

WATER & SEWERAGE CORPORATION

FINANCIAL STATEMENTS

DECEMBER 31, 2006



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Water and Sewerage Corporation

We have audited the accompanying financial statements of Water and Sewerage Corporation, which comprise the balance sheet as at December 31, 2006, and the statement of operations, 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessments of risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the 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.

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Nassau | New Providence | Bahamas

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Water and Sewerage Corporation as of December 31, 2006 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

The financial statements for the year ended December 31, 2005 were audited by another firm of Chartered Accountants, who issued an unqualified opinion dated November 17, 2006.

A handwritten signature in black ink, appearing to read 'PKF', with a long horizontal stroke extending to the right.

July 27, 2007
Nassau, Bahamas

WATER AND SEWERAGE CORPORATION
BALANCE SHEET AS AT DECEMBER 31, 2006




(Expressed in Bahamian Dollars)

	<u>Notes</u>	<u>2006</u>	<u>2005</u>
FIXED ASSETS	5	<u>141,459,850</u>	<u>137,069,203</u>
CURRENT ASSETS			
Cash at bank		4,387,468	4,039,138
Accounts receivable	6	2,966,093	10,432,495
Materials and supplies		1,289,100	1,130,891
Prepaid expenses and deposits		<u>234,508</u>	<u>98,357</u>
		8,877,169	15,700,881
CURRENT LIABILITIES			
Bank overdraft	7	1,855,911	2,398,416
Accounts payable and accrued liabilities	8	53,549,407	58,425,043
Customers' equity deposits		3,528,154	3,244,058
Current portion of long-term debt	9	<u>682,171</u>	<u>748,673</u>
		<u>59,615,643</u>	<u>64,816,190</u>
NET CURRENT LIABILITIES		(50,738,474)	(49,115,309)
LONG-TERM DEBT	9	<u>(8,586,260)</u>	<u>(9,526,016)</u>
NET ASSETS		<u>\$ 82,135,116</u>	<u>\$ 78,427,878</u>
EQUITY			
Equity contributions	10	145,395,271	143,189,255
Accumulated deficit (Page 7)		(73,221,872)	(74,001,113)
Deferred income (Page 7)		<u>9,961,717</u>	<u>9,239,736</u>
		<u>\$ 82,135,116</u>	<u>\$ 78,427,878</u>

Approved by the Board:


 Chairman


 Board Member

July 27, 2007
 Date

The notes on pages 8 to 26 form an integral part of these financial statements.

WATER AND SEWERAGE CORPORATION
BALANCE SHEET AS AT DECEMBER 31, 2006




(Expressed in Bahamian Dollars)

	<u>Notes</u>	<u>2006</u>	<u>2005</u>
FIXED ASSETS	5	<u>141,459,850</u>	<u>137,069,203</u>
CURRENT ASSETS			
Cash at bank		4,387,468	4,039,138
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Approved by the Board:


Chairman


Board Member

July 27, 2007
Date

The notes on pages 8 to 26 form an integral part of these financial statements.

WATER AND SEWERAGE CORPORATION

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2006

(Expressed in Bahamian Dollars)



	<u>Notes</u>	<u>2006</u>	<u>2005</u>
OPERATING REVENUE			
Water		39,074,721	34,196,887
Sewerage		<u>3,738,684</u>	<u>3,176,939</u>
		<u>42,813,405</u>	<u>37,373,826</u>
OPERATING EXPENSES	11		
Water		38,562,041	30,443,995
Sewerage		(398,920)	3,598,159
General and administrative		<u>13,244,313</u>	<u>12,563,118</u>
		<u>51,407,434</u>	<u>46,605,272</u>
Loss from operations before depreciation		(8,594,029)	(9,231,446)
Depreciation	5,12	<u>(7,090,226)</u>	<u>(6,507,770)</u>
OPERATING LOSS		(15,684,255)	(15,739,216)
Other income	13	59,653	47,864
Miscellaneous income		668,732	1,035,701
Amortization of deferred income		415,071	384,988
Net foreign exchange loss		(87,568)	(77,192)
Finance charges	14	<u>(4,392,392)</u>	<u>(4,259,816)</u>
Net Loss before Government Subsidy		(19,020,759)	(18,607,671)
Government subsidy		<u>19,800,000</u>	<u>15,500,000</u>
NET PROFIT/(LOSS) FOR THE YEAR		<u>\$ 779,241</u>	<u>\$ (3,107,671)</u>

The notes on pages 8 to 26 form an integral part of these financial statements.

