

WATER AND SEWERAGE

CORPORATION

FINANCIAL STATEMENTS

31 DECEMBER 2004

WATER AND SEWERAGE CORPORATION

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**REPORT OF THE AUDITORS TO THE BOARD OF
WATER AND SEWERAGE CORPORATION**

We have audited the accompanying balance sheet of Water and Sewerage Corporation as at 31 December 2004 and the related statements of operations, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly in all material respects, the financial position of Water and Sewerage Corporation as at 31 December 2004 and the results of its operations, changes in equity and cash flows for the year then ended, in accordance with International Financial Reporting Standards.

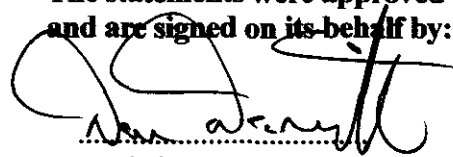
BDO Mann Judd

**Chartered Accountants
Nassau Bahamas
30 August 2005**

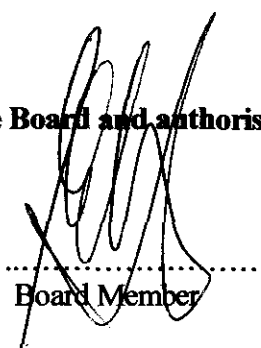
WATER AND SEWERAGE CORPORATION
BALANCE SHEET AS AT 31 DECEMBER 2004
(Expressed in Bahamian Dollars)

	<u>Note</u>	<u>2004</u> \$	<u>2003</u> \$
FIXED ASSETS	4	134,983,343	133,580,112
CURRENT ASSETS			
Cash at bank		3,262,531	254,629
Accounts receivable	5	7,346,156	4,865,352
Materials and supplies		930,192	1,298,387
Prepaid expenses and deposits		<u>90,843</u>	<u>70,219</u>
		11,629,722	6,488,587
CURRENT LIABILITIES			
Bank overdraft	6	4,201,313	3,849,546
Accounts payable and accrued liabilities	7	52,934,366	50,668,420
Customers' security deposits		2,889,746	2,773,185
Current portion of long-term loans	8	<u>5,806,364</u>	<u>6,591,903</u>
		<u>65,831,789</u>	<u>63,883,054</u>
NET CURRENT LIABILITIES		(54,202,067)	(57,394,467)
LONG-TERM LOANS	8	(10,210,765)	(11,525,610)
NET ASSETS		<u>\$70,570,511</u>	<u>\$64,660,035</u>
EQUITY			
Equity contributions	9	132,446,601	134,409,963
Accumulated deficit		(70,893,442)	(78,737,136)
Deferred income		<u>9,017,352</u>	<u>8,987,208</u>
		<u>\$70,570,511</u>	<u>\$64,660,035</u>

The statements were approved by the Board and authorised for issue on 30 August 2005, and are signed on its behalf by:



 Chairman



 Board Member

The Notes on pages 8 to 25 form an integral part of these Financial Statements.

WATER AND SEWERAGE CORPORATION
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED 31 DECEMBER 2004

	<u>Note</u>	<u>2004</u> \$	<u>2003</u> \$
OPERATING REVENUE			
Water		31,094,544	30,104,634
Sewerage		<u>3,941,198</u>	<u>3,928,283</u>
		<u>35,035,742</u>	<u>34,032,917</u>
OPERATING EXPENSES			
Water	10	24,234,302	24,831,270
Sewerage		2,422,511	1,750,131
General and administrative		<u>10,483,420</u>	<u>12,143,230</u>
		<u>37,140,233</u>	<u>38,724,631</u>
Loss from operations before depreciation		(2,104,491)	(4,691,714)
Depreciation	11	(6,358,201)	(5,872,260)
OPERATING LOSS			
		(8,462,692)	(10,563,974)
Other income	12	4,076,765	-
Miscellaneous income		444,261	395,086
Amortisation of deferred income		375,723	381,945
Net foreign exchange gain/(loss)		284,337	(436,312)
Finance charges	13	<u>(914,700)</u>	<u>(4,288,226)</u>
Net loss before Government subsidy		(4,196,306)	(14,511,481)
Government subsidy		<u>12,040,000</u>	<u>10,000,000</u>
NET PROFIT/(LOSS) FOR THE YEAR		<u>\$7,843,694</u>	<u>\$(4,511,481)</u>

The Notes on pages 8 to 25 form an integral part of these Financial Statements.

