benefits. Vested members receive, on termination of employment, lump-sums equal to four percent (4%) and five percent (5%) of the salary for each year of service for non-management and management employees, respectively. The Corporation pays the majority of benefits from its own funds on a pay-as-you-go basis.

Through its defined benefit plan, the Corporation is exposed to a number of risks; the most significant are enumerated below:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Retirement benefit plans (continued)

Defined benefit plan (continued)

Asset volatility – The plan's liabilities are calculated using a discount rate set with reference to Government of The Bahamas bonds. If plan assets underperform this yield, this will create an additional gap between plan assets and plan liabilities. Plan assets are invested in a fund with well-diversified investments, such that the failure of any single investment would not materially impact the overall level of plan assets.

Salary risk – The present value of the plan's liabilities is calculated in reference to future salaries of employees under the plan. Therefore, increases in the salaries of employees will increase the liability of the plan.

Life expectancy – The majority of the plan's obligations are to provide benefit for the life of its retired employees. In this case, increases in life expectancies will result in an increase in the plan's liabilities.

Defined contribution plan

The Corporation pays fixed contributions to a privately administered pension plan in respect of eligible employees. The Corporation has no further payment obligations for the benefits provided under the plan once the contributions have been paid. Contributions are charged to the statement of comprehensive loss (staffing expense) in the accounting period to which they relate.

l) Financial assets

The Corporation classifies its financial assets as loans and receivables. The classification depends on the nature and purpose of the financial assets. Management determines the classification at the time of initial recognition.

- Loans and receivables

  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, except those that the Corporation intends to sell in the short-term, or are designated as at fair value through profit or loss or available-for-sale. Loans and receivables are initially measured at fair value plus transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method less any impairment losses. Balances included in this classification are cash at bank and accounts receivable.

m) Impairment of financial assets

The carrying amounts of the Corporation's assets are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. If such evidence exists, the asset's recoverable amount is estimated. A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of impairment loss for an asset carried at amortized cost is calculated as the difference between the carrying value of the asset and the present value of the expected future cash flows discounted at the asset's original effective interest rate and recognized in the statement of comprehensive loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

n) *Recognition of financial assets and liabilities*

The Corporation recognizes financial assets and financial liabilities when it becomes a party to the contractual provisions of the instrument.

o) *Derecognition of financial assets and liabilities*

The Corporation derecognizes financial assets when the contractual rights to receive cash flows from the assets have expired or have been transferred and the Corporation has transferred substantially all the risks and rewards of ownership. A financial liability is derecognized when the contractual obligations are discharged, cancelled or expire.

p) *Financial liabilities*

The Corporation classifies its financial liabilities as other financial liabilities.

- Other financial liabilities

  Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Subsequently, they are measured at amortized cost using the effective interest method. Interest expense is recognized on an effective yield basis. The effective interest method calculates the amortized cost of a financial liability and allocates interest expense over the earlier of payoff or scheduled maturity. Balances included in this classification are bank overdraft, accounts payable and accrued liabilities, defined benefit pension liability and long-term debt.

q) *Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

r) *Cash and bank balances*

For the purpose of the statement of cash flows, bank overdraft is included as a component of cash and bank balances.

4. PROPERTY, PLANT AND EQUIPMENT

	January 1, 2014	Additions	Disposals	Transfers	December 31, 2014
Cost/value					
Land and wellfields	$ 5,376,210	$ -	$ -	$ -	$ 5,376,210
Buildings	6,230,006	-	-	122,206	6,352,212
Water pumping stations	3,057,632	138,735	-	104,786	3,301,153
Sewer lift stations	6,179,641	-	-	-	6,179,641
Storage tanks and reservoirs	21,114,420	-	-	129,084	21,243,504
Transmission and distribution mains	201,068,581	6,859,631	(5,631,664)	6,701,507	208,998,055
Water service lines	45,309,822	69,272	(404,935)	1,851,613	46,825,772
Sewer collection systems and mains	91,957,966	-	-	-	91,957,966
Sewer connections	10,056,047	-	-	182,558	10,238,605
Sewer treatment plants	12,130,756	-	-	184,445	12,315,201
Water meters	14,878,268	-	-	312,656	15,190,924
Garage plant and equipment	3,763,001	313,311	(99,697)	-	3,976,615
Other equipment	9,657,703	42,226	-	-	9,699,929
Automotive equipment	2,922,523	987,715	(126,368)	-	3,783,870
	433,702,576	8,410,890	(6,262,664)	9,588,855	445,439,657
Work-in-progress	30,007,358	28,461,309	-	(9,588,855)	48,879,812
Total	$463,709,934	$36,872,199	$(6,262,664)	$ -	$494,319,469