WATER AND SEWERAGE CORPORATION
NEW PROVIDENCE STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2006



(Expressed in Bahamian Dollars)

	<u>2006</u>	<u>2005</u>
OPERATING REVENUE		
Water	33,471,803	28,647,683
Sewerage	<u>3,738,684</u>	<u>3,176,939</u>
	<u>37,210,487</u>	<u>31,824,622</u>
OPERATING EXPENSES		
Water	28,534,398	23,674,352
Sewerage	(398,920)	3,598,159
General and administrative	<u>9,761,919</u>	<u>9,665,834</u>
	<u>37,897,397</u>	<u>36,938,345</u>
Loss from operations before depreciation	(686,910)	(5,113,723)
Depreciation	<u>(5,747,285)</u>	<u>(5,213,401)</u>
OPERATING LOSS	(6,434,195)	(10,327,124)
Other income	59,653	47,864
Miscellaneous income	667,419	1,032,950
Amortization of deferred income	404,170	377,800
Net foreign exchange loss	(87,535)	(77,114)
Finance charges	<u>(4,275,434)</u>	<u>(4,142,810)</u>
Net Loss before Government Subsidy	(9,665,922)	(13,088,434)
Government subsidy	<u>16,325,000</u>	<u>11,720,000</u>
NET PROFIT/(LOSS) FOR THE YEAR	<u>\$ 6,659,078</u>	<u>\$ (1,368,434)</u>

The notes on pages 8 to 26 form an integral part of these financial statements.

FOR THE YEAR ENDED DECEMBER 31, 2006

(Expressed in Bahamian Dollars)

	<u>2006</u>	<u>2005</u>
OPERATING REVENUE		
Water	5,602,918	5,549,204
OPERATING EXPENSES		
Water	10,027,643	6,769,643
General and administrative	<u>3,482,394</u>	<u>2,897,284</u>
	<u>13,510,037</u>	<u>9,666,927</u>
Loss from operations before depreciation	(7,907,119)	(4,117,723)
Depreciation	<u>(1,342,941)</u>	<u>(1,294,369)</u>
OPERATING LOSS	<u>(9,250,060)</u>	<u>(5,412,092)</u>
Miscellaneous income	1,313	2,751
Amortization of deferred income	10,901	7,188
Net foreign exchange loss	(33)	(78)
Finance charges	<u>(116,958)</u>	<u>(117,006)</u>
Net Loss before Government Subsidy	<u>(9,354,837)</u>	<u>(5,519,237)</u>
Government subsidy	<u>3,475,000</u>	<u>3,780,000</u>
NET LOSS FOR THE YEAR	<u><u>\$ (5,879,837)</u></u>	<u><u>\$ (1,739,237)</u></u>

The notes on pages 8 to 26 form an integral part of these financial statements.

WATER AND SEWERAGE CORPORATION

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2006



(Expressed in Bahamian Dollars)

	Equity contributions	Accumulated deficit	Deferred income	Total equity
January 1, 2005	132,446,601	(70,893,442)	9,017,352	70,570,511
Contributions	12,035,105	-	-	12,035,105
Distributions	(1,292,451)	-	-	(1,292,451)
Net loss for the year (Page 4)	-	(3,107,671)	-	(3,107,671)
Contribution to projects completed during the year	-	-	607,372	607,372
Amortization of deferred income	-	-	(384,988)	(384,988)
December 31, 2005	143,189,255	(74,001,113)	9,239,736	78,427,878
Contributions	4,150,000	-	-	4,150,000
Distributions (Note 10)	(1,943,984)	-	-	(1,943,984)
Net profit for the year (Page 4)	-	779,241	-	779,241
Contributions to projects completed during the year (Note 8)	-	-	1,137,052	1,137,052
Amortization of deferred income	-	-	(415,071)	(415,071)
December 31, 2006	<u>\$ 145,395,271</u>	<u>\$ (73,221,872)</u>	<u>\$ 9,961,717</u>	<u>\$ 82,135,116</u>

The notes on pages 8 to 26 form an integral part of these financial statements.