WATER AND SEWERAGE CORPORATION
NEW PROVIDENCE STATEMENT OF OPERATIONS
FOR THE YEAR ENDED 31 DECEMBER 2004

	<u>2004</u>	<u>2003</u>
	\$	\$
OPERATING REVENUE		
Water	26,699,514	26,297,026
Sewerage	<u>3,941,198</u>	<u>3,928,283</u>
	<u>30,640,712</u>	<u>30,225,309</u>
OPERATING EXPENSES		
Water	18,603,465	19,869,111
Sewerage	2,422,511	1,750,131
General and administrative	<u>7,631,944</u>	<u>9,597,950</u>
	<u>28,657,920</u>	<u>31,217,192</u>
Profit/(loss) from operations before depreciation	1,982,792	(991,883)
Depreciation	(5,089,560)	(4,946,005)
OPERATING LOSS	(3,106,768)	(5,937,888)
Other income	4,076,765	--
Miscellaneous income	443,308	394,566
Amortisation of deferred income	368,693	377,595
Net foreign exchange gain/(loss)	283,674	(435,952)
Finance charges	<u>(916,111)</u>	<u>(4,095,773)</u>
Net profit/(loss) before Government subsidy	1,149,561	(9,697,452)
Government subsidy	<u>8,540,000</u>	<u>5,320,000</u>
NET PROFIT/(LOSS) FOR THE YEAR	<u>\$9,689,561</u>	<u>\$(4,377,452)</u>

The Notes on pages 8 to 25 form an integral part of these Financial Statements.

WATER AND SEWERAGE CORPORATION
FAMILY ISLANDS STATEMENT OF OPERATIONS
FOR THE YEAR ENDED 31 DECEMBER 2004

	<u>2004</u>	<u>2003</u>
	\$	\$
OPERATING REVENUE		
Water	<u>4,395,030</u>	<u>3,807,608</u>
OPERATING EXPENSES		
Water	5,630,837	4,962,159
General and administrative	<u>2,851,476</u>	<u>2,545,280</u>
	<u>8,482,313</u>	<u>7,507,439</u>
Loss from operations before depreciation	(4,087,283)	(3,699,831)
Depreciation	<u>(1,268,641)</u>	<u>(926,255)</u>
OPERATING LOSS	(5,355,924)	(4,626,086)
Miscellaneous income	953	520
Amortisation of deferred income	7,030	4,350
Net foreign exchange gain/(loss)	663	(360)
Finance charges	<u>1,411</u>	<u>(192,453)</u>
Net loss before Government subsidy	(5,345,867)	(4,814,029)
Government subsidy	<u>3,500,000</u>	<u>4,680,000</u>
NET LOSS FOR THE YEAR	<u><u>\$(1,845,867)</u></u>	<u><u>\$(134,029)</u></u>

The Notes on pages 8 to 25 form an integral part of these Financial Statements.

WATER AND SEWERAGE CORPORATION
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2004

	<u>Equity</u> <u>Contributions</u> \$	<u>Accumulated</u> <u>Deficit</u> \$	<u>Deferred</u> <u>Income</u> \$	<u>Total</u> <u>Equity</u> \$
1 January 2003	136,396,061	(74,225,655)	8,863,077	71,033,483
Distributions	(1,986,098)	--	--	(1,986,098)
Net loss for the year	--	(4,511,481)	--	(4,511,481)
Contributions to projects completed during the year	--	--	498,598	498,598
Amortisation of deferred income	--	--	<u>(374,467)</u>	<u>(374,467)</u>
31 December 2003	134,409,963	(78,737,136)	8,987,208	64,660,035
Distributions (note 9)	(1,963,362)	--	--	(1,963,362)
Net gain for the year	--	7,843,694	--	7,843,694
Contributions to projects completed during the year (note 7)	--	--	405,867	405,867
Amortisation of deferred income	--	--	<u>(375,723)</u>	<u>(375,723)</u>
31 December 2004	<u>\$132,446,601</u>	<u>\$(70,893,442)</u>	<u>\$9,017,352</u>	<u>\$70,570,511</u>

The Notes on pages 8 to 25 form an integral part of these Financial Statements.