4. PROPERTY, PLANT AND EQUIPMENT (continued)

	January 1, 2014	Depreciation expense	Disposals	Transfers	December 31, 2014
Accumulated depreciation					
Land and wellfields	$ 4,207,096	$ 71,123	$ -	$ -	$ 4,278,219
Buildings	1,490,524	161,327	-	-	1,651,851
Water pumping stations	1,223,352	119,356	-	-	1,342,708
Sewer lift stations	3,577,022	211,467	-	-	3,788,489
Storage tanks and reservoirs	13,694,185	452,166	-	-	14,146,351
Transmission and distribution mains	74,074,443	4,699,150	(2,966,535)	-	75,807,058
Water service lines	18,133,171	2,903,491	(243,412)	-	20,793,250
Sewer collection systems and mains	36,438,277	2,283,533	-	-	38,721,810
Sewer connections	2,458,991	249,061	-	-	2,708,052
Sewer treatment plants	4,565,892	576,974	-	-	5,142,866
Water meters	11,879,209	1,441,449	-	-	13,320,658
Garage plant and equipment	2,929,239	166,663	(88,697)	-	3,007,205
Other equipment	6,825,259	616,533	-	-	7,441,792
Automotive equipment	2,344,621	323,686	(126,370)	-	2,541,937
Total	$183,841,281	$14,275,979	(3,425,014)	$ -	$194,692,246
Net book value 2014					**$299,627,223**

4. PROPERTY, PLANT AND EQUIPMENT (continued)

	January 1, 2013	Additions	Disposals	Transfers	December 31, 2013
Cost/Value					
Land and wellfields	$ 5,376,210	$ -	$ -	$ -	$ 5,376,210
Buildings	5,795,573	-	-	434,433	6,230,006
Water pumping stations	2,524,995	165,394	-	367,243	3,057,632
Sewer lift stations	5,877,954	347,532	(45,845)	-	6,179,641
Storage tanks and reservoirs	21,106,914	7,506	-	-	21,114,420
Transmission and distribution mains	187,531,532	9,320,987	(1,055,930)	5,271,992	201,068,581
Water service lines	39,981,510	4,705,532	(1,659,758)	2,282,538	45,309,822
Sewer collection systems and mains	91,564,134	393,832	-	-	91,957,966
Sewer connections	8,252,210	1,612,173	-	191,664	10,056,047
Sewer treatment plants	9,780,456	2,350,300	-	-	12,130,756
Water meters	14,479,518	-	-	398,750	14,878,268
Garage plant and equipment	3,322,072	440,929	-	-	3,763,001
Other equipment	7,114,042	2,505,708	(654)	38,607	9,657,703
Automotive equipment	3,107,676	87,684	(272,837)	-	2,922,523
	405,814,796	21,937,577	(3,035,024)	8,985,227	433,702,576
Work-in-progress	20,812,631	18,179,954	-	(8,985,227)	30,007,358
Total	$426,627,427	$40,117,531	$(3,035,024)	$ -	$463,709,934

4. PROPERTY, PLANT AND EQUIPMENT (continued)

	January 1, 2013	Depreciation expense	Disposals	Transfers	December 31, 2013
Accumulated depreciation					
Land and wellfields	$ 4,135,974	$ 71,122	$ -	$ -	$ 4,207,096
Buildings	1,339,408	151,116	-	-	1,490,524
Water pumping stations	1,128,406	94,946	-	-	1,223,352
Sewer lift stations	3,378,340	198,682	-	-	3,577,022
Storage tanks and reservoirs	13,237,345	456,840	-	-	13,694,185
Transmission and distribution mains	70,410,763	4,370,277	(706,597)	-	74,074,443
Water service lines	16,277,011	2,572,241	(716,081)	-	18,133,171
Sewer collection systems and mains	34,163,770	2,274,507	-	-	36,438,277
Sewer connections	2,251,641	207,350	-	-	2,458,991
Sewer treatment plants	4,097,408	468,484	-	-	4,565,892
Water meters	10,476,918	1,402,291	-	-	11,879,209
Garage plant and equipment	2,799,890	129,349	-	-	2,929,239
Other equipment	6,630,519	195,394	(654)	-	6,825,259
Automotive equipment	2,362,479	247,214	(265,072)	-	2,344,621
Total	$172,689,872	$12,839,813	$(1,688,404)	$ -	$183,841,281
Net book value 2013					**$279,868,653**

4. PROPERTY, PLANT AND EQUIPMENT (continued)

New Providence

	January 1, 2014	Additions	Disposals	Transfers	December 31, 2014
Cost/Value					
Land and wellfields	$ 191,200	$ -	$ -	$ -	$ 191,200
Buildings	5,953,469	-	-	-	5,953,469
Water pumping stations	946,976	134,735	-	104,786	1,186,497
Sewer lift stations	6,044,835	-	-	-	6,044,835
Storage tanks and reservoirs	13,163,194	-	-	-	13,163,194
Transmission and distribution mains	117,979,487	6,859,631	(5,631,664)	6,701,507	125,908,961
Water service lines	37,699,300	69,272	(404,935)	1,797,751	39,161,388
Sewer collection systems and mains	91,341,301	-	-	-	91,341,301
Sewer connections	9,947,224	-	-	182,558	10,129,782
Sewer treatment plants	11,871,326	-	-	115,945	11,987,271
Water meters	11,030,090	-	-	292,743	11,322,833
Garage plant and equipment	2,842,254	279,289	(99,697)	-	3,021,846
Other equipment	9,487,423	42,226	-	-	9,529,649
Automotive equipment	1,893,662	621,503	(47,679)	-	2,467,486
	320,391,741	8,006,656	(6,183,975)	9,195,290	331,409,712
Work-in-progress	27,125,620	27,527,148	-	(9,195,290)	45,457,478
Total	$347,517,361	$35,533,804	$(6,183,975)	$ -	$376,867,190