WATER AND SEWERAGE CORPORATION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2006

(Expressed in Bahamian Dollars)



	<u>Notes</u>	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net profit/(loss) for the year		779,241	(3,107,671)
Non-cash items:			
Depreciation	5	7,090,226	6,507,770
Amortization of deferred income		(415,071)	(384,988)
Increase in non-cash operating working capital		2,580,502	2,550,437
Net Cash Provided by Operating Activities		<u>10,034,898</u>	<u>5,565,548</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from long-term debt		-	396,258
Repayment of long-term debt		(1,006,258)	(6,138,698)
Contributions to capital projects		1,137,052	607,372
Equity contributions	10	4,150,000	12,035,105
Equity distributions	10	(1,943,984)	(1,292,451)
Net Cash Provided by Financing Activities		<u>2,336,810</u>	<u>5,607,586</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of fixed assets	5	(11,480,873)	(8,593,630)
Net Cash Used in Investing Activities		<u>(11,480,873)</u>	<u>(8,593,630)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		890,835	2,579,504
Net Cash and Cash Equivalents, beginning of year		<u>1,640,722</u>	<u>(938,782)</u>
Net Cash and Cash Equivalents, end of year		<u><u>\$ 2,531,557</u></u>	<u><u>\$ 1,640,722</u></u>

The notes on pages 8 to 26 form an integral part of these financial statements.

WATER AND SEWERAGE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006



1. ORGANIZATION

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

2. BASIS OF PREPARATION

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

These financial statements are expressed in **Bahamian dollars**.

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. IFRS include International Accounting Standards (IAS) and interpretations issued by the International Accounting Standards Board. Significant accounting policies adopted in order to assist in the general understanding of the financial statements are as follows:

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 DECEMBER 31, 2006



3. ACCOUNTING POLICIES (Continued)

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 July 1, 1989 is based on original cost less accumulated depreciation at the point of transfer. Subsequently 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 and pumping stations	20 - 25 years
Sewer pumps and pumping stations	20 - 25 years
Storage tanks and reservoirs	36 - 40 years
Transmission and distribution mains	36 - 40 years
Water service lines and connections	20 - 25 years
Sewer connections and mains	37 - 50 years
Sewerage treatment plants	30 years
Office furniture and equipment	5 years
Garage plant and equipment	10 years
Waste control equipment	10 years
Training equipment	10 years
Radios	10 years
Automotive equipment	5 years
Consultancy fees	5 years

Deferred revenue

The Corporation requires new subdivision developers to pay a proportional impact fee that set aside to defray future infrastructural costs associated with adding new customers. This deferred revenue is amortized over 25 years.

WATER AND SEWERAGE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006



3. ACCOUNTING POLICIES (Continued)

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.

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 amortized over the expected average remaining working lives of the participating employees. Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the amended benefits become vested.

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

WATER AND SEWERAGE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006



4. 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.

5. FIXED ASSETS

Cost	January 1, 2006	Additions	Transfers	December 31, 2006
Land	4,000	-	-	4,000
Building	3,337,753	1,121	-	3,338,874
Dock installations	1,040,052	-	-	1,040,052
Harbour improvements	17,202,254	-	-	17,202,254
Water wellfields and pumping stations	20,338,944	51,136	19,228	20,409,308
Sewer pumping stations	3,433,792	98,263	-	3,532,055
Storage pumping stations	4,887,203	-	-	4,887,203
Transmission and distribution mains	109,977,039	191,757	5,709,903	115,878,699
Water service lines and connections	14,367,665	-	186,744	14,554,409
Sewer connections and mains	26,669,098	-	-	26,669,098
Sewer treatment plants	6,443,917	-	-	6,443,917
Office furniture and equipment	6,441,258	165,381	-	6,606,639
Garage plant and equipment	4,616,692	28,355	-	4,645,047
Waste control equipment	80,390	-	-	80,390
Training equipment	21,615	-	-	21,615
Radios	171,109	-	-	171,109
Automotive equipment	5,483,521	68,178	-	5,551,699
Consultancy fees	2,920,176	-	-	2,920,176
	227,436,478	604,191	5,915,875	233,956,544
Work-in-progress	3,405,220	10,876,682	(5,915,875)	8,366,027
Total	\$ 230,841,698	\$ 11,480,873	\$ -	\$ 242,322,571

