

WATER AND SEWERAGE CORPORATION

FINANCIAL STATEMENTS

DECEMBER 31, 2007

WATER & SEWERAGE CORPORATION

FINANCIAL STATEMENTS

DECEMBER 31, 2007



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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, 2007, and the income statement, statement of changes in equity and cashflow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls 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 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 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 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.

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Auditors' Responsibility (Continued)

Without qualifying our report, we draw your attention to Note 4 regarding the continued operations of the Corporation. Despite a net current liability of \$66,941,101 at December 31, 2007, the Corporation's continuance and ability to meet its obligations are dependent on the Bahamas Government's funding of its operations.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Water and Sewerage Corporation as of December 31, 2007 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



July 11, 2008
Nassau, Bahamas

WATER AND SEWERAGE CORPORATION

BALANCE SHEET

DECEMBER 31, 2007



(Expressed in Bahamian Dollars)

	Notes	2007	2006
FIXED ASSETS	5	171,655,894	141,459,850
CURRENT ASSETS			
Cash at bank		642,565	4,387,468
Accounts receivable	6	1,877,471	2,966,093
Materials and supplies		1,496,810	1,289,100
Prepaid expenses and deposits		179,101	234,508
		4,195,947	8,877,169
CURRENT LIABILITIES			
Bank overdraft	7	4,156,085	1,855,911
Accounts payable and accrued liabilities	8	62,656,842	53,549,407
Customers' equity deposits		3,703,295	3,528,154
Current portion of long-term debt	9	620,826	682,171
		71,137,048	59,615,643
NET CURRENT LIABILITIES		(66,941,101)	(50,738,474)
LONG-TERM DEBT - Non Current Portion	9	(7,957,669)	(8,586,260)
NET ASSETS		\$ 96,757,124	\$ 82,135,116
EQUITY			
Equity contributions	10	143,830,006	145,395,271
Accumulated deficit (Page 7)		(77,129,244)	(73,221,872)
Deferred income (Page 7)		30,056,362	9,961,717
		\$ 96,757,124	\$ 82,135,116

Approved by the Board of Directors and authorized for issuance on October 8, 2008:



Chairman



Board Member

The notes form an integral part of these financial statements.

WATER AND SEWERAGE CORPORATION

INCOME STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2007

(Expressed in Bahamian Dollars)



	Notes	2007	2006
OPERATING REVENUE			
Water		34,463,460	39,074,721
Sewerage		3,772,124	3,738,684
		38,235,584	42,813,405
OPERATING EXPENSES	11		
Water		36,399,300	38,562,041
Sewerage		2,263,156	(398,920)
General and administrative		14,346,846	13,244,313
		53,009,302	51,407,434
Loss from operations before depreciation		(14,773,718)	(8,594,029)
Depreciation	5,12	(6,552,733)	(7,090,226)
OPERATING LOSS		(21,326,451)	(15,684,255)
Other income		32,244	59,653
Miscellaneous income		624,704	668,732
Amortization of deferred income		1,252,250	415,071
Net foreign exchange loss		(67,350)	(87,568)
Finance charges	14	(4,622,769)	(4,392,392)
Net Loss before Government Subsidy		(24,107,372)	(19,020,759)
Government subsidy	4	20,200,000	19,800,000
NET (LOSS)/PROFIT FOR THE YEAR		\$ (3,907,372)	\$ 779,241

The notes form an integral part of these financial statements.

WATER AND SEWERAGE CORPORATION
NEW PROVIDENCE INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2007



(Expressed in Bahamian Dollars)