4. PROPERTY, PLANT AND EQUIPMENT (continued)

New Providence

	January 1, 2014	Depreciation expense	Disposals	Transfers	December 31, 2014
Accumulated depreciation					
Buildings	$ 1,430,970	$ 149,474	$ -	$ -	$ 1,580,444
Water pumping stations	150,671	45,515	-	-	196,186
Sewer lift stations	3,442,216	211,467	-	-	3,653,683
Storage tanks and reservoirs	9,106,203	254,457	-	-	9,360,660
Transmission and distribution mains	37,682,180	2,729,944	(2,966,535)	-	37,445,589
Water service lines	12,250,067	2,446,975	(243,412)	-	14,453,630
Sewer collection systems and mains	35,821,612	2,283,533	-	-	38,105,145
Sewer connections	2,350,168	249,061	-	-	2,599,229
Sewer treatment plants	4,477,580	564,887	-	-	5,042,467
Water meters	8,787,797	1,056,466	-	-	9,844,263
Garage plant and equipment	2,450,790	91,688	(99,697)	-	2,442,781
Other equipment	6,669,556	612,263	-	-	7,281,819
Automotive equipment	1,542,666	187,820	(47,679)	-	1,682,807
Total	$126,162,476	$10,883,550	$(3,357,323)	$ -	$133,688,703
Net book value 2014					**$243,178,487**

4. PROPERTY, PLANT AND EQUIPMENT (continued)

New Providence

	January 1, 2013	Additions	Disposals	Transfers	December 31, 2013
Cost/Value					
Land and wellfields	$ 191,200	$ -	$ -	$ -	$ 191,200
Buildings	5,519,036	-	-	434,433	5,953,469
Water pumping stations	755,527	165,394	-	26,055	946,976
Sewer lift stations	5,743,148	347,532	(45,845)	-	6,044,835
Storage tanks and reservoirs	13,163,194	-	-	-	13,163,194
Transmission and distribution mains	104,568,758	9,320,987	(1,055,930)	5,145,672	117,979,487
Water service lines	32,503,148	4,705,532	(1,659,758)	2,150,378	37,699,300
Sewer collection systems and mains	90,947,469	393,832	-	-	91,341,301
Sewer connections	8,143,387	1,612,173	-	191,664	9,947,224
Sewer treatment plants	9,521,026	2,350,300	-	-	11,871,326
Water meters	10,677,918	-	-	352,172	11,030,090
Garage plant and equipment	2,626,041	216,213	-	-	2,842,254
Other equipment	6,943,762	2,505,708	(654)	38,607	9,487,423
Automotive equipment	2,014,116	68,960	(189,414)	-	1,893,662
	293,317,730	21,686,631	(2,951,601)	8,338,981	320,391,741
Work-in-progress	18,009,459	17,455,142	-	(8,338,981)	27,125,620
Total	$311,327,189	$39,141,773	$(2,951,601)	$ -	$347,517,361

4. PROPERTY, PLANT AND EQUIPMENT (continued)

New Providence

	January 1, 2013	Depreciation expense	Disposals	Transfers	December 31, 2013
Accumulated depreciation					
Buildings	$ 1,291,452	$ 139,518	$ -	$ -	$ 1,430,970
Water pumping stations	113,976	36,695	-	-	150,671
Sewer lift stations	3,243,534	198,682	-	-	3,442,216
Storage tanks and reservoirs	8,851,746	254,457	-	-	9,106,203
Transmission and distribution mains	35,984,810	2,403,967	(706,597)	-	37,682,180
Water service lines	10,842,047	2,124,101	(716,081)	-	12,250,067
Sewer collection systems and mains	33,547,105	2,274,507	-	-	35,821,612
Sewer connections	2,142,818	207,350	-	-	2,350,168
Sewer treatment plants	4,020,898	456,682	-	-	4,477,580
Water meters	7,766,053	1,021,744	-	-	8,787,797
Garage plant and equipment	2,380,741	70,049	-	-	2,450,790
Other equipment	6,481,390	188,820	(654)	-	6,669,556
Automotive equipment	1,577,536	146,779	(181,649)	-	1,542,666
Total	$118,244,106	$9,523,351	$(1,604,981)	$ -	$126,162,476
Net book value 2013					**$221,354,885**