WATER AND SEWERAGE CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2004

	<u>2004</u>	<u>2003</u>
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net gain/(loss) for the year	7,843,694	(4,511,481)
Non-cash items:		
Depreciation	6,358,201	5,872,260
Amortisation of deferred income	(375,723)	(374,467)
Increase in non-cash operating working capital	<u>249,274</u>	<u>5,557,166</u>
Net cash provided by operating activities	<u>14,075,446</u>	<u>6,543,478</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	414,721	821,948
Repayment of long-term debt	(2,515,105)	(1,574,624)
Contributions to capital projects	405,867	498,598
Equity distributions	<u>(1,963,362)</u>	<u>(1,986,098)</u>
Net cash used by financing activities	<u>(3,657,879)</u>	<u>(2,240,176)</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of fixed assets	<u>(7,761,432)</u>	<u>(6,298,998)</u>
Net cash used by investing activities	<u>(7,761,432)</u>	<u>(6,298,998)</u>
Net increase/(decrease) in cash and cash equivalents	2,656,135	(1,995,696)
Net cash and cash equivalents at beginning of the year	<u>(3,594,917)</u>	<u>(1,599,221)</u>
Net cash and cash equivalents at end of the year	<u><u>\$(938,782)</u></u>	<u><u>\$(3,594,917)</u></u>

The Notes on pages 8 to 25 form an integral part of these Financial Statements

WATER AND SEWERAGE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

1. ORGANISATION

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

2. ACCOUNTING POLICIES

Accounting convention

The financial statements are prepared on a going concern basis and in accordance with International Financial Reporting Standards. The significant accounting policies are as follows:

Recognition of revenue

Water and sewerage accounts are maintained on a monthly and quarterly cycle-billing basis and revenue is recorded as billed.

Materials and supplies

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

Foreign currencies

Transactions in foreign currencies have been converted at the rates of exchange prevailing on the transaction dates.

Exchange gains and losses arising from the translation of debt denominated in foreign currencies are included in the current year's statement of operations.

WATER AND SEWERAGE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

2. ACCOUNTING POLICIES (cont'd)

Fixed assets and depreciation

The cost of fixed assets which were transferred to the Corporation by the Government at the date of incorporation is based on valuations made jointly by the Ministries of Finance and Works & Lands at that date. The cost of Family Island fixed assets transferred to the Corporation on 1 July 1989 is based on original cost less accumulated depreciation at the point of transfer. Subsequent fixed asset additions are stated at cost, which include overhead amounts capitalised on work in progress.

Depreciation of fixed assets is calculated on the straight-line method over the estimated useful lives of the respective assets as follows:

Buildings	40 years
Dock installations	40 years
Harbour improvements	40 years
Water wellfields & pumping stations	20 – 25 years
Sewer pumps & pumping stations	20 – 25 years
Storage tanks & reservoirs	36 – 40 years
Transmission & distribution mains	36 – 40 years
Water service lines & connections	20 – 25 years
Sewer connections & mains	37 – 50 years
Sewerage treatment plants	30 years
Office furniture & equipment	5 years
Garage plant & equipment	10 years
Waste control equipment	10 years
Training equipment	10 years
Radios	10 years
Automotive equipment	5 years
Consultancy fees	5 years

Work in progress

Work in progress is included in total fixed assets and includes the following:

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

On substantial completion, 95% or more, work in progress is transferred to the appropriate fixed asset category.

WATER AND SEWERAGE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

2. ACCOUNTING POLICIES (cont'd)

Contributions to capital projects

The Corporation requires contributions from customers to assist in defraying the capital cost of certain improvements and new services for the customers' specific use. The capital cost of such projects is included in fixed assets.

Contributions in respect of incomplete projects are carried forward as accounts payable. Contributions in respect of completed projects are credited to deferred income and amortised to income over the estimated average useful life of the fixed assets.

Retirement benefit costs

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

The amount recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for the unrecognised actuarial gains and losses and unrecognised past service costs, and reduced by the fair value of plan assets.

3. FINANCING OF OPERATIONS

The Corporation has incurred significant operating losses and such losses are being forecast for the foreseeable future. The Corporation is dependent on funding from the Government and it is anticipated that such funding will continue to be made available at a level sufficient to allow the Corporation to adequately maintain its operations.