	<u>2007</u>	<u>2006</u>
OPERATING REVENUE		
Water	28,976,988	33,471,803
Sewerage	<u>3,772,124</u>	<u>3,738,684</u>
	<u>32,749,112</u>	<u>37,210,487</u>
OPERATING EXPENSES		
Water	27,524,666	28,534,398
Sewerage	2,263,156	(398,920)
General and administrative	<u>10,504,631</u>	<u>9,761,919</u>
	<u>40,292,453</u>	<u>37,897,397</u>
Loss from operations before depreciation	(7,543,341)	(686,910)
Depreciation	<u>(5,215,941)</u>	<u>(5,747,285)</u>
OPERATING LOSS	(12,759,282)	(6,434,195)
Other income	30,872	59,653
Miscellaneous income	627,353	667,419
Amortization of deferred income	1,241,785	404,170
Net foreign exchange loss	(67,300)	(87,535)
Finance charges	<u>(4,496,190)</u>	<u>(4,275,434)</u>
Net Loss before Government Subsidy	(15,422,762)	(9,665,922)
Government subsidy	<u>15,120,625</u>	<u>16,325,000</u>
NET (LOSS/)/PROFIT FOR THE YEAR	<u>\$ (302,137)</u>	<u>\$ 6,659,078</u>

The notes form an integral part of these financial statements.

WATER AND SEWERAGE CORPORATION
FAMILY ISLANDS INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2007



(Expressed in Bahamian Dollars)

	<u>2007</u>	<u>2006</u>
OPERATING REVENUE		
Water	5,486,472	5,602,918
OPERATING EXPENSES		
Water	8,874,634	10,027,643
General and administrative	3,842,215	3,482,394
	<u>12,716,849</u>	<u>13,510,037</u>
Loss from operations before depreciation	(7,230,377)	(7,907,119)
Depreciation	(1,336,792)	(1,342,941)
OPERATING LOSS	(8,567,169)	(9,250,060)
Other income	1,372	-
Miscellaneous income	(2,649)	1,313
Amortization of deferred income	10,465	10,901
Net foreign exchange loss	(50)	(33)
Finance charges	(126,579)	(116,958)
Net Loss before Government Subsidy	(8,684,610)	(9,354,837)
Government subsidy	5,079,375	3,475,000
NET LOSS FOR THE YEAR	<u>\$ (3,605,235)</u>	<u>\$ (5,879,837)</u>

The notes form an integral part of these financial statements.

WATER AND SEWERAGE CORPORATION

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2007



(Expressed in Bahamian Dollars)

	Equity contributions	Accumulated deficit	Deferred income	Total equity
January 1, 2006	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
Contribution to projects completed during the year	-	-	1,137,052	1,137,052
Amortization of deferred income	-	-	(415,071)	(415,071)
December 31, 2006	145,395,271	(73,221,872)	9,961,717	82,135,116
Contributions	356,150	-	-	356,150
Distributions (Note 10)	(1,921,415)	-	-	(1,921,415)
Net loss for the year (Page 4)	-	(3,907,372)	-	(3,907,372)
Contributions to projects completed during the year (Note	-	-	920,004	920,004
Third party infrastructure capitalized (Note 5)	-	-	20,426,891	20,426,891
Amortization of deferred income	-	-	(1,252,250)	(1,252,250)
December 31, 2007	<u>\$ 143,830,006</u>	<u>\$ (77,129,244)</u>	<u>\$ 30,056,362</u>	<u>\$ 96,757,124</u>

The notes form an integral part of these financial statements.

WATER AND SEWERAGE CORPORATION

CASHFLOW STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2007



(Expressed in Bahamian Dollars)

	Notes	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net (loss)/profit for the year		(3,907,372)	779,241
Non-cash items:			
Depreciation	5	6,552,733	7,090,226
Amortization of deferred income		(1,252,250)	(415,071)
Increase in non-cash operating working capital		10,218,895	2,580,502
Net Cash Provided by Operating Activities		11,612,006	10,034,898
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of long-term debt		(689,936)	(1,006,258)
Contributions to capital projects		920,004	1,137,052
Equity contributions	10	356,150	4,150,000
Equity distributions	10	(1,921,415)	(1,943,984)
Transfer of third party infrastructure		20,426,891	-
Net Cash Provided by Financing Activities		19,091,694	2,336,810
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of fixed assets (net)	5	(36,748,776)	(11,480,873)
Net Cash Used in Investing Activities		(36,748,776)	(11,480,873)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(6,045,077)	890,835
Net Cash and Cash Equivalents, beginning of year		2,531,557	1,640,722
Net Cash and Cash Equivalents, end of year		\$ (3,513,520)	\$ 2,531,557
Cash and Cash Equivalents are represented by:			
Cash at bank		642,565	4,387,468
Bank overdraft		(4,156,085)	(1,855,911)
		\$ (3,513,520)	\$ 2,531,557

The notes form an integral part of these financial statements.