4. PROPERTY, PLANT AND EQUIPMENT (continued)

Family Islands

	January 1, 2014	Additions	Disposals	Transfers	December 31, 2014
Cost/Value					
Buildings	$ 276,537	$ -	$ -	$122,206	$ 398,743
Land and wellfields	5,185,010	-	-	-	5,185,010
Water pumping stations	2,110,656	4,000	-	-	2,114,656
Water service lines	7,610,522	-	-	53,862	7,664,384
Water meters	3,848,178	-	-	19,913	3,868,091
Sewer lift stations	134,806	-	-	-	134,806
Sewer treatment plants	259,430	-	-	68,500	327,930
Storage tanks and reservoirs	7,951,226	-	-	129,084	8,080,310
Sewer collection systems and mains	616,665	-	-	-	616,665
Sewer connections	108,823	-	-	-	108,823
Transmission and distribution mains	83,089,094	-	-	-	83,089,094
Other equipment	170,280	-	-	-	170,280
Garage plant and equipment	920,747	34,022	-	-	954,769
Automotive equipment	1,028,861	366,212	(78,689)	-	1,316,384
	113,310,835	404,234	(78,689)	393,565	114,029,945
Work-in-progress	2,881,738	934,161	-	(393,565)	3,422,334
Total	$116,192,573	$1,338,395	(78,689)	$ -	$117,452,279

4. PROPERTY, PLANT AND EQUIPMENT (continued)

Family Islands

	January 1, 2014	Depreciation expense	Disposals	Transfers	December 31, 2014
Accumulated depreciation					
Buildings	$ 59,554	$ 11,853	$ -	$ -	$ 71,407
Land and wellfields	4,207,096	71,123	-	-	4,278,219
Water pumping stations	1,072,681	73,841	-	-	1,146,522
Water service lines	5,883,104	456,516	-	-	6,339,620
Water meters	3,091,412	384,983	-	-	3,476,395
Sewer lift stations	134,806	-	-	-	134,806
Sewer treatment plants	88,312	12,087	-	-	100,399
Storage tanks and reservoirs	4,587,982	197,709	-	-	4,785,691
Sewer collection systems and mains	616,665	-	-	-	616,665
Sewer connections	108,823	-	-	-	108,823
Transmission and distribution mains	36,392,263	1,969,206	-	-	38,361,469
Other equipment	155,703	4,270	-	-	159,973
Garage plant and equipment	478,449	74,975	11,000	-	564,424
Automotive equipment	801,955	135,866	(78,691)	-	859,130
Total	$57,678,805	$3,392,429	$(67,691)	$ -	$61,003,543
Net book value 2014					**$56,448,736**

4. PROPERTY, PLANT AND EQUIPMENT (continued)

Family Islands

	January 1, 2013	Additions	Disposals	Transfers	December 31, 2013
Cost/Value					
Buildings	$ 276,537	$ -	$ -	$ -	$ 276,537
Land and wellfields	5,185,010	-	-	-	5,185,010
Water pumping stations	1,769,468	-	-	341,188	2,110,656
Water service lines	7,478,362	-	-	132,160	7,610,522
Water meters	3,801,600	-	-	46,578	3,848,178
Sewer lift stations	134,806	-	-	-	134,806
Sewer treatment plants	259,430	-	-	-	259,430
Storage tanks and reservoirs	7,943,720	7,506	-	-	7,951,226
Sewer collection systems and mains	616,665	-	-	-	616,665
Sewer connections	108,823	-	-	-	108,823
Transmission and distribution mains	82,962,774	-	-	126,320	83,089,094
Other equipment	170,280	-	-	-	170,280
Garage plant and equipment	696,031	224,716	-	-	920,747
Automotive equipment	1,093,560	18,724	(83,423)	-	1,028,861
	112,497,066	250,946	(83,423)	646,246	113,310,835
Work-in-progress	2,803,172	724,812	-	(646,246)	2,881,738
Total	$115,300,238	$975,758	$(83,423)	$ -	$116,192,573

4. PROPERTY, PLANT AND EQUIPMENT (continued)

Family Islands

	January 1, 2013	Depreciation expense	Disposals	Transfers	December 31, 2013
Accumulated depreciation					
Buildings	$ 47,956	$ 11,598	$ -	$ -	$ 59,554
Land and wellfields	4,135,974	71,122	-	-	4,207,096
Water pumping stations	1,014,430	58,251	-	-	1,072,681
Water service lines	5,434,964	448,140	-	-	5,883,104
Water meters	2,710,865	380,547	-	-	3,091,412
Sewer lift stations	134,806	-	-	-	134,806
Sewer treatment plants	76,510	11,802	-	-	88,312
Storage tanks and reservoirs	4,385,599	202,383	-	-	4,587,982
Sewer collection systems and mains	616,665	-	-	-	616,665
Sewer connections	108,823	-	-	-	108,823
Transmission and distribution mains	34,425,953	1,966,310	-	-	36,392,263
Other equipment	149,129	6,574	-	-	155,703
Garage plant and equipment	419,149	59,300	-	-	478,449
Automotive equipment	784,943	100,435	(83,423)	-	801,955
Total	$54,445,766	$3,316,462	$(83,423)	$ -	$57,678,805
Net book value 2013					**$58,513,768**