WATER AND SEWERAGE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

4. FIXED ASSETS

<u>Cost</u>	<u>1 January</u> <u>2004</u> \$	<u>Additions</u> \$	<u>Transfers</u> \$	<u>31 December</u> <u>2004</u> \$
Land	4,000	—	—	4,000
Buildings	2,732,872	8,657	88,115	2,829,644
Dock installations	1,040,052	—	—	1,040,052
Harbour improvements	17,067,754	—	—	17,067,754
Water wellfields & pumping stations	19,215,084	536,117	168,951	19,920,152
Sewer pumps & sewer pumping stations	3,256,340	46,486	—	3,302,826
Storage tanks & reservoirs	4,831,735	—	—	4,831,735
Transmission & distribution mains	99,377,020	345,297	2,523,798	102,246,115
Water service lines & connections	14,032,476	4,479	—	14,036,955
Sewer connections & mains	26,670,198	—	—	26,670,198
Sewerage treatment plants	5,706,749	150,000	—	5,856,749
Office furniture & equipment	5,115,205	605,369	—	5,720,574
Garage plant & equipment	4,491,641	107,780	—	4,599,421
Waste control equipment	80,390	—	—	80,390
Training equipment	21,615	—	—	21,615
Radios	168,830	—	—	168,830
Automotive equipment	5,191,700	6,644	—	5,198,344
Consultancy fees	<u>2,918,784</u>	<u>1,281</u>	<u>—</u>	<u>2,920,065</u>
	211,922,445	1,812,110	2,780,864	216,515,419
Work-in-progress	<u>2,564,191</u>	<u>5,949,322</u>	<u>(2,780,864)</u>	<u>5,732,649</u>
Total	<u>\$214,486,636</u>	<u>\$7,761,432</u>	<u>\$—</u>	<u>\$222,248,068</u>

WATER AND SEWERAGE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

4. FIXED ASSETS (cont'd)

<u>Accumulated depreciation</u>	1 January 2004	Depreciation expense	31 December 2004
	\$	\$	\$
Buildings	703,918	63,376	767,294
Dock installations	1,040,052	--	1,040,052
Harbour improvements	7,781,587	452,268	8,233,855
Water wellfields & pumping stations	13,545,193	623,391	14,168,584
Sewer pumps & sewer pumping stations	2,227,778	82,969	2,310,747
Storage tanks & reservoirs	1,996,695	123,157	2,119,852
Transmission & distribution mains	21,459,993	2,494,081	23,954,074
Water service lines & connections	6,012,113	516,812	6,528,925
Sewer connections & mains	9,895,406	611,022	10,506,428
Sewerage treatment plants	1,782,779	190,151	1,972,930
Office furniture & equipment	3,458,861	741,039	4,199,900
Garage plant & equipment	3,592,128	176,887	3,769,015
Waste control equipment	70,500	2,816	73,316
Training equipment	18,775	433	19,208
Radios	148,892	5,707	154,599
Automotive equipment	4,635,575	196,178	4,831,753
Consultancy fees	<u>2,536,279</u>	<u>77,914</u>	<u>2,614,193</u>
Total	\$80,906,524	\$6,358,201	\$87,264,725
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Net book value	\$133,580,112		\$134,983,343
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WATER AND SEWERAGE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

4. FIXED ASSETS (cont'd)

New Providence

<u>Cost</u>	<u>1 January</u> <u>2004</u> \$	<u>Additions</u> \$	<u>Transfers</u> \$	<u>31 December</u> <u>2004</u> \$
Land	4,000	--	--	4,000
Buildings	2,490,865	8,657	88,115	2,587,637
Dock installations	1,040,052	--	--	1,040,052
Harbour improvements	17,067,754	--	--	17,067,754
Water wellfields & pumping stations	13,194,092	75,937	--	13,270,029
Sewer pumping stations	3,183,372	46,486	--	3,229,858
Storage tanks & reservoirs	3,111,877	--	--	3,111,877
Transmission & distribution mains	66,927,340	192,843	2,417,804	69,537,987
Water service lines & connections	13,785,260	1,887	--	13,787,147
Sewer connections & mains	26,670,198	--	--	26,670,198
Sewerage treatment plants	5,706,749	--	--	5,706,749
Office furniture & equipment	4,967,160	539,245	--	5,506,405
Garage plant & equipment	4,090,097	38,179	--	4,128,276
Waste control equipment	80,390	--	--	80,390
Training equipment	21,615	--	--	21,615
Radios	162,479	--	--	162,479
Automotive equipment	4,089,968	6,644	--	4,096,612
Consultancy fees	<u>2,918,784</u>	<u>1,281</u>	<u>--</u>	<u>2,920,065</u>
	169,512,052	911,159	2,505,919	172,929,130
Work-in-progress	<u>2,333,029</u>	<u>5,532,647</u>	<u>(2,505,919)</u>	<u>5,359,757</u>
Total	<u>\$171,845,081</u>	<u>\$6,443,806</u>	<u>\$-</u>	<u>\$178,288,887</u>