WATER AND SEWERAGE CORPORATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007



1. ORGANIZATION

The Corporation, which was established by the Water and Sewerage Corporation Act of 1976, is wholly owned by the Government of The Bahamas (the Government). Its primary functions are to grant and control water rights; to protect water resources; to regulate the extraction, use and supply of water; to dispose of sewerage; and to perform other ancillary functions throughout New Providence and the Family Islands. The Corporation's main place of business is 87 Thompson Boulevard, Nassau, Bahamas. The number of employees at December 31, 2007 was 452 (449 in 2006).

2. BASIS OF PREPARATION

These financial statements are prepared on a going concern basis and in accordance with applicable International Financial Reporting Standards (IFRS).

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.

Adoption of standards effective in 2007

The following standards have been applied by the Corporation from January 1, 2007:

- IFRS 7 Financial Instruments: Disclosure.
- IAS 1 (Amendment) Capital Disclosures.

The application of IFRS 7 and IAS 1 (Amendment) in the year ended December 31, 2007 have not affected the balance sheet or income statement as the standards are concerned with disclosures only.

IFRS effective in 2007 but not relevant

The following amendment were mandatory for accounting periods beginning on or after January 1, 2007 but are not relevant to the operations of the Corporation.

- IFRIC 11/IFRS 2 - Group and treasury share transactions.
- IFRS 8 Operating segments for years commencing on or after January 1, 2009.

WATER AND SEWERAGE CORPORATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007



2. BASIS OF PREPARATION (Continued)

The application of IFRIC 11/IFRS 2 and IFRS 8 in the year ended December 31, 2007 would not have affected the balance sheet or income statement as the standards are concerned only with disclosures.

IFRS issued but not yet applied

The following IFRS was available for early application but has not yet been applied by the Corporation in these financial statements:

- IAS 36, Impairment of Assets, prescribes procedures that the Corporation should apply to ensure that its assets are carried at no more than their recoverable amounts. Where an asset is carried at more than its recoverable amount, this standard would deem the asset impaired, and would require the Corporation to recognize an impairment loss.

The application of IAS 36 in the year ended December 31, 2007 would have affected the balance sheet and income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies adopted in order to assist in the general understanding of the financial statements are as follows:

Recognition of revenue

Revenue is recognized on a monthly and quarterly cycle-billing basis .

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 income statement.

WATER AND SEWERAGE CORPORATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed assets and depreciation

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
Third party infrastructure - Water	25 years
Third party infrastructure - Sewer	25 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

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 FINANCIAL STATEMENTS

DECEMBER 31, 2007



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred revenue

The Corporation requires new subdivision developers to pay a proportional impact fee that is set aside to defray future infrastructural costs associated with adding new customers. Prior to January 1, 2007 impact fees are recorded as revenue upon receipt. This deferred revenue is amortized over 25 years.

Also effective January 1, 2007, the Corporation recorded all developer constructed works upon transfer at a value determined from design estimates or third party valuations. The value of developer constructed financed infrastructure is captured in deferred income in 2007, and is being amortized on a straight-line basis over 25 years. No adjustment has been made in these financial statements for assets transferred prior to December 31, 2006.

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 FINANCIAL STATEMENTS

DECEMBER 31, 2007



4. FINANCING OF OPERATIONS

The Corporation has incurred significant operating losses in recent years and such losses are projected for the future. The Corporation is dependent on funding from the Government and it is anticipated that such funding, via the Government's subsidy and other support, will continue to be made available at a level sufficient to allow the Corporation to adequately maintain its operations.

5. FIXED ASSETS

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. Subsequent fixed asset additions are stated at cost, which include overhead amounts capitalized in work-in-progress.