WATER AND SEWERAGE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006



5. FIXED ASSETS (Continued)

New Providence

<u>Cost</u>	<u>January 1 2006</u>	<u>Additions</u>	<u>Transfers</u>	<u>December 31 2006</u>
Land	4,000	-	-	4,000
Buildings	3,082,814	1,121	-	3,083,935
Dock installations	1,040,052	-	-	1,040,052
Harbour improvements	17,202,254	-	-	17,202,254
Water wellfields and pumping stations	13,682,927	37,095	-	13,720,022
Sewer pumping stations	3,360,824	98,263	-	3,459,087
Storage pumping stations	3,167,345	-	-	3,167,345
Transmission and distribution mains	76,923,454	160,193	5,652,750	82,736,397
Water service lines and connections	13,787,147	-	-	13,787,147
Sewer connections and mains	26,669,098	-	-	26,669,098
Sewer treatment plants	6,293,917	-	-	6,293,917
Office furniture and equipment	6,217,132	144,930	-	6,362,062
Garage plant and equipment	4,141,729	16,713	-	4,158,442
Waste control equipment	80,390	-	-	80,390
Training equipment	21,615	-	-	21,615
Radios	164,758	-	-	164,758
Automotive equipment	4,331,857	40,500	-	4,372,357
Consultancy fees	2,920,176	-	-	2,920,176
	183,091,489	498,815	5,652,750	189,243,054
Work-in-progress	3,334,864	7,901,279	(5,658,052)	5,578,091
Total	\$ 186,426,353	\$ 8,400,094	\$ (5,302)	\$ 194,821,145

WATER AND SEWERAGE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006



5. FIXED ASSETS (Continued)

New Providence

<u>Accumulated depreciation</u>	<u>January 1 2006</u>	<u>Depreciation expense</u>	<u>December 31 2006</u>
Buildings	684,747	71,658	756,405
Dock installations	1,040,052	-	1,040,052
Harbour improvements	8,686,176	451,625	9,137,801
Water wellfields and pumping stations	11,401,053	357,528	11,758,581
Sewer pumping stations	2,385,070	91,133	2,476,203
Storage pumping stations	1,547,990	78,995	1,626,985
Transmission and distribution mains	20,570,033	1,966,560	22,536,593
Water service lines and connections	6,992,132	1,199,444	8,191,576
Sewer connections and mains	11,117,536	609,231	11,726,767
Sewer treatment plants	2,164,712	209,175	2,373,887
Office furniture and equipment	4,843,079	363,358	5,206,437
Garage plant and equipment	3,663,282	132,357	3,795,639
Waste control equipment	75,707	2,276	77,983
Training equipment	19,569	358	19,927
Radios	154,291	3,090	157,381
Automotive equipment	3,959,564	134,003	4,093,567
Consultancy fees	2,692,121	76,494	2,768,615
Total	\$ 81,997,114	\$ 5,747,285	\$ 87,744,399
Net book value	\$ 104,429,239		\$ 107,076,746

WATER AND SEWERAGE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006



5. FIXED ASSETS (Continued)

Family Islands

<u>Cost</u>	<u>January 1, 2006</u>	<u>Additions</u>	<u>Transfers</u>	<u>December 31, 2006</u>
Buildings	254,939	-	-	254,939
Water wellfields and pumping stations	6,656,017	14,041	19,228	6,689,286
Water service lines and connections	580,518	-	186,744	767,262
Sewer pumping station	72,968	-	-	72,968
Sewer treatment plants	150,000	-	-	150,000
Storage tanks and reservoirs	1,719,858	-	-	1,719,858
Transmission and distributions mains	33,053,585	31,563	57,153	33,142,301
Office furniture and equipment	224,126	20,451	-	244,577
Radios	6,351	-	-	6,351
Garage plant and equipment	474,963	11,642	-	486,605
Automotive equipment	1,151,664	27,678	-	1,179,342
	44,344,989	105,375	263,125	44,713,489
Work-in-progress	70,356	2,975,403	(257,823)	2,787,936
Total	\$ 44,415,345	\$ 3,080,778	\$ 5,302	\$ 47,501,425

<u>Accumulated depreciation</u>	<u>January 1, 2006</u>	<u>Depreciation expense</u>	<u>December 31, 2006</u>
Buildings	149,031	6,348	155,379
Water wellfields and pumping stations	3,413,595	296,634	3,710,229
Water service lines and connections	54,761	73,442	128,203
Sewer pumping station	12,950	124	13,074
Sewer treatment plants	9,698	7,336	17,034
Storage tanks and reservoirs	690,436	42,842	733,278
Transmission and distributions mains	5,959,868	817,214	6,777,082
Office furniture and equipment	155,699	18,788	174,487
Radios	4,447	754	5,201
Garage plant and equipment	287,063	29,133	316,196
Automotive equipment	1,037,833	50,326	1,088,159
Total	\$ 11,775,381	\$ 1,342,941	\$ 13,118,322
Net book value	\$ 32,639,964		\$ 34,383,103

