

THE NATIONAL WATER COMMISSION

FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2003



**KPMG Peat Marwick
Chartered Accountants**

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To the Commissioners of
THE NATIONAL WATER COMMISSION

Auditors' Report

We have audited the financial statements, set out on pages 2 to 15, and have obtained all the information and explanations which we required. The financial statements are the responsibility of the Commissioners and Management. In preparing the financial statements, the Commissioners and Management are required to select suitable accounting policies and apply them consistently, make judgments and estimates that are reasonable and prudent, follow applicable accounting standards, and apply the going concern basis unless it is inappropriate to presume that the Commission will continue in business for the foreseeable future. The Commissioners and Management are responsible for keeping proper accounting records, for safeguarding the assets of the Commission, and for the prevention and detection of fraud and other irregularities. Our responsibility is to express an opinion on the 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 all the information and explanations which we consider necessary to provide us with reasonable assurance that the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the Commissioners and Management, and evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, proper accounting records have been kept and the financial statements, which are in agreement therewith and have been prepared in accordance with generally accepted accounting principles in Jamaica, give a true and fair view of the state of affairs of the Commission as at March 31, 2003, and of its results and cash flows for the year then ended.

KPMG Peat Marwick

September 24, 2003



KPMG Peat Marwick, a Jamaican Partnership,
is a member of KPMG International,
a Swiss nonoperating association.

Raphael E. Gordon
Patrick A. Chin
R. Tarun Handa

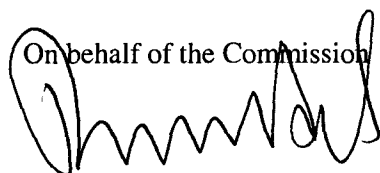
Caryl A. Fenton
Patricia O. Dailey-Smith
Cynthia L. Lawrence

Elizabeth A. Jones
Linroy J. Marshall

THE NATIONAL WATER COMMISSIONBalance Sheet
March 31, 2003

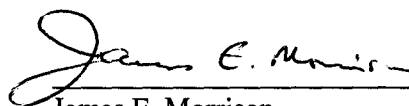
	Notes	<u>Thousands of Dollars</u>	
		<u>2003</u>	<u>2002</u> Restated
CURRENT ASSETS			
Cash resources	3	788,566	127,185
Consumers' accounts receivable	4	1,297,525	1,131,734
Other accounts receivable and prepaid expenses	5	254,474	296,876
Inventories	2(e)	<u>645,007</u>	<u>685,963</u>
		<u>2,985,572</u>	<u>2,241,758</u>
CURRENT LIABILITIES			
Bank overdrafts and loans	6	295,609	294,702
Current maturities of long-term liabilities	7	290	174,068
Deposits and retentions		36,490	79,850
Trade accounts payable		145,569	206,737
Other accounts payable	8	<u>1,199,171</u>	<u>822,021</u>
		<u>1,677,129</u>	<u>1,577,378</u>
NET CURRENT ASSETS		1,308,443	664,380
FIXED ASSETS	9	10,806,458	10,157,217
LONG-TERM RECEIVABLE	10	<u>-</u>	<u>822</u>
		<u>12,114,901</u>	<u>10,822,419</u>
Represented by:			
RESERVES			
Capital reserve	11	64,026	64,026
Capital grants	12	10,072,511	7,218,087
K Factor fund	13	162,705	213,702
Accumulated surplus		<u>610,190</u>	<u>1,177,478</u>
		10,909,432	8,673,293
LONG-TERM LIABILITIES	7	<u>1,205,469</u>	<u>2,149,126</u>
		<u>12,114,901</u>	<u>10,822,419</u>

On behalf of the Commission



Chairman

Richard Byles



Commissioner

James E. Morrison

The accompanying notes form an integral part of the financial statements.

THE NATIONAL WATER COMMISSION

Statement of Operations
Year ended March 31, 2003

	<u>Notes</u>	<u>Thousands of Dollars</u>	
		<u>2003</u>	<u>2002</u> Restated
Operating revenue	14	5,145,771	4,797,448
Operating expenses	15	(5,181,978)	(4,838,777)
		(36,207)	(41,329)
Miscellaneous income:			
Interest income		16,553	12,410
Project management fees		3,564	6,722
Gain on disposal of fixed assets		16,120	2,661
Other income		<u>32,947</u>	<u>40,851</u>
		<u>69,184</u>	<u>62,644</u>
		<u>32,977</u>	<u>21,315</u>
Other expenditure:			
Bank charges and interest		31,385	35,754
Loan interest		75,726	142,586
Depreciation		445,619	485,463
Foreign exchange loss		<u>98,532</u>	<u>52,323</u>
		<u>651,262</u>	<u>716,126</u>
Operating loss for the year		(618,285)	(694,811)
Capital grants	12	<u>2,854,424</u>	<u>2,760,957</u>
Surplus for the year		<u>2,236,139</u>	<u>2,066,146</u>

The accompanying notes form an integral part of the financial statements.