Cost	January 1, 2007	Additions	Disposals	Transfers	December 31, 2007
Land	4,000	-	-	-	4,000
Buildings	3,338,874	2,484	-	762,474	4,103,832
Dock installations	1,040,052	-	-	-	1,040,052
Harbour improvements	17,202,254	-	-	-	17,202,254
Water wellfields and pumping stations	20,409,308	26,491	-	14,960	20,450,759
Sewer pumping stations	3,532,055	214,874	-	296,040	4,042,969
Storage pumping stations	4,887,203	32,839	-	58,009	4,978,051
Transmission and distribution mains	115,878,699	210,984	-	5,191,041	121,280,724
Water service lines and connections	14,554,409	1,304	-	2,631,715	17,187,428
Sewer connections and mains	26,669,098	-	-	-	26,669,098
Sewer treatment plants	6,443,917	-	-	-	6,443,917
Third party infrastructure - Water	-	7,257,629	-	-	7,257,629
Third party infrastructure - Sewer	-	13,169,262	-	-	13,169,262
Office furniture and equipment	6,606,639	270,663	(140,395)	-	6,736,907
Garage plant and equipment	4,645,047	635,214	-	266,396	5,546,657
Waste control equipment	80,390	-	-	-	80,390
Training equipment	21,615	-	-	-	21,615
Radios	171,109	-	-	-	171,109
Automotive equipment	5,551,699	316,010	-	-	5,867,709
Consultancy fees	2,920,176	-	-	-	2,920,176
	233,956,544	22,137,754	(140,395)	9,220,635	265,174,538
Work-in-progress	8,366,027	14,751,417	-	(9,220,635)	13,896,809
Total	\$ 242,322,571	\$ 36,889,171	\$ (140,395)	\$ -	\$ 279,071,347

WATER AND SEWERAGE CORPORATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007



5. FIXED ASSETS (Continued)

<u>Accumulated depreciation</u>	<u>January 1 2007</u>	<u>Depreciation expense</u>	<u>December 31 2007</u>
Buildings	911,784	79,519	991,303
Dock installations	1,040,052	-	1,040,052
Harbour improvements	9,137,801	468,171	9,605,972
Water wellfields and pumping stations	15,468,810	611,605	16,080,415
Sewer pumping stations	2,489,277	99,245	2,588,522
Storage pumping stations	2,360,263	121,923	2,482,186
Transmission and distribution mains	29,313,676	2,931,580	32,245,256
Water service lines and connections	8,319,779	598,450	8,918,229
Sewer connections and mains	11,726,767	607,894	12,334,661
Sewer treatment plants	2,390,920	214,497	2,605,417
Third party infrastructure - Water	-	15,320	15,320
Third party infrastructure - Sewer	-	27,236	27,236
Office furniture and equipment	5,380,924	355,563	5,736,487
Garage plant and equipment	4,111,835	167,594	4,279,429
Waste control equipment	77,983	912	78,895
Training equipment	19,927	356	20,283
Radios	162,582	3,270	165,852
Automotive equipment	5,181,726	174,152	5,355,878
Consultancy fees	2,768,615	75,445	2,844,060
Total	\$ 100,862,721	\$ 6,552,732	\$ 107,415,453
Net book value	\$ 141,459,850		\$ 171,655,894

WATER AND SEWERAGE CORPORATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007