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

	<u>2006</u>	<u>2005</u>
New Providence:		
Water	16,548,687	21,159,048
Sewerage	<u>2,955,367</u>	<u>3,091,275</u>
	19,504,054	24,250,323
Less: Allowance for doubtful accounts	<u>(18,914,851)</u>	<u>(18,360,487)</u>
	589,203	5,889,836
Other	<u>2,063,320</u>	<u>2,661,741</u>
	<u>2,652,523</u>	<u>8,551,577</u>
Family Islands:		
Water	7,040,536	7,240,255
Less: Allowance for doubtful accounts	<u>(6,814,960)</u>	<u>(5,384,646)</u>
	225,576	1,855,609
Other	<u>87,994</u>	<u>25,309</u>
	<u>313,570</u>	<u>1,880,918</u>
Total	<u>\$ 2,966,093</u>	<u>\$ 10,432,495</u>

New Providence receivables for water and sewerage are net of a credit of \$3,591,913 due to (2005: \$4,774,022 due from) Government ministries, departments and corporations.

Family Islands water receivables are net of a credit of \$1,197,304 due to (2005: \$466,905 due from) Government ministries, departments and corporations.

7. BANK OVERDRAFT

The Corporation has overdraft facilities with two banks. The first facility, with a limit of \$2.8 million, is guaranteed by the Government and bears interest at 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 bears interest at 8.00% per annum.

WATER AND SEWERAGE CORPORATION
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8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	<u>2006</u>	<u>2005</u>
New Providence:		
Trade payables	2,324,392	1,640,708
Contributions to capital projects in progress (See below)	7,975,321	7,765,037
Interest payable	9,245	9,245
Defined benefit pension liability (See Note 15)	26,879,255	24,925,639
Accrued liabilities	6,028,698	16,701,424
	<u>43,216,911</u>	<u>51,042,053</u>
Family Islands:		
Trade payables	677,317	346,484
Contributions to capital projects in progress (See below)	736,167	541,067
Defined benefits pension liability	3,310,208	2,904,288
Accrued liabilities	5,608,804	3,591,151
	<u>10,332,496</u>	<u>7,382,990</u>
Total	<u>\$ 53,549,407</u>	<u>\$ 58,425,043</u>

New Providence accounts payable and accrued liabilities include \$4,206,812 (2005: \$11,234,934) due to Government ministries, departments and corporations.

Family Island accounts payable and accrued liabilities include \$4,146,853 (2005: \$2,863,530) due to Government ministries, departments and corporations.

Contributions to capital projects in progress:

	<u>New Providence</u>	<u>Family Island</u>	<u>Total</u>
Liability at January 1, 2006	7,765,037	541,067	8,306,104
Contributions received during the year	1,247,336	295,100	1,542,436
Contributions to projects completed during the year	(1,037,052)	(100,000)	(1,137,052)
Liability at December 31, 2006	<u>\$ 7,975,321</u>	<u>\$ 736,167</u>	<u>\$ 8,711,488</u>

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9. LONG-TERM DEBT

These comprise the following:

	<u>2006</u>	<u>2005</u>
(a) Inter-American Development Bank	8,977,315	9,490,304
(b) Caribbean Development Bank	-	203,773
(c) IBM	274,132	536,735
(d) British American Bank	16,984	43,877
	<u>9,268,431</u>	<u>10,274,689</u>
Less: Amounts due within one year	<u>(682,171)</u>	<u>(748,673)</u>
	<u>\$ 8,586,260</u>	<u>\$ 9,526,016</u>

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

(a) Inter-American Development Bank

The Corporation was granted a loan facility of US \$14,000,000 in 1999 from the Inter-American Development Bank primarily for The Family Island Water Improvement Project. Only \$10,632,274 of this facility had been drawn-down, and the residual amount of the facility of \$ 3,367,726 was subsequently cancelled. Interest accrues on the disbursed portion of the loan facility at a rate of 5.41% per annum. The loan is repayable in bi-annual installments of \$120,162, which commenced on September 25, 2003, and will terminate no later than March 25, 2024. The outstanding balance at December 31, 2006 is \$ **8,977,315** (\$9,490,304 in 2005).