WATER AND SEWERAGE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

4. FIXED ASSETS (cont'd)

New Providence

<u>Accumulated depreciation</u>	<u>1 January</u> <u>2004</u> \$	<u>Depreciation</u> <u>expense</u> \$	<u>31 December</u> <u>2004</u> \$
Buildings	567,015	57,325	624,340
Dock installations	1,040,052	--	1,040,052
Harbour improvements	7,781,587	452,268	8,233,855
Water wellfields & pumping stations	10,714,473	345,214	11,059,687
Sewer pumping stations	2,215,077	82,969	2,298,046
Storage tanks & reservoirs	1,392,283	77,796	1,470,079
Transmission & distribution mains	17,134,307	1,680,190	18,814,497
Water service lines & connections	5,973,724	509,344	6,483,068
Sewer connections & mains	9,895,406	611,022	10,506,428
Sewerage treatment plants	1,782,779	190,151	1,972,930
Office furniture & equipment	3,346,105	720,946	4,067,051
Garage plant & equipment	3,358,698	152,818	3,511,516
Waste control equipment	70,500	2,816	73,316
Training equipment	18,775	433	19,208
Radios	145,507	4,968	150,475
Automotive equipment	3,721,586	123,386	3,844,972
Consultancy fees	<u>2,536,279</u>	<u>77,914</u>	<u>2,614,193</u>
Total	<u>\$71,694,153</u>	<u>\$5,089,560</u>	<u>\$76,783,713</u>
Net book value	<u>\$100,150,928</u>		<u>\$101,505,174</u>

WATER AND SEWERAGE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

4. FIXED ASSETS (cont'd)

Family Islands

<u>Cost</u>	<u>1 January</u> <u>2004</u> \$	<u>Additions</u> \$	<u>Transfers</u> \$	<u>31 December</u> <u>2004</u> \$
Buildings	242,007	-	-	242,007
Water wellfields & pumping stations	6,020,992	460,180	168,951	6,650,123
Water service lines & connections	247,216	2,592	-	249,808
Sewer pumps	72,968	-	-	72,968
Sewer Treatment Plants	-	150,000	-	150,000
Storage tanks & reservoirs	1,719,858	-	-	1,719,858
Transmission & distribution mains	32,449,680	152,454	105,994	32,708,128
Office furniture & equipment	148,045	66,124	-	214,169
Radios	6,351	-	-	6,351
Garage plant & equipment	401,544	69,601	-	471,145
Automotive equipment	<u>1,101,732</u>	<u>-</u>	<u>-</u>	<u>1,101,732</u>
	42,410,393	900,951	274,945	43,586,289
Work-in-progress	<u>231,162</u>	<u>416,675</u>	<u>(274,945)</u>	<u>372,892</u>
Total	<u>\$42,641,555</u>	<u>\$1,317,626</u>	<u>\$-</u>	<u>\$43,959,181</u>

<u>Accumulated depreciation</u>	<u>1 January</u> <u>2004</u> \$	<u>Depreciation</u> <u>expense</u> \$	<u>31 December</u> <u>2004</u> \$
Buildings	136,903	6,051	142,954
Water wellfields & pumping stations	2,830,720	278,177	3,108,897
Water service lines & connections	38,389	7,468	45,857
Sewer pumping station	12,701	-	12,701
Storage tanks & reservoirs	604,412	45,361	649,773
Transmission & distribution mains	4,325,686	813,891	5,139,577
Office furniture & equipment	112,756	20,093	132,849
Radio	3,385	739	4,124
Garage plant & equipment	233,430	24,069	257,499
Automotive equipment	<u>913,989</u>	<u>72,792</u>	<u>986,781</u>
Total	<u>\$9,212,371</u>	<u>\$1,268,641</u>	<u>\$10,481,012</u>
Net book value	<u>\$33,429,184</u>		<u>\$33,478,169</u>

WATER AND SEWERAGE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

5. ACCOUNTS RECEIVABLE

	<u>2004</u> \$	<u>2003</u> \$
New Providence:		
Water	19,824,823	18,605,060
Sewerage	<u>2,703,390</u>	<u>2,329,779</u>
	22,528,213	20,934,839
Less: Allowance for doubtful accounts	<u>(17,760,487)</u>	<u>(17,760,487)</u>
	4,767,726	3,174,352
Other	<u>1,525,903</u>	<u>1,400,613</u>
	<u>6,293,629</u>	<u>4,574,965</u>
Family Islands:		
Water	6,410,468	5,647,554
Less: Allowance for doubtful accounts	<u>(5,383,250)</u>	<u>(5,382,480)</u>
	1,027,218	265,074
Other	<u>25,309</u>	<u>25,313</u>
	<u>1,052,527</u>	<u>290,387</u>
Total	<u><u>\$7,346,156</u></u>	<u><u>\$4,865,352</u></u>

New Providence receivables for water and sewerage include \$3,824,752 (2003 - \$1,374,820) due from Government ministries, departments, and corporations.