5. FIXED ASSETS (Continued)

New Providence

Cost	January 1 2007	Additions	Disposals	Transfers	December 31 2007
Land	4,000	-	-	-	4,000
Buildings	3,083,935	2,484	-	762,474	3,848,893
Dock installations	1,040,052	-	-	-	1,040,052
Harbour improvements	17,202,254	-	-	-	17,202,254
Water wellfields and pumping stations	13,720,022	17,100	-	-	13,737,122
Sewer pumping stations	3,459,087	209,519	-	296,040	3,964,646
Storage pumping stations	3,167,345	-	-	-	3,167,345
Transmission and distribution mains	82,736,397	203,643	-	4,179,769	87,119,809
Water service lines and connections	13,787,147	-	-	2,546,254	16,333,401
Sewer connections and mains	26,669,098	-	-	-	26,669,098
Sewer treatment plants	6,293,917	-	-	-	6,293,917
Third party infrastructure - Water	-	7,257,629	-	-	7,257,629
Third party infrastructure - Sewer	-	13,169,262	-	-	13,169,262
Office furniture and equipment	6,362,062	265,550	(132,786)	-	6,494,826
Garage plant and equipment	4,158,442	247,049	-	266,396	4,671,887
Waste control equipment	80,390	-	-	-	80,390
Training equipment	21,615	-	-	-	21,615
Radios	164,758	-	-	-	164,758
Automotive equipment	4,372,357	220,080	-	-	4,592,437
Consultancy fees	2,920,176	-	-	-	2,920,176
	189,243,054	21,592,316	(132,786)	8,050,933	218,753,517
Work-in-progress	5,578,091	10,562,336	-	(8,050,933)	8,089,494
Total	\$ 194,821,145	\$ 32,154,652	\$ (132,786)	\$ -	\$ 226,843,011

WATER AND SEWERAGE CORPORATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007



5. FIXED ASSETS (Continued)

New Providence

<u>Accumulated depreciation</u>	<u>January 1 2007</u>	<u>Depreciation expense</u>	<u>December 31 2007</u>
Buildings	756,405	73,187	829,592
Dock installations	1,040,052	-	1,040,052
Harbour improvements	9,137,801	468,171	9,605,972
Water wellfields and pumping stations	11,758,581	300,015	12,058,596
Sewer pumping stations	2,476,203	97,341	2,573,544
Storage pumping stations	1,626,985	78,756	1,705,741
Transmission and distribution mains	22,536,593	2,097,560	24,634,153
Water service lines and connections	8,191,576	560,757	8,752,333
Sewer connections and mains	11,726,767	607,894	12,334,661
Sewer treatment plants	2,373,887	208,782	2,582,669
Third party infrastructure - Water	-	15,320	15,320
Third party infrastructure - Sewer	-	27,236	27,236
Office furniture and equipment	5,206,437	339,940	5,546,377
Garage plant and equipment	3,795,639	116,387	3,912,026
Waste control equipment	77,983	912	78,895
Training equipment	19,927	356	20,283
Radios	157,381	1,888	159,269
Automotive equipment	4,093,567	127,292	4,220,859
Consultancy fees	2,768,615	75,446	2,844,061
Total	\$ 87,744,399	\$ 5,197,240	\$ 92,941,639
Net book value	\$ 107,076,746		\$ 133,901,372

WATER AND SEWERAGE CORPORATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007



5. FIXED ASSETS (Continued)

Family Islands

Cost	January 1 2007	Additions	Disposals	Transfers	December 31 2007
Buildings	254,939	-	-	-	254,939
Water wellfields and pumping stations	6,689,286	9,391	-	14,960	6,713,637
Water service lines and connections	767,262	1,304	-	85,461	854,027
Sewer pumping station	72,968	5,355	-	-	78,323
Sewer treatment plants	150,000	-	-	-	150,000
Storage tanks and reservoirs	1,719,858	32,839	-	58,009	1,810,706
Transmission and distributions mains	33,142,301	7,341	-	1,011,272	34,160,914
Third party infrastructure - Water	-	-	-	-	-
Office furniture and equipment	244,577	5,113	(7,609)	-	242,081
Radios	6,351	-	-	-	6,351
Garage plant and equipment	486,605	388,165	-	-	874,770
Automotive equipment	1,179,342	95,930	-	-	1,275,272
	44,713,489	545,438	(7,609)	1,169,702	46,421,020
Work-in-progress	2,787,936	4,189,081	-	(1,169,702)	5,807,315
Total	\$ 47,501,425	\$ 4,734,519	\$ (7,609)	\$ -	\$ 52,228,335