The above loan is guaranteed by the Government of The Commonwealth of The Bahamas.

(b) Caribbean Development Bank

The Corporation obtained a loan facility of \$7,500,000 from the Caribbean Development Bank in March, 1993 to provide funding to assist with the water supply improvement project for Eleuthera. Interest was charged on the withdrawn principal balance of the loan at 6.00% - 6.75% per annum. The loan which was repayable in sixty quarterly installments was **repaid** in 2006. The outstanding balance at December 31, 2006 is \$ **nil** (\$ 203,773 in 2005).

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9. LONG-TERM DEBT (Continued)

(c) **IBM**

The Corporation has the following financing arrangements with IBM for the purpose of computer equipment, software and other services.

- (i) The Corporation entered into an arrangement for \$ 150,798, payable in 36 monthly installments of \$4,477, which commenced in April, 2003. This arrangement was satisfied in 2006. The outstanding balance at December 31, 2006 is \$ nil (\$13,501 in 2005).
- (ii) The Corporation entered into an arrangement for \$ 247,633, payable in 36 monthly installments of \$7,024, which commenced in January, 2004. This arrangement was satisfied in 2006. The outstanding balance at December 31, 2006 is \$ nil (\$ 84, 721 in 2005).
- (iii) The Corporation entered into an arrangement for \$ 167,088, payable in 36 monthly installments of \$4,912, which commenced in October, 2004. The outstanding balance at December 31, 2006 is \$ 44,078 (\$100,970 in 2005).
- (iv) The Corporation entered into an arrangement for \$ 112,162, payable in 36 monthly installments of \$3,559, which commenced in January, 2005. The outstanding balance at December 31, 2006 is \$75,969 (\$110,798 in 2005).
- (v) The Corporation entered into an arrangement for \$ 229,706, payable in 36 monthly installments of \$7,084, which commenced in July 2005. The outstanding balance at December 31, 2006 is \$ 154,085 (\$226,745 in 2005).

(d) **British American Bank**

The Corporation entered into an arrangement for \$ 54,388 to purchase equipment. This arrangement, which commenced in August, 2005, is payable in 24 monthly installments of \$2,639. The outstanding balance at December 31, 2006 is \$ 16, 984 (\$ 43,877 in 2005).

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9. LONG-TERM DEBT (Continued)

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

	<u>2006</u>	<u>2005</u>
1-5 years	2,648,882	1,878,615
More than 5 years	<u>5,937,378</u>	<u>7,647,401</u>
	<u>\$ 8,586,260</u>	<u>\$ 9,526,016</u>

10. EQUITY CONTRIBUTIONS

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

	<u>New Providence</u>	<u>Family Islands</u>	<u>2006 Total</u>	<u>2005 Total</u>
Balance at January 1	105,898,673	37,290,582	143,189,255	132,446,601
Contributions	-	4,150,000	4,150,000	12,035,105
Distributions	<u>-</u>	<u>(1,943,984)</u>	<u>(1,943,984)</u>	<u>(1,292,451)</u>
Balance at December 31	<u>\$ 105,898,673</u>	<u>\$ 39,496,598</u>	<u>\$ 145,395,271</u>	<u>\$ 143,189,255</u>

WATER AND SEWERAGE CORPORATION

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FOR THE YEAR ENDED DECEMBER 31, 2006



11. OPERATING EXPENSES

	<u>2006</u>	<u>2005</u>
Water:		
Purchase of water	14,771,772	8,546,037
Staffing expense	7,200,518	6,448,258
Shipping charter hire	5,230,224	6,255,877
Fuel and oil	3,213,491	3,506,699
Electricity	3,072,692	2,892,920
Bad debts and sundry provisions	3,644,019	1,726,752
Repairs and maintenance	718,651	653,634
Office services	215,363	187,867
Chemicals	212,510	176,743
Travel	123,873	89,396
Outside services	53,557	45,440
Other shipping	36,806	43,311
Public relations	11,231	9,388
Data processing	2,335	5,606
Claims and damages	1,671	439
Training	607	174
Miscellaneous	52,721	(144,546)
	<u>\$38,562,041</u>	<u>\$30,443,995</u>
	<u>2006</u>	<u>2005</u>
Sewerage:		
Electricity	(1,723,433) *	2,544,232
Staffing expense	1,143,627	911,237
Repairs and maintenance	139,544	109,120
Fuel and oil	28,536	23,745
Office services	9,481	5,632
Data processing	1,926	-
Chemicals	135	-
Public relations	177	-
Miscellaneous	1,087	4,193
	<u>(\$398,920)</u>	<u>\$3,598,159</u>

* Included in this amount is a credit adjustment from the Bahamas Electricity Corporation of \$ 2.6M for excess electricity charges assessed at the Corporation's Malcolm Park Wastewater Facility from 2003 to 2006.