5. ACCOUNTS RECEIVABLE

Accounts receivable as at December 31, 2014 are comprised of the following:

	2014	2013
New Providence		
Water	$27,660,029	$27,754,004
Sewerage	6,034,632	5,325,964
	33,694,661	33,079,968
Less: Allowance for doubtful accounts	(23,380,660)	(21,875,166)
	10,314,001	11,204,802
Other	670,743	732,629
	$10,984,744	$11,937,431
Family Islands		
Water	$ 8,044,317	$ 8,260,165
Sewerage	117,011	210,387
	8,161,328	8,470,552
Less: Allowance for doubtful accounts	(6,244,845)	(6,658,863)
	1,916,483	1,811,689
Other	81,776	77,162
	$ 1,998,259	$ 1,888,851
Total	$12,983,003	$13,826,282

As at December 31, 2014, water and sewerage receivables include amounts due from Government ministries, departments and corporations in New Providence and the Family Islands of $7,532,874 (2013: $7,815,164) and $936,580 (2013: $772,200), respectively.

The movement in the provision for doubtful accounts is as follows:

	2014	2013
Opening balance	$28,534,029	$27,165,534
Amounts written-off during the year	(413,402)	(1,173,116)
Provision during the year	1,504,878	2,541,611
Closing balance	$29,625,505	$28,534,029

6. BANK OVERDRAFT

The Corporation has a $1.9 million overdraft facility with RBC Royal Bank of Canada (Bahamas) which bears interest at a rate of 2% (2013: 2%) above Nassau Prime, for a current effective rate of 6.75% per annum (2013: 6.75%).

The Corporation has a $3 million line of credit, including bill discounting, with Citibank N.A. (Nassau Branch) which carries interest at a rate of 5% per annum with bullet repayments at the maturity date.

As at December 31, 2014 the balance of bank overdraft is $3,264,381 (2013: $3,891,770). Both facilities are supported by letters of comfort from the Government of The Bahamas.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are comprised of the following:

	2014	2013
New Providence		
Trade payables	$ 5,549,989	$14,458,898
Contributions to capital projects in progress	1,443,919	1,572,625
Accrued liabilities	5,985,876	5,866,069
	12,979,784	21,897,592
Family Islands		
Trade payables	1,509,687	1,100,272
Contributions to capital projects in progress	261,670	264,419
Accrued liabilities	7,580,806	4,859,559
	9,352,163	6,224,250
Total	$22,331,947	$28,121,842

As at December 31, 2014, accounts payable and accrued liabilities include amounts due to Government ministries, departments and corporations in New Providence and the Family Islands of $1,547,781 (2013: $1,710,142) and $4,418,377 (2013: $2,912,295), respectively.

The movements in contributions to capital projects in progress are shown below:

	New Providence	Family Islands	Total
Opening balance	$1,572,625	$264,419	$1,837,044
Contributions received during the year	45,816	-	45,816
Contributions to projects completed during the year	(174,522)	(2,749)	(177,271)
Closing balance	$1,443,919	$261,670	$1,705,589

8. LONG-TERM DEBT

Long-term debt comprises the following:

	Notes	2014	2013
Inter-American Development Bank (“IDB”)	(a)	$50,442,030	$30,289,624
The National Insurance Board	(b)	9,200,000	4,700,000
		59,642,030	34,989,624
Less: Amounts due within one year		(678,654)	(506,656)
		$58,963,376	$34,482,968

8. LONG-TERM DEBT (continued)

(a) Inter-American Development Bank

i. The Corporation was granted a loan facility of US$14 million in 1999 primarily for The Family Islands Water Improvement Project. Only US$10,632,274 of this facility was drawn-down. The remaining amount of the facility of US$3,367,726 was subsequently cancelled. Interest accrues on the loan 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 as at December 31, 2014 is $4,873,400 (2013: $5,386,390).

ii. The Corporation was granted a Single Currency Facility Loan of US$81 million 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. Interest accrues on the loan at an annual LIBOR-based interest rate for each quarter as determined on the Interest Rate Determination Date. The loan is repayable in equal bi-annual installments, commencing May 16, 2017, and will terminate no later than May 16, 2037. As at December 31, 2014, the outstanding balance is $45,568,630 (2013: $24,903,234).

(b) The National Insurance Board

In September 2013, the Corporation signed a $10 million loan to finance the design and construction of a one million imperial gallon per day wastewater treatment facility at Gladstone Road. The facility will provide sewage treatment and re-use water supply for a major resort and treat waste from surrounding subdivisions. The loan accrues interest at a rate of 4.75% per annum. The loan is repayable in monthly blended installments of principal and interest of $125,412 beginning November 2015 and will terminate no later than October, 2023. As at December 31, 2014, the amount drawn-down is $9,200,000 (2013: $4,700,000) (See Note 21(b)).