Accumulated depreciation	January 1 2007	Depreciation expense	Recovery	December 31 2007
Buildings	155,379	6,332	-	161,711
Water wellfields and pumping stations	3,710,229	311,590	-	4,021,819
Water service lines and connections	128,203	37,693	-	165,896
Sewer pumping station	13,074	1,903	-	14,977
Sewer treatment plants	17,034	5,715	-	22,749
Storage tanks and reservoirs	733,278	43,166	-	776,444
Transmission and distributions mains	6,777,082	834,020	-	7,611,102
Third party infrastructure - Water	-	-	-	-
Office furniture and equipment	174,487	15,624	-	190,111
Radios	5,201	1,383	-	6,584
Garage plant and equipment	316,196	51,207	-	367,403
Automotive equipment	1,088,159	46,860	-	1,135,019
Total	\$ 13,118,322	\$ 1,355,493	\$ -	\$ 14,473,815
Net book value	\$ 34,383,103			\$ 37,754,520

WATER AND SEWERAGE CORPORATION

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6. ACCOUNTS RECEIVABLE

	<u>2007</u>	<u>2006</u>
New Providence:		
Water	17,128,597	16,548,687
Sewerage	<u>3,186,677</u>	<u>2,955,367</u>
	20,315,274	19,504,054
Less: Allowance for doubtful accounts	<u>(19,176,775)</u>	<u>(18,914,851)</u>
	1,138,499	589,203
Other	<u>133,957</u>	<u>2,063,320</u>
	<u>1,272,456</u>	<u>2,652,523</u>
Family Islands:		
Water	7,536,660	7,040,536
Less: Allowance for doubtful accounts	<u>(7,022,265)</u>	<u>(6,814,960)</u>
	514,395	225,576
Other	<u>90,620</u>	<u>87,994</u>
	<u>605,015</u>	<u>313,570</u>
Total	<u>\$ 1,877,471</u>	<u>\$ 2,966,093</u>

New Providence receivables for water and sewerage are net of a credit of \$1,405,261 (2006: \$3,591,913 credit) due to Government ministries, departments and corporations.

Family Islands water receivables are net of a credit of \$97,674 (2006: \$1,197,304 credit) due to 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 7.25% 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 7.75% per annum.

WATER AND SEWERAGE CORPORATION

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8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2007	2006
New Providence:		
Trade payables	1,585,722	2,324,392
Contributions to capital projects in progress (See below)	8,471,610	7,975,321
Interest payable	9,245	9,245
Defined benefit pension liability (See Note 15)	29,161,876	26,879,255
Accrued liabilities	10,967,030	6,028,698
	<u>50,195,483</u>	<u>43,216,911</u>
Family Islands:		
Trade payables	650,454	677,317
Contributions to capital projects in progress (See below)	762,962	736,167
Defined benefit pension liability (See Note 15)	3,784,484	3,310,208
Accrued liabilities	7,263,459	5,608,804
	<u>12,461,359</u>	<u>10,332,496</u>
Total	<u>\$ 62,656,842</u>	<u>\$ 53,549,407</u>

New Providence accounts payable and accrued liabilities include \$1,356,144 (2006: \$4,206,812) due to Government ministries, departments and corporations.

Family Island accounts payable and accrued liabilities include \$5,205,175 (2006: \$4,146,853) due to Government ministries, departments and corporations.

Contributions to capital projects in progress:

	New Providence	Family Island	Total
Liability at January 1, 2007	7,975,321	736,167	8,711,488
Contributions received during the year	1,413,924	26,795	1,440,719
Contributions to projects completed during the year	<u>(917,635)</u>	<u>(2,369)</u>	<u>(920,004)</u>
Liability at December 31, 2007	<u>\$ 8,471,610</u>	<u>\$ 760,593</u>	<u>\$ 9,232,203</u>

WATER AND SEWERAGE CORPORATION

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9. LONG-TERM DEBT

These comprise the following:

	<u>2007</u>	<u>2006</u>
(a) Inter-American Development Bank	8,464,325	8,977,315
(b) IBM	114,170	274,132
(c) British American Bank	-	16,984
	<u>8,578,495</u>	<u>9,268,431</u>
Less: Amounts due within one year	<u>(620,826)</u>	<u>(682,171)</u>
	<u>\$ 7,957,669</u>	<u>\$ 8,586,260</u>

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

(a) Inter-American Development Bank (IDB)

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, 2007 is \$ 8,464,325 (\$8,977,315 in 2006).