Family Islands water receivables include \$359,384 (2003 - \$91,469) due from Government ministries, departments and corporations.

6. BANK OVERDRAFT

The Corporation has overdraft facilities with two banks. The first facility, with a limit of \$2.8 million, is guaranteed by the Government and bear interest at 7.75% per annum. The second facility, with a limit of \$1.9 million, is supported by a letter of comfort from the Government and bear interest at 8.00% per annum.

WATER AND SEWERAGE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	<u>2004</u>	<u>2003</u>
	\$	\$
New Providence:		
Trade payables	1,348,284	1,104,743
Contributions to capital projects in progress (see below)	5,936,346	2,748,348
Interest payable	6,597,797	10,717,297
Defined benefit pension liability	22,789,320	24,058,092
Accrued liabilities	<u>11,155,857</u>	<u>7,815,570</u>
	<u>47,827,604</u>	<u>46,444,050</u>
Family Islands:		
Trade payables	275,394	224,127
Contributions to capital projects in progress (see below)	252,067	139,366
Defined benefit pension liability	2,460,408	2,460,408
Accrued liabilities	<u>2,118,893</u>	<u>1,400,469</u>
	<u>5,106,762</u>	<u>4,224,370</u>
Total	<u><u>\$52,934,366</u></u>	<u><u>\$50,668,420</u></u>

New Providence accounts payable and accrued liabilities include \$13,016,621 (2003 - \$14,075,476) due to Government ministries, departments, and corporations.

Family Island accounts payable and accrued liabilities include \$2,019,128 (2003 - \$998,850) due to Government ministries, departments, and corporations.

Contributions to capital projects in progress:

	<u>New Providence</u>	<u>Family Islands</u>	<u>Total</u>
	\$	\$	\$
Liability at 1 January 2004	2,748,348	139,366	2,887,714
Contributions received during the year	3,522,509	184,057	3,706,566
Contributions to projects completed during the year	<u>(334,511)</u>	<u>(71,356)</u>	<u>(405,867)</u>
Liability at 31 December 2004	<u><u>\$5,936,346</u></u>	<u><u>\$252,067</u></u>	<u><u>\$6,188,413</u></u>

WATER AND SEWERAGE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

8. LONG-TERM LOANS

	<u>2004</u>	<u>2003</u>
	\$	\$
The National Insurance Board	5,158,839	5,158,839
Inter-American Development Bank	10,000,256	10,516,283
European Investment Bank	—	1,499,822
Caribbean Development Bank	467,900	780,338
IBM	<u>390,134</u>	<u>162,231</u>
	16,017,129	18,117,513
Less: Amounts due within one year	<u>(5,806,364)</u>	<u>(6,591,903)</u>
	<u>\$10,210,765</u>	<u>\$11,525,610</u>

Included in amounts due within one year is a total of \$4,837,287 (2003 - \$4,467,286), which is overdue for repayment to The National Insurance Board.

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

(a) The National Insurance Board

The Corporation has two loans outstanding with The National Insurance Board, as follows:

- (i) The first loan is repayable in 30 semi-annual installments of \$289,760 from 1 July 1989, including principal and interest, which is charged at a rate of not less than 11% per annum.
- (ii) The second loan is repayable in 36 semi-annual installments of \$71,500 except for the last installment of \$72,547 from 1 July 1991, including principal and interest at the rate of 0.5% per annum below the prevailing Nassau Prime Rate.

On the 30 June 2005, the Government of the Bahamas repaid both loans on behalf of the Corporation.

WATER AND SEWERAGE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
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8. LONG-TERM LOANS (cont'd)

(b) Inter-American Development Bank

The Corporation has been granted a financing loan facility of US \$14,000,000 primarily in respect of The Family Island Water Improvement Project. Interest accrues on the disbursed portion of the loan facility at a rate of 7.03% per annum. Additionally a credit fee accrues on the undisbursed portion of the loan facility at a rate of 0.75% per annum. The loan is repayable in bi-annual installments, which commenced 25 September 2003 and will terminate no later than 25 March 2024.

(c) Caribbean Development Bank

Interest is charged on the withdrawn principal balance of the loan at 6.00%-6.75% per annum. The loan is repayable in sixty quarterly installments which commenced on 30 September 1991.