THE NATIONAL WATER COMMISSION

Statement of Changes in Reserves
Year ended March 31, 2003

	<u>Thousands of Dollars</u>				
	<u>Capital reserve (note 11)</u>	<u>Capital grants (note 12)</u>	<u>K Factor fund (note 13)</u>	<u>Accumulated surplus</u>	<u>Total</u>
Balance at March 31, 2001	<u>64,026</u>	<u>4,457,130</u>	<u>233,711</u>	<u>1,852,280</u>	<u>6,607,147</u>
Surplus for the year, being total recognised gains:					
As previously reported	-	-	-	1,979,901	1,979,901
Prior year adjustment (note 16)	<u>-</u>	<u>-</u>	<u>-</u>	<u>86,245</u>	<u>86,245</u>
As restated	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,066,146</u>	<u>2,066,146</u>
Transfers	<u>-</u>	<u>2,760,957</u>	<u>(20,009)</u>	<u>(2,740,948)</u>	<u>-</u>
Balance at March 31, 2002	64,026	7,218,087	213,702	1,177,478	8,673,293
Surplus for the year, being total recognised gains	-	-	-	2,236,139	2,236,139
Transfer	<u>-</u>	<u>2,854,424</u>	<u>(50,997)</u>	<u>(2,803,427)</u>	<u>-</u>
Balance at March 31, 2003	<u>64,026</u>	<u>10,072,511</u>	<u>162,705</u>	<u>610,190</u>	<u>10,909,432</u>

The accompanying notes form an integral part of the financial statements.

THE NATIONAL WATER COMMISSION

Statement of Cash Flows
Year ended March 31, 2003

	<u>Thousands of Dollars</u>	
	<u>2003</u>	<u>2002</u> Restated
CASH FLOWS FROM OPERATING ACTIVITIES		
Surplus for the year	2,236,139	2,066,146
Adjustments to reconcile surplus for year to net cash provided by operating activities:		
Depreciation	445,619	485,463
Write down of projects-in-progress	152,275	-
Gain on disposal of fixed assets	(16,120)	(2,661)
Unrealised foreign exchange losses on long-term liabilities	<u>62,222</u>	<u>51,700</u>
	2,880,135	2,600,648
(Increase)/decrease in current assets		
Consumers' accounts receivable	(165,791)	196,247
Due from Government of Jamaica	-	59,546
Other accounts receivable and prepaid expenses	42,402	(80,380)
Inventories	40,956	(188,320)
(Decrease)/increase in current liabilities		
Deposits and retentions	(43,360)	25,072
Trade accounts payable	(61,168)	(45,009)
Other accounts payable	<u>377,150</u>	<u>(582,990)</u>
Net cash provided by operating activities	<u>3,070,324</u>	<u>1,984,814</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from long term receivables	822	-
Purchase of fixed assets and project-in-progress	(1,279,793)	(4,408,495)
Proceeds from disposal of fixed assets	<u>48,778</u>	<u>5,382</u>
Net cash used by investing activities	<u>(1,230,193)</u>	<u>(4,403,113)</u>
Net cash provided/(used) before financing activities	<u>1,840,131</u>	<u>(2,418,299)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Bank overdrafts and loans	907	(10,558)
Long-term loan received	1,143,248	2,125,793
Repayment of long-term liabilities	<u>(2,322,905)</u>	<u>(48,024)</u>
Net cash (used)/provided by financing activities	<u>(1,178,750)</u>	<u>2,067,211</u>
Net increase/(decrease) in cash resources	661,381	(351,088)
Cash resources at beginning of year	<u>127,185</u>	<u>478,273</u>
CASH RESOURCES AT END OF YEAR	<u><u>788,566</u></u>	<u><u>127,185</u></u>

The accompanying notes form an integral part of the financial statements.

THE NATIONAL WATER COMMISSION

Notes to the Financial Statements March 31, 2003

1. The Commission

The National Water Commission is a statutory body of the Government of Jamaica, which, under the provisions of The National Water Commission Act, 1963, as amended by The Water Resources Act, 1995, with attendant regulations, is responsible for providing and operating water supply services in the urban and the rural areas of Jamaica. It also provides sewerage facilities in the same areas.

In 1985, the Commission was mandated to take over all the distribution aspects of water operations previously carried out by the Parish Councils. The Commission started billing the relevant consumers for domestic water in July of that year; however, no assets or liabilities of the Parish Councils were identified for takeover.

At March 31, 2003, the Commission's employees aggregated 2,544 (2002: 2,359).

2. Significant accounting policies and basis of disclosure

(a) Statement of compliance:

The financial statements have been prepared in accordance with generally accepted accounting principles (GAAP), which are substantially codified in standards and recommendations issued by the Institute of Chartered Accountants of Jamaica.

(b) Basis of preparation:

The financial statements are prepared under the historical cost convention, modified for the inclusion of certain fixed assets at valuation.

These financial statements are presented in Jamaica dollars (\$), which is the functional currency of the Commission.

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the balance sheet date and the income and expense for the year then ended. Actual amounts could differ from these estimates.

Where necessary, prior year comparatives have been restated and reclassified to conform to 2003 presentation.

(c) Cash resources:

Cash resources comprise cash and bank balances including short-term deposits with maturities ranging between one and twelve months from balance sheet date. For the purpose of the statement of cash flows, bank overdrafts are presented as financing activities.

(d) Accounts receivable:

Consumer and other accounts receivables are stated at cost less provisions for any doubtful debts likely to be incurred in realisation.

(e) Inventories:

Inventories, materially comprising of pipes, fittings and spare parts, are valued at the lower of cost, determined principally on a weighted average cost basis, and net realisable value.

THE NATIONAL WATER COMMISSION

Notes to the Financial Statements (Continued)
March 31, 2003

2. Significant accounting policies and basis of disclosure (cont'd)

(f) Accounts payable:

Trade and other payables, including provisions, are stated at expected settlement values.

(g) Revenue recognition:

Operating revenue represents amounts for the provision of water and sewerage services and is recognised when billings are made for these services.

(h) Depreciation:

Fixed assets, with the exception of land and land rights, on which no depreciation is provided, are depreciated on a straight-line basis at annual rates estimated to