Long-term debt is repayable as follows:

	2014	2013
1 - 5 years	$15,792,720	$16,953,281
More than 5 years	43,170,656	17,529,687
	$58,963,376	$34,482,968

9. EQUITY CONTRIBUTIONS AND DISTRIBUTIONS

Equity contributions represent contributions by the Government to major capital projects. Distributions are payments on loans undertaken by the Government for water and sewer infrastructure projects. The movements in equity contributions during the year are as follows:

	New Providence	Family Islands	2014 Total	2013 Total
Balance at January 1	$125,812,451	$45,126,992	$170,939,443	$167,080,154
Contributions	-	1,786,308	1,786,308	5,605,480
Distributions	-	(1,734,800)	(1,734,800)	(1,746,191)
Balance at December 31	$125,812,451	45,178,500	$170,990,951	$170,939,443

10. OPERATING EXPENSES

For the year ended December 31, 2014, operating expenses were as follows:

	2014	2013
Water		
Purchase of water	$34,016,949	$36,133,885
Staffing expense (Note 17)	5,587,337	6,150,916
Electricity	3,304,786	3,637,761
Repairs and maintenance	1,980,555	1,522,020
Bad debts and sundry provisions	1,275,494	2,154,307
Fuel and oil	435,772	513,408
Office services	226,490	223,333
Outside services	223,581	163,141
Miscellaneous	119,572	146,570
Travel	164,371	145,633
Chemicals	125,739	118,352
Data processing	49,496	28,839
Training	14,174	21,609
Public relations	10,827	11,699
	47,535,143	50,971,473
Sewerage		
Staffing expense (Note 17)	1,212,750	1,193,846
Electricity	771,293	718,664
Repairs and maintenance	517,051	429,535
Bad debts and sundry provisions	229,384	387,304
Fuel and oil	27,998	27,850
Office services	9,082	7,455
Miscellaneous	4,526	8,994
Chemicals	1,832	2,134
Outside services	-	2,062
Training	-	1,948
Data processing	-	500
Public relations	-	73
	2,773,916	2,780,365
Balance carried forward	$50,309,059	$53,751,838

10. OPERATING EXPENSES (continued)

	2014	2013
Balance brought forward	$50,309,059	$53,751,838
General and administrative		
Staffing expense (Note 17)	14,685,873	13,785,319
Administrative overhead	1,231,367	1,209,577
Professional and consultancy fees	909,151	923,626
Repairs and maintenance	898,950	869,619
Office services	703,539	582,806
Data processing	443,834	414,086
Electricity	348,713	344,211
Bank charges	298,129	177,743
Training	157,176	145,290
Fuel and oil	147,721	158,939
Public relations	139,021	223,643
Miscellaneous	111,799	154,915
Audit fees	64,500	68,365
Travel	22,816	16,426
Chemicals	11,699	10,325
Claims and damages	-	99,046
	20,174,288	19,183,936
Total	$70,483,347	$72,935,774

11. DEPRECIATION

Depreciation for the year ended December 31, 2014 was as follows:

	2014	2013
Water	$10,541,530	$ 9,292,478
Sewerage	3,341,360	3,164,451
General and administrative	393,089	382,884
	$14,275,979	$12,839,813

12. FINANCING OF OPERATIONS

The Corporation has incurred significant operating losses in recent years and such losses are projected for the future. As a December 31, 2014, the Corporation’s current liabilities exceeded its current assets by $86,463,931 (2013: $92,945,732 and it has an accumulated deficit of $134,391,914 (2013: $132,848,581). 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 the fiscal year 2014, the Corporation received $39,989,012 (2013: $29,935,000) from the Government of The Bahamas in the form of a subsidy to assist with the cost of operations.

13. FINANCE CHARGES

Finance charges comprise the following:

	2014	2013
Interest on:		
Pension obligations (Note 14)	$3,790,700	$3,662,700
Bank overdraft	65,738	217,949
Long-term debt	35,993	72,455
Other	47,570	34,611
	$3,940,001	$3,987,715

14. PENSION PLAN

The Corporation has established two pension schemes that cover all permanent employees; namely a defined benefit plan and a defined contribution plan.

(a) Defined contribution plan

The Corporation contributes 5% of eligible employees' pensionable earnings. Employees are not required to contribute to the defined contribution plan.

(b) Defined benefit plan

The Corporation's defined benefit plan assets of $18,961,200 (2013: $18,365,100) are wholly invested in a fund that is administered by a private insurance company. The fund's assets are composed of cash and cash equivalents, investments in equity securities, preferred shares, corporate and government bonds, mutual funds and receivables.

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, totaled $3,995,000 (2013: $3,950,900). During the year, reimbursements from the pension fund were $Nil (2013: $Nil).

The Corporation expects to pay $4,273,700 in contributions to its defined benefit plan in 2015.