(d) IBM

The corporation has three loans outstanding with IBM.

- (i) The Corporation received a loan, payable in 36 monthly installments of \$4,477 commencing April 2003.
- (ii) The Corporation received a second loan, payable in 36 monthly installments of \$7,024 commencing January 2004.
- (iii) The Corporation received a third loan, payable in 36 monthly installments of \$4,912 commencing October 2004.

WATER AND SEWERAGE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

8. LONG-TERM LOANS (cont'd)

The loans described in (a), (b) and (c) above are guaranteed by the Government of The Commonwealth of The Bahamas.

Long-term loans repayable in more than one year, are due for repayment as noted below:

	<u>2004</u>	<u>2003</u>
	\$	\$
1- 5 years	1,935,278	2,137,502
More than 5 years	<u>8,275,487</u>	<u>9,388,108</u>
	<u>\$10,210,765</u>	<u>\$11,525,610</u>

9. EQUITY CONTRIBUTIONS

Equity contributions represent contributions to major capital projects received from the Government of the Commonwealth of The Bahamas. No contributions were received during the year. Distributions during the year are noted below:

	<u>New Providence</u>	<u>Family Islands</u>	<u>Total</u>
	\$	\$	\$
Balance at 1 January 2004	\$93,863,568	\$40,546,395	\$134,409,963
Distributions	<u>--</u>	<u>(1,963,362)</u>	<u>(1,963,362)</u>
Balance at 31 December 2004	<u>\$93,863,568</u>	<u>\$38,583,033</u>	<u>\$132,446,601</u>

WATER AND SEWERAGE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

10. OPERATING EXPENSES

	<u>2004</u>	<u>2003</u>
	\$	\$
<u>Water:</u>		
Staffing expense	6,607,417	6,751,982
Purchase of water	6,016,633	5,826,651
Shipping charter hire	4,763,685	5,051,496
Fuel and oil	2,382,115	1,973,598
Electricity	2,330,145	2,150,750
Repairs and maintenance	971,179	1,245,241
Bad debts and sundry provisions	561,527	1,300,845
Chemicals	252,166	233,635
Office services	174,163	136,855
Travel	81,330	41,916
Outside services	49,378	38,045
Other shipping	39,427	37,914
Public relations	5,768	6,318
Claims and damages	260	240
Miscellaneous	<u>(891)</u>	<u>35,784</u>
	<u>24,234,302</u>	<u>24,831,270</u>
	<u>2004</u>	<u>2003</u>
	\$	\$
<u>Sewerage:</u>		
Electricity	1,095,739	480,559
Staffing expense	1,020,649	951,314
Repairs and maintenance	215,530	231,437
Chemicals	64,171	60,004
Fuel and oil	15,440	13,268
Office services	6,360	4,412
Outside service	29	225
Miscellaneous	<u>4,593</u>	<u>8,912</u>
	<u>2,422,511</u>	<u>1,750,131</u>

WATER AND SEWERAGE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

10. OPERATING EXPENSES (cont'd)

	<u>2004</u>	<u>2003</u>
	\$	\$
<u>General and administrative:</u>		
Staffing expense	7,058,472	9,238,183
Administrative overhead	965,018	831,356
Office services	629,117	460,389
Professional and consultancy fees	479,172	538,247
Data processing	282,556	264,773
Repairs and maintenance	207,466	195,768
Public relations	196,978	142,979
Electricity	168,342	59,503
Bank charges	162,583	162,589
Training	104,356	87,333
Travel	71,283	32,949
Audit fees	61,586	47,095
Fuel and oil	52,979	36,634
Chemicals	1,429	2,683
Claims and damages	2,995	5,369
Miscellaneous	<u>39,088</u>	<u>37,380</u>
	<u>10,483,420</u>	<u>12,143,230</u>
Total	<u>\$37,140,233</u>	<u>\$38,724,631</u>

11. DEPRECIATION

	<u>2004</u>	<u>2003</u>
	\$	\$
Water	4,343,383	3,934,172
General and administrative	1,063,677	942,881
Sewerage	<u>951,141</u>	<u>995,207</u>
	<u>\$6,358,201</u>	<u>\$5,872,260</u>

WATER AND SEWERAGE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

12. OTHER INCOME

The interest rates on the arrears portion of the two long-term loans due to The National Insurance Board were reduced to Prime plus .375% from the date of default in consideration of the repayment of the loans in full. As a result of the interest reduction, the Corporation recognised a gain of \$4,076,765 in the statement of operations during the year. The loans were subsequently repaid on the 30 June 2005.