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FOR THE YEAR ENDED DECEMBER 31, 2006



11. OPERATING EXPENSES (Continued)

	<u>2006</u>	<u>2005</u>
General and administrative:		
Staffing expense	8,900,593	8,814,729
Administrative overhead	1,095,577	928,973
Professional and consultancy fees	863,739	616,758
Office services	504,889	571,067
Repairs and maintenance	415,979	341,213
Electricity	23,049	295,313
Data processing	328,261	259,508
Public relations	307,819	188,475
Training	188,043	136,309
Bank charges	176,756	131,520
Travel	129,184	96,896
Fuel and oil	100,626	80,819
Audit fees	53,016	53,171
Claims and damages	7,837	8,339
Chemicals	1,483	1,643
Miscellaneous	147,462	38,385
	<u>\$13,244,313</u>	<u>\$12,563,118</u>
Total	<u>\$ 51,407,434</u>	<u>\$ 46,605,272</u>

12. DEPRECIATION

	<u>2006</u>	<u>2005</u>
Water	5,401,658	4,441,051
General and administrative	987,045	1,109,609
Sewerage	701,523	957,110
	<u>\$ 7,090,226</u>	<u>\$ 6,507,770</u>

WATER AND SEWERAGE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

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13. INTEREST RATE RISK

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

14. FINANCE CHARGES

Finance charges comprise of the following:

	<u>2006</u>	<u>2005</u>
Interest on pension obligation	3,573,438	3,236,287
Interest and commitments fees on long-term debt	661,652	621,960
Interest on bank overdraft	52,977	125,855
Interest on national insurance contributions in arrears	93,524	275,714
Other	10,801	-
	<u>\$ 4,392,392</u>	<u>\$ 4,259,816</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 \$2,664,400 in 2006 (2005: \$2,026,049).

	<u>2006</u>	<u>2005</u>
Present value of funded obligations at December 31	62,052,585	57,409,053
Fair value of plan assets at December 31	<u>(17,795,301)</u>	<u>(16,711,037)</u>
Present value of unfunded obligations at December 31	44,257,284	40,698,016
Unrecognized actuarial losses	(13,313,824)	(12,051,294)
Unrecognized past service cost	<u>(754,000)</u>	<u>(816,800)</u>
Liability recognized in balance sheet at December 31	<u>\$ 30,189,460</u>	<u>\$ 27,829,922</u>

WATER AND SEWERAGE CORPORATION

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15. PENSION PLAN (Continued)

	<u>2006</u>	<u>2005</u>
Current service cost	2,196,310	2,121,733
Interest on obligation	3,573,438	3,236,287
Expected return on plan assets	(1,169,773)	(1,088,963)
Net actuarial loss recognized in year	361,162	274,387
Past service cost	62,800	62,800
	<u>\$ 5,023,937</u>	<u>\$ 4,606,244</u>
Less: Previously accrued pension expense	-	-
Pension expense for the year	<u><u>\$ 5,023,937</u></u>	<u><u>\$ 4,606,244</u></u>

The actual net result on plan assets during the year was a loss of (\$85,508) (2005: \$65,467 gain).

Movements in the net liability recognized in the balance sheet as follows:

	<u>2006</u>	<u>2005</u>
Net liability at January 1	27,829,923	25,249,728
Pension expense for the year	5,023,937	4,606,244
Contributions paid	(2,664,400)	(2,026,049)
Net liability at December 31	<u><u>\$ 30,189,460</u></u>	<u><u>\$ 27,829,923</u></u>

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

	<u>2006</u>	<u>2005</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 increase	1.50% p.a.	1.50% p.a.
Expected average remaining working lives of employees (years)	17	17

WATER AND SEWERAGE CORPORATION

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16. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

17. RELATED PARTY TRANSACTIONS

Salaries and other short-term benefits paid to key management totalled \$1,435,853 (2005: \$1,194,854).