

WATER AND SEWERAGE
CORPORATION
FINANCIAL STATEMENTS
31 DECEMBER 2005

DRAFT

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 2005 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 2005 and the results of its operations, changes in equity and cash flows for the year then ended, in accordance with International Financial Reporting Standards.

**Chartered Accountants
Nassau Bahamas
2006**

WATER AND SEWERAGE CORPORATION

BALANCE SHEET AS AT 31 DECEMBER 2005

(Expressed in Bahamian Dollars)

	<u>Note</u>	<u>2005</u> \$	<u>2004</u> \$
FIXED ASSETS	5	137,069,203	134,983,343
CURRENT ASSETS			
Cash at bank		4,039,138	3,262,531
Accounts receivable	6	10,432,495	7,346,156
Materials and supplies		1,130,891	930,192
Prepaid expenses and deposits		<u>98,357</u>	<u>90,843</u>
		15,700,881	11,629,722
CURRENT LIABILITIES			
Bank overdraft	7	2,398,416	4,201,313
Accounts payable and accrued liabilities	8	58,425,043	52,934,366
Customers' security deposits		3,244,058	2,889,746
Current portion of long-term loans	9	<u>748,673</u>	<u>5,806,364</u>
		64,816,190	65,831,789
NET CURRENT LIABILITIES		(49,115,309)	(54,202,067)
LONG-TERM LOANS	9	<u>(9,526,016)</u>	<u>(10,210,765)</u>
NET ASSETS		<u>\$78,427,878</u>	<u>\$70,570,511</u>
EQUITY			
Equity contributions	10	143,189,255	132,446,601
Accumulated deficit		(74,001,113)	(70,893,442)
Deferred income		<u>9,239,736</u>	<u>9,017,352</u>
		<u>\$78,427,878</u>	<u>\$70,570,511</u>

The statements were approved by the Board and authorised for issue on 2006, 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 2005**

	<u>Note</u>	<u>2005</u> \$	<u>2004</u> \$
OPERATING REVENUE			
Water		34,196,887	31,094,544
Sewerage		<u>3,176,939</u>	<u>3,941,198</u>
		<u>37,373,826</u>	<u>35,035,742</u>
OPERATING EXPENSES	11		
Water		30,443,995	24,234,302
Sewerage		3,598,159	2,422,511
General and administrative		<u>12,563,118</u>	<u>10,483,420</u>
		<u>46,605,272</u>	<u>37,140,233</u>
Loss from operations before depreciation		(9,231,446)	(2,104,491)
Depreciation	12	<u>(6,507,770)</u>	<u>(6,358,201)</u>
OPERATING LOSS		(15,739,216)	(8,462,692)
Other income	13	47,864	4,076,765
Miscellaneous income		1,035,701	444,261
Amortisation of deferred income		384,988	375,723
Net foreign exchange (loss)/gain		(77,192)	284,337
Finance charges	14	<u>(4,259,816)</u>	<u>(914,700)</u>
Net loss before Government subsidy		<u>(18,607,671)</u>	<u>(4,196,306)</u>
Government subsidy		<u>15,500,000</u>	<u>12,040,000</u>
NET (LOSS)/PROFIT FOR THE YEAR		<u><u>\$(3,107,671)</u></u>	<u><u>\$7,843,694</u></u>

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WATER AND SEWERAGE CORPORATION
NEW PROVIDENCE STATEMENT OF OPERATIONS
FOR THE YEAR ENDED 31 DECEMBER 2005

	<u>2005</u> \$	<u>2004</u> \$
OPERATING REVENUE		
Water	28,647,683	26,699,514
Sewerage	<u>3,176,939</u>	<u>3,941,198</u>
	<u>31,824,622</u>	<u>30,640,712</u>
OPERATING EXPENSES		
Water	23,674,352	18,603,465
Sewerage	3,598,159	2,422,511
General and administrative	<u>9,665,834</u>	<u>7,631,944</u>
	<u>36,938,345</u>	<u>28,657,920</u>
(Loss)/profit from operations before depreciation	(5,113,723)	1,982,792
Depreciation	<u>(5,213,401)</u>	<u>(5,089,560)</u>
OPERATING LOSS	(10,327,124)	(3,106,768)
Other income	47,864	4,076,765
Miscellaneous income	1,032,950	443,308
Amortisation of deferred income	377,800	368,693
Net foreign exchange (loss)/gain	(77,114)	283,674
Finance charges	<u>(4,142,810)</u>	<u>(916,111)</u>
Net (loss)/profit before Government subsidy	(13,088,434)	1,149,561
Government subsidy	<u>11,720,000</u>	<u>8,540,000</u>
NET (LOSS)/PROFIT FOR THE YEAR	<u><u>\$(1,368,434)</u></u>	<u><u>\$9,689,561</u></u>

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WATER AND SEWERAGE CORPORATION
FAMILY ISLANDS STATEMENT OF OPERATIONS
FOR THE YEAR ENDED 31 DECEMBER 2005