Defined benefit pension liability is as follows:

	2014	2013
Present value of funded obligations at December 31	$97,438,200	$94,907,800
Fair value of plan assets at December 31	(18,961,200)	(18,365,100)
Defined benefit pension liability at December 31	$78,477,000	$76,542,700

14. PENSION PLAN (continued)

(b) Defined benefit plan (continued)

The movement in the defined benefit obligation is as follows:

	2014	2013
Defined benefit obligation at January 1	$94,907,800	$91,746,400
Current service cost	2,538,200	2,571,200
Interest cost	4,709,000	4,552,800
Actuarial (gains) losses on obligations	(721,800)	(11,700)
Benefits paid	(3,995,000)	(3,950,900)
Defined benefit obligation at December 31	$97,438,200	$94,907,800

The movement in the fair value of the plan assets is as follows:

	2014	2013
Fair value of plan assets at January 1	$18,365,100	$17,801,800
Interest income	918,300	890,100
Return on plan assets, excluding interest income	(234,900)	(326,800)
Employer's contributions	3,995,000	3,950,900
Benefits paid	(4,082,300)	(3,950,900)
Fair value of plan assets at December 31	$18,961,200	$18,365,100

Expenses recognized in the statement of comprehensive loss are:

	2014	2013
Current service cost	$ 2,538,200	$ 2,571,200
Net interest on net defined benefit liability	3,790,700	3,662,700
Other expenses	87,300	-
Net pension expense for the year	$ 6,416,200	$ 6,233,900

As at the December 31, 2014 valuation date, the present value of the defined benefit obligation was allocated among members at approximately 62.2% for active members, 36.7% for pensioners and 1.1% for deferred members.

Actuarial (gain)/loss on defined benefit plan recognized in other comprehensive income is as follows:

	2014	2013
Change in financial assumptions	$ 234,900	$326,800
Change in demographic assumptions	(721,800)	(11,700)
Actuarial (gain)/loss	$(486,900)	$315,100

14. PENSION PLAN (continued)

(b) Defined benefit plan (continued)

The movement in defined benefit pension liability is as follows:

	2014	2013
Defined benefit pension liability as at January 1	$76,542,700	$73,944,600
Expenses recognized in the statement of comprehensive loss	6,416,200	6,233,900
Actuarial (gain) loss on defined benefit plan recognized in other comprehensive income (loss)	(486,900)	315,100
Contributions paid	(3,995,000)	(3,950,900)
Defined benefit pension liability as at December 31	$78,477,000	$76,542,700

The following were the principal assumptions at the reporting date:

	2014	2013
Discount rate	5% p.a.	5% p.a.
Expected rate of salary increases	3% p.a.	3% p.a.

Assumptions regarding future mortality are based on published mortality tables.

Sensitivity analysis

The calculation of the defined benefit obligation is sensitive to the assumptions used. The following table summarizes how the defined benefit obligation at the reporting date would have changed as a result of a change in one of the assumptions used, while holding the other assumption constant.

	change in defined benefit obligation	
	1% per annum increase	1% per annum decrease
Discount rate	$(11,521,000)	$14,226,400
Future salary increases	$ 4,854,100	$(4,354,500)

15. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Corporation estimates that the carrying values of the financial assets and liabilities disclosed in the statement of financial position approximate the fair values at the reporting date for one or more of the following reasons:

(i) Short-term maturities;
(ii) Interest rates approximate market rates; and
(iii) Carrying values equal fair values.

16. FINANCIAL RISK MANAGEMENT

The Board of Directors is mainly responsible for the overall risk management approach which includes development and approval of risk strategies, principles, frameworks, policies and limits of the Corporation. It establishes the Corporation's approach to risks and issues in order to make relevant decisions and mitigate risks. 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 financial 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 12.

The Corporation has further undrawn banking facilities of $1.64 million (2013: $1.45 million) at the reporting date which can be used as an additional means of easing liquidity risks, if necessary.

The table below details the remaining contractual maturities of the Corporation's financial assets and liabilities based on undiscounted cash flows:

		2014				
	Less than 1 month	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**More than 5 years**	**Total**
Financial assets						
Cash at bank	$7,916,486	$ -	$ -	$ -	$ -	$7,916,486
Accounts receivable	4,261,101	1,760,415	6,263,999	697,488	-	12,983,003
	12,177,587	1,760,415	6,263,999	697,488	-	20,899,489
Financial liabilities						
Bank overdraft	3,264,381	-	-	-	-	3,264,381
Accounts payable and accrued liabilities	22,331,947	-	-	-	-	22,331,947
Current portion of long- term debt	-	253,328	425,326	-	-	678,654
Long-term debt	-	-	-	15,792,720	43,170,656	58,963,376
	$25,596,328	$253,328	$425,326	$15,792,720	$43,170,656	$85,238,358

16. FINANCIAL RISK MANAGEMENT (continued)

(a) Liquidity risk (continued)