13. FINANCE CHARGES

	<u>2004</u>	<u>2003</u>
	\$	\$
Finance charges comprise of the following:		
Interest on pension obligation	--	3,137,553
Interest and commitment fees on long-term debt	704,693	892,535
Interest on bank overdraft	210,007	188,637
Interest on National Insurance contributions in arrears	--	69,501
	<u>\$914,700</u>	<u>\$4,288,226</u>

14. PENSION PLAN

Funded pension contributions are administered by a private insurance company as agent for The Corporation. However, the Corporation suspended funding contributions to the plan in 1989 and no monies are being withdrawn from the invested funds. The Corporation is paying directly all current retirement benefits, which totaled \$1,185,857 in 2004 (2003 - \$1,118,027).

	<u>2004</u>	<u>2003</u>
	\$	\$
Present value of funded obligations at 31 December	15,556,607	14,339,100
Fair value of plan assets at 31 December	<u>(15,556,607)</u>	<u>(14,339,100)</u>
	--	--
Present value of unfunded obligations at 31 December	36,176,138	34,780,000
Unrecognised actuarial losses	(10,046,811)	(7,319,100)
Unrecognised past service cost	<u>(879,600)</u>	<u>(942,400)</u>
Liability recognised in balance sheet at 31 December	<u>\$25,249,727</u>	<u>\$26,518,500</u>

The amounts recognised in the income statement are as follows:

WATER AND SEWERAGE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

14. PENSION PLAN (cont'd)

	<u>2004</u>	<u>2003</u>
	\$	\$
Current service cost	1,966,177	1,828,400
Interest on obligation	3,094,329	2,945,100
Expected return on plan assets	(1,007,240)	(944,900)
Net actuarial loss recognised in year	395,532	228,900
Past service cost	<u>62,800</u>	<u>62,800</u>
	\$4,511,598	\$4,120,300
Less: Previously accrued pension expense	(4,494,514)	--
Pension expense for the year	<u>\$17,084</u>	<u>\$4,120,300</u>

The Corporation's accrued pension obligation, as determined by the actuary, was reduced by \$4,494,514. The pension expense recognised in the current year was the net of the current year's pension costs less those pension costs, which were previously accrued.

The actual net return on plan assets during the year was \$110,230 (2003 - \$304,200).

Movements in the net liability recognised in the balance sheet are as follows:

	<u>2004</u>	<u>2003</u>
	\$	\$
Net liability at 1 January	26,518,500	22,798,200
Pension expense for the year	17,084	4,120,300
Contributions paid	<u>(1,285,857)</u>	<u>(400,000)</u>
Net liability at 31 December	<u>\$25,249,727</u>	<u>\$26,518,500</u>

Principal actuarial assumptions at the balance sheet date are as follows:

	<u>2004</u>	<u>2003</u>
Discount Rate	6.25% p.a.	6.25% p.a.
Expected rate of return on plan assets	7.00% p.a.	7.00% p.a.
Expected rate of salary increases	1.50% p.a.	4.00% p.a.
Expected average remaining working lives of employees (years)	17	16

WATER AND SEWERAGE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

15. CONTRACTUAL COMMITMENTS

Under a contract entered into on 7 May 1996 with Waterfields Company, the Corporation is contracted to purchase a minimum of 14 million imperial gallons of potable bulk water per week until the earlier of the delivery of 10,950 million imperial gallons of potable bulk water or fifteen years from the date of the first delivery which was 8 January 1999. If the Corporation is not able to purchase the minimum amount of water per week it must pay the fixed costs associated with the production of desalinated water in order to make up for any shortfall in the amount of water purchased.

16. INTEREST RATE RISK

Other than as stated in notes 6, 8 and 13, none of the Corporation's assets or liabilities have any exposure to interest rate risk.

17. FAIR VALUE OF FINANCIAL INSTRUMENTS

All of the Corporation's financial instruments are considered to have fair values equivalent to their carrying values.

18. MATURITIES OF FINANCIAL ASSETS AND LIABILITIES

Other than as stated in note 8 all of the Corporation's financial assets and liabilities are considered to be due within one year.

19. POST BALANCE SHEET EVENT

Subsequent to the year end the Corporation entered into an understanding with a third party, which will result in supplying potable water to the party at a fixed price of \$10 per 1,000 imperial gallons for a period of 5 years. Thereafter, the annual increase will be based on Consumer Price Index ratios.