	<u>2005</u> \$	<u>2004</u> \$
OPERATING REVENUE		
Water	5,549,204	4,395,030
OPERATING EXPENSES		
Water	6,769,643	5,630,837
General and administrative	2,897,284	2,851,476
	9,666,927	8,482,313
Loss from operations before depreciation	(4,117,723)	(4,087,283)
Depreciation	(1,294,369)	(1,268,641)
OPERATING LOSS	(5,412,092)	(5,355,924)
Miscellaneous income	2,751	953
Amortisation of deferred income	7,188	7,030
Net foreign exchange (loss)/gain	(78)	663
Finance charges	(117,006)	1,411
Net loss before Government subsidy	(5,519,237)	(5,345,867)
Government subsidy	3,780,000	3,500,000
NET LOSS FOR THE YEAR	<u><u>\$(1,739,237)</u></u>	<u><u>\$(1,845,867)</u></u>

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WATER AND SEWERAGE CORPORATION
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2005

	<u>Equity contributions</u> \$	<u>Accumulated deficit</u> \$	<u>Deferred income</u> \$	<u>Total equity</u> \$
1 January 2004	134,409,963	(78,737,136)	8,987,208	64,660,035
Distributions	(1,963,362)	--	--	(1,963,362)
Net gain for the year	--	7,843,694	--	7,843,694
Contributions to projects completed during the year	--	--	405,867	405,867
Amortisation of deferred income	--	--	(375,723)	(375,723)
31 December 2004	132,446,601	(70,893,442)	9,017,352	70,570,511
Contributions	12,035,105	--	--	12,035,105
Distributions (note 10)	(1,292,451)	--	--	(1,292,451)
Net loss for the year	--	(3,107,671)	--	(3,107,671)
Contributions to projects completed during the year (note 8)	--	--	607,372	607,372
Amortisation of deferred income	--	--	(384,988)	(384,988)
31 December 2005	<u>\$143,189,255</u>	<u>\$(74,001,113)</u>	<u>\$9,239,736</u>	<u>\$78,427,878</u>

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WATER AND SEWERAGE CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2005

	<u>2005</u> \$	<u>2004</u> \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss)/gain for the year	(3,107,671)	7,843,694
Non-cash items:		
Depreciation	6,507,770	6,358,201
Amortisation of deferred income	(384,988)	(375,723)
Increase in non-cash operating working capital	2,550,437	249,274
Net cash provided by operating activities	<u>5,565,548</u>	<u>14,075,446</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	396,258	414,721
Repayment of long-term debt	(6,138,698)	(2,515,105)
Contributions to capital projects	607,372	405,867
Equity contributions	12,035,105	--
Equity distributions	(1,292,451)	(1,963,362)
Net cash provided/(used) by financing activities	<u>5,607,586</u>	<u>(3,657,879)</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(8,593,630)	(7,761,432)
Net cash used by investing activities	<u>(8,593,630)</u>	<u>(7,761,432)</u>
Net increase in cash and cash equivalents	2,579,504	2,656,135
Net cash and cash equivalents at beginning of the year	<u>(938,782)</u>	<u>(3,594,917)</u>
Net cash and cash equivalents at end of the year	<u>\$1,640,722</u>	<u>\$(938,782)</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 2005****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. BASIS OF PREPARATION

These financial statements are prepared on a going concern basis and in accordance with International Financial Reporting Standards (IFRS). The financial statements have also been prepared under the historical cost convention.

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the year. Actual results can differ from those estimates.

3. ACCOUNTING POLICIES**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.

WATER AND SEWERAGE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

3. ACCOUNTING POLICIES (cont'd)

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.

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

WATER AND SEWERAGE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

11. OPERATING EXPENSES

	<u>2005</u>	<u>2004</u>
	\$	\$
<u>Water:</u>		
Purchase of water	8,546,037	6,016,633
Staffing expense	6,448,258	6,607,417
Shipping charter hire	6,255,877	4,763,685
Fuel and oil	3,506,699	2,382,115
Electricity	2,892,920	2,330,145
Bad debts and sundry provisions	1,726,752	561,527
Repairs and maintenance	653,634	971,179
Office services	187,867	174,163
Chemicals	176,743	252,166
Travel	89,396	81,330
Outside services	45,440	49,378
Other shipping	43,311	39,427
Public relations	9,388	5,768
Data processing	5,606	260
Claims and damages	439	--
Training	174	--
Miscellaneous	(144,546)	(891)
	<u>30,443,995</u>	<u>24,234,302</u>

	<u>2005</u>	<u>2004</u>
	\$	\$
<u>Sewerage:</u>		
Electricity	2,544,232	1,095,739
Staffing expense	911,237	1,020,649
Repairs and maintenance	109,120	215,530
Fuel and oil	23,745	15,440
Office services	5,632	6,360
Chemicals	--	64,171
Public relations	--	29
Miscellaneous	4,193	4,593
	<u>3,598,159</u>	<u>2,422,511</u>