	2013					
	Less than 1 month	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**More than 5 years**	**Total**
Financial assets						
Cash at bank	$ 5,042,580	$ -	$ -	$ -	$ -	$ 5,042,580
Accounts receivable	4,940,852	1,466,238	6,609,401	809,791	-	13,826,282
	9,983,432	1,466,238	6,609,401	809,791	-	18,868,862
Financial liabilities						
Bank overdraft	3,891,770	-	-	-	-	3,891,770
Accounts payable and accrued liabilities	28,121,842	-	-	-	-	28,121,842
Current portion of long- term debt	-	253,328	253,328	-	-	506,656
Long-term debt	-	-	-	16,953,281	17,529,687	34,482,968
	$32,013,612	$ 253,328	$ 253,328	$16,953,281	$17,529,687	$67,003,236

(b) Credit risk

Credit risk is the risk that a counterparty to a financial instrument might cause a financial loss for the Corporation by failing to discharge its obligations.

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 to any single counterparty as most customers are households and local businesses and is limited to the carrying value of accounts receivable. As the Corporation has the mandate to provide water and sewer services to the residents of The Bahamas, the recorded losses on uncollectible receivables ultimately becomes the responsibility of the owners of the Corporation, which is The Commonwealth of The Bahamas. 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.

16. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

The following tables sets out the aging analysis of financial assets that are neither past due nor impaired or impaired more than 181 days as at December 31, 2014:

	2014		
	Neither past due nor impaired	**Impaired more than 181 days**	**Total**
Cash at bank	$ 7,916,486	$ -	$ 7,916,486
Accounts receivable	12,983,003	29,625,505	42,608,508
	$20,899,489	$29,625,505	$50,524,994

	2013		
	Neither past due nor impaired	**Impaired more than 181 days**	**Total**
Cash at bank	$ 5,042,580	$ -	$ 5,042,580
Accounts receivable	13,826,282	28,534,029	42,360,311
	$18,868,862	$28,534,029	$47,402,891

(c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument 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 fair value of a financial instrument or future 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 bank overdraft and long-term debt. There is no mitigation against this risk.

			If interest rates were .5% higher		**If interest rates were .5% lower**	
	Carrying amount	**Average interest rate**	**Loss for the year**	**Accumulated Deficit**	**Loss for the year**	**Accumulated Deficit**
2014						
Bank overdraft	$ 3,264,381	6.75%	$ (16,322)	$ (16,322)	$ 16,322	$ 16,322
IDB Loan	$50,442,030	2.00%	$(252,210)	$(252,210)	$252,210	$252,210
2013						
Bank overdraft	$ 3,891,770	6.75%	$ (19,459)	$ (19,459)	$ 19,459	$ 19,459
IDB Loan	$30,289,624	2.00%	$(151,448)	$(151,448)	$151,448	$151,448

16. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

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. Foreign currency transactions, if any, are denominated in United States dollars. As the parity between United States and Bahamian dollars is unlikely to change in the short-term, the Corporation's exposure to any movement in the exchange rate is not considered significant. Therefore, a sensitivity analysis of currency risk is not considered necessary.

17. RELATED PARTY TRANSACTIONS

Key management compensation

Key management compensation comprised the following:

	2014	2013
Staffing expense (Note 10)		
Short-term employee benefits	$1,073,594	$1,140,124
Post-employment benefits	643,231	588,053
	$1,716,825	$1,728,177

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

18. 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.

19. COMMITMENTS

(a) Minimum annual purchases in respect of water purchase agreements, exclusive of cost escalation clauses, are approximately as follows:

2015	-	$29,835,500
2016	-	$29,292,500
2017	-	$29,276,900
2018	-	$29,276,900
2019	-	$29,276,900

(b) Future annual lease payments under rental agreements are $151,181 (2013: $146,381).

20. MISCELLANEOUS LOSS

Miscellaneous loss is comprised of the following:

	2014	2013
Loss on disposal of property, plant and equipment	$(2,327,962)	$(1,295,917)
Miscellaneous (loss) income	(74,675)	494,809
	$(2,402,637)	$ (801,108)

21. SUBSEQUENT EVENT

(a) The Government of the Bahamas, in its fiscal budget for the period July 1, 2014 to June 30, 2015, has approved subsidies of $15.72 million to the Corporation for the period January 1 to June 30, 2015.

(b) On March 27, 2015, the Corporation signed a supplemental loan agreement with The National Insurance Board to increase the loan by $5 million to $15 million to complete the construction of the Gladstone Road Wastewater Treatment Facility (See Note 8(b)). The $5 million loan is to be fully disbursed by June 30, 2015. The amended loan balance is repayable in monthly, blended installments of principal and interest of $129,062 beginning November 2015 and will now terminate no later than October 2028.

(c) On April 20, 2015, the Corporation received notice from the Ministry of Finance that the amount of $10,006,918 due as of March 31, 2015 from Bahamas Government ministries, departments and corporations will be offset against the annual subvention allocated to the Corporation.

See Independent Auditors' Report on pages 1 and 2.

WATER AND SEWERAGE CORPORATION

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