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

(b) 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 \$ 167,088, payable in 36 monthly installments of \$4,912, which commenced in October, 2004. The outstanding balance at December 31, 2007 is \$ nil (\$44,078 in 2006).

WATER AND SEWERAGE CORPORATION

NOTES TO FINANCIAL STATEMENTS

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9. LONG-TERM DEBT (Continued)

(ii) 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, 2007 is \$37,935 (\$75,969 in 2006).

(iii) 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, 2007 is \$76,235 (\$154,085 in 2006).

(c) 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, 2007 is \$ nil (\$16,984 in 2006).

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

	2007	2006
1-5 years	2,533,281	2,648,882
More than 5 years	5,424,388	5,937,378
	<u>\$ 7,957,669</u>	<u>\$ 8,586,260</u>

During 2007, the Corporation was late in making the scheduled principal and interest payments on its IDB and European Investment Bank (EIB) loans. The delays occurred on inter-bank transfers. The IDB loan payment of \$497,269 which was due on September 25, 2007 was paid on September 26, 2007. The EIB loan payment of \$599,693 which was due on June 10, 2007 was paid on June 13, 2007.

A late payment charge of \$92 was levied by EIB. The lenders did not enforce any accelerated repayment of the loans, nor request any amendments to the loan terms as a result of the above late payments.

10. EQUITY CONTRIBUTIONS

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

	New Providence	Family Island	2007 Total	2006 Total
Balance at January 1, 2007	105,898,673	39,496,598	145,395,271	143,189,255
Contributions	-	356,150	356,150	4,150,000
Distributions	-	(1,921,415)	(1,921,415)	(1,943,984)
Balance at December 31, 2007	<u>\$ 105,898,673</u>	<u>\$ 37,931,333</u>	<u>\$ 143,830,006</u>	<u>\$ 145,395,271</u>

WATER AND SEWERAGE CORPORATION

NOTES TO FINANCIAL STATEMENTS

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11. OPERATING EXPENSES

	<u>2007</u>	<u>2006</u>
Water:		
Purchase of water	19,770,676	14,771,772
Staffing expense	5,759,983	7,200,518
Shipping charter hire	4,859,319	5,230,224
Fuel and oil	2,663,338	3,213,491
Electricity	1,927,643	3,072,692
Bad debts and sundry provisions	(71,238)	3,644,019
Repairs and maintenance	752,566	718,651
Office services	223,042	215,363
Chemicals	183,561	212,510
Travel	98,534	123,873
Outside services	41,215	53,557
Other shipping	9,705	36,806
Public relations	30,747	11,231
Data processing	3,103	2,335
Claims and damages	75	1,671
Training	42,853	607
Miscellaneous	104,178	52,721
	<u>36,399,300</u>	<u>38,562,041</u>
	<u>2007</u>	<u>2006</u>
Sewerage:		
Electricity	706,593	(1,723,433)
Staffing expense	860,619	1,143,627
Repairs and maintenance	445,016	139,544
Fuel and oil	28,594	28,536
Bad debts and sundry provisions	198,066	-
Office services	8,619	9,481
Training	7,982	-
Data processing	73	1,926
Chemicals	883	135
Public relations	200	177
Miscellaneous	6,511	1,087
	<u>2,263,156</u>	<u>(398,920)</u>

WATER AND SEWERAGE CORPORATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007



11. OPERATING EXPENSES (Continued)

	<u>2007</u>	<u>2006</u>
General and administrative:		
Staffing expense	8,488,677	8,900,593
Administrative overhead	1,181,094	1,095,577
Professional and consultancy fees	982,748	863,739
Office services	698,237	504,889
Repairs and maintenance	614,504	415,979
Electricity	268,476	23,049
Data processing	422,336	328,261
Public relations	546,483	307,819
Training	224,411	188,043
Bank charges	221,268	176,756
Travel	88,847	129,184
Fuel and oil	126,816	100,626
Audit fees	63,700	53,016
Claims and damages	8,796	7,837
Chemicals	2,221	1,483
Miscellaneous	408,232	147,462
	<u>14,346,846</u>	<u>13,244,313</u>
Total	<u><u>\$ 53,009,302</u></u>	<u><u>\$ 51,407,434</u></u>