WATER AND SEWERAGE CORPORATIONNOTES TO THE FINANCIAL STATEMENTSFOR THE YEAR ENDED 31 DECEMBER 2005**11. OPERATING EXPENSES (cont'd)**

	<u>2005</u>	<u>2004</u>
	\$	\$
<u>General and administrative:</u>		
Staffing expense	8,814,729	7,058,472
Administrative overhead	928,973	965,018
Professional and consultancy fees	616,758	479,172
Office services	571,067	629,117
Repairs and maintenance	341,213	207,466
Electricity	295,313	168,342
Data processing	259,508	282,556
Public relations	188,475	196,978
Training	136,309	104,356
Bank charges	131,520	162,583
Travel	96,896	71,283
Fuel and oil	80,819	52,979
Audit fees	53,171	61,586
Claims and damages	8,339	2,995
Chemicals	1,643	1,429
Miscellaneous	38,385	39,088
	<u>12,563,118</u>	<u>10,483,420</u>
Total	<u>\$46,605,272</u>	<u>\$37,140,233</u>

12. DEPRECIATION

	<u>2005</u>	<u>2004</u>
	\$	\$
Water	4,441,051	4,343,383
General and administrative	1,109,609	1,063,677
Sewerage	<u>957,110</u>	<u>951,141</u>
	<u>\$6,507,770</u>	<u>\$6,358,201</u>

WATER AND SEWERAGE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

13. OTHER INCOME

In the prior year, 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.

14. FINANCE CHARGES

	<u>2005</u>	<u>2004</u>
	\$	\$
Finance charges comprise of the following:		
Interest on pension obligation	3,236,287	--
Interest and commitment fees on long-term debt	621,960	704,693
Interest on bank overdraft	125,855	210,007
Interest on National Insurance contributions in arrears	<u>275,714</u>	<u>--</u>
	<u>\$4,259,816</u>	<u>\$914,700</u>

15. 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 \$2,026,049 in 2005 (2004 - \$1,185,857).

	<u>2005</u>	<u>2004</u>
	\$	\$
Present value of funded obligations at 31 December	16,711,037	15,556,607
Fair value of plan assets at 31 December	<u>(16,711,037)</u>	<u>(15,556,607)</u>
	--	--
Present value of unfunded obligations at 31 December	40,698,016	36,176,138
Unrecognised actuarial losses	(12,051,294)	(10,046,811)
Unrecognised past service cost	<u>(816,800)</u>	<u>(879,600)</u>
Liability recognised in balance sheet at 31 December	<u>\$27,829,922</u>	<u>\$25,249,727</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 2005

15. PENSION PLAN (cont'd)

	<u>2005</u>	<u>2004</u>
	\$	\$
Current service cost	2,121,733	1,966,177
Interest on obligation	3,236,287	3,094,329
Expected return on plan assets	(1,088,963)	(1,007,240)
Net actuarial loss recognised in year	274,387	395,532
Past service cost	<u>62,800</u>	<u>62,800</u>
	\$4,606,244	\$4,511,598
Less: Previously accrued pension expense	<u>--</u>	<u>(4,494,514)</u>
Pension expense for the year	<u>\$4,606,244</u>	<u>\$17,084</u>

In the prior year, the Corporation's accrued pension obligation was reduced by \$4,494,514 as a result of a change in the actuarial estimate.

The actual net return on plan assets during the year was \$65,467 (2004 - \$110,230).

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

	<u>2005</u>	<u>2004</u>
	\$	\$
Net liability at 1 January	25,249,728	26,518,500
Pension expense for the year	4,606,244	17,084
Contributions paid	<u>(2,026,049)</u>	<u>(1,285,857)</u>
Net liability at 31 December	<u>\$27,829,923</u>	<u>\$25,249,727</u>

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

	<u>2005</u>	<u>2004</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.	1.50% p.a.
Expected average remaining working lives of employees (years)	17	17

WATER AND SEWERAGE CORPORATION**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2005****16. 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.

The Corporation has also entered into an agreement with a third party, which will result in supplying potable water to the party at a bulk 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.

17. INTEREST RATE RISK

Other than as stated in notes 7, 9 and 15, none of the Corporation's assets or liabilities have any exposure to interest rate risk.

18. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

19. MATURITIES OF FINANCIAL ASSETS AND LIABILITIES

All of the Corporation's current financial assets and liabilities are considered to be due within one year.

20. RELATED PARTY TRANSACTIONS

Salaries and other short-term benefits paid to key management totalled \$1,194,854 (2004: \$1,022,798).

WATER AND SEWERAGE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

21. POST BALANCE SHEET EVENT

Subsequent to the year end the Corporation entered into an understanding with a third party, which will result in supplying irrigation water to the party at a bulk price of \$8 per 1,000 imperial gallons for a period of 3 years. Thereafter, the annual increase will be based on Consumer Price Index ratios.