12. DEPRECIATION

	<u>2007</u>	<u>2006</u>
Water	4,788,357	5,401,658
General and administrative	768,130	987,045
Sewerage	996,246	701,523
	<u><u>\$ 6,552,733</u></u>	<u><u>\$ 7,090,226</u></u>

WATER AND SEWERAGE CORPORATION

NOTES TO FINANCIAL STATEMENTS

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13. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

14. FINANCE CHARGES

Finance charges comprise of the following:

	2007	2006
Interest on pension obligation	3,866,000	3,573,438
Interest and commitments fees on long-term debt	614,008	661,652
Interest on bank overdraft	102,279	52,977
Interest on national insurance contributions in arrears	29,824	93,524
Other	10,658	10,801
	<u>\$ 4,622,769</u>	<u>\$ 4,392,392</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 \$2,628,700 in 2007 (2006: \$2,664,400).

	2007	2006
Present value of funded obligations at December 31	67,856,585	62,052,585
Fair value of plan assets at December 31	<u>(19,701,901)</u>	<u>(17,795,301)</u>
Present value of unfunded obligations at December 31	48,154,684	44,257,284
Unrecognized actuarial losses	(14,517,124)	(13,313,824)
Unrecognized past service cost	<u>(691,200)</u>	<u>(754,000)</u>
Liability recognized in balance sheet at December 31	<u>\$ 32,946,360</u>	<u>\$ 30,189,460</u>

WATER AND SEWERAGE CORPORATION

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15. PENSION PLAN (Continued)

	2007	2006
Current service cost	2,270,900	2,196,310
Interest on obligation	3,866,000	3,573,438
Expected return on plan assets	(1,245,700)	(1,169,773)
Net actuarial loss recognized in year	431,600	361,162
Past service cost	62,800	62,800
Pension expense for the year	\$ 5,385,600	\$ 5,023,937

The actual net return on plan assets during the year was \$660,900 (2006: -\$85,508).

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

	2007	2006
Net liability at January 1	30,189,460	27,829,923
Pension expense for the year	5,385,600	5,023,937
Contributions paid	(2,628,700)	(2,664,400)
Net liability at December 31	\$ 32,946,360	\$ 30,189,460

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

	2007	2006
Discount rate	6.00% 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	4.00% 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. FINANCIAL RISK MANAGEMENT

The Corporation's operations expose it to a number of financial risks.

The most important operational risks to which the Corporation is exposed are liquidity risk, credit risk and interest risk.

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 and other support, as stated in Note 4.

Interest 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.

Credit risk

The Corporation is exposed to credit risk, which is the risk that a counterparty might cause a financial loss for the Corporation by failing to discharge an obligation. To mitigate this risk, material contracts include performance and operations securities, and buy-out clauses in the event of counterparty default.

17. RELATED PARTY TRANSACTIONS

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

	<u>2007</u>	<u>2006</u>
Short-term employee benefits	1,471,232	1,435,853
Termination benefits	<u>106,302</u>	<u>-</u>
	<u><u>\$ 1,577,534</u></u>	<u><u>\$ 1,435,853</u></u>

WATER AND SEWERAGE CORPORATION

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18. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Certain amounts included in or affecting the Corporation's financial statements and related disclosures must be estimated, requiring the Corporation to make assumptions with respect to values or conditions which cannot be known with certainty at the time the financial statement are prepared. A "critical accounting estimate" is one which is both important to the portrayal of the Corporation's financial condition and results, and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

19. CONTINGENT LIABILITIES

In the normal course of business, the Corporation is exposed to asserted and unasserted claims.

The likelihood of future obligations arising from public liability claims whose total is in the range of \$13,725 to \$45,000, and contractual disputes with third parties and former employees together ranging from \$422,000 to \$1,050,000 has been evaluated by legal counsel. On the basis of the resulting legal opinions, the possibility of future obligations arising from these claims is uncertain therefore no provisions have been made.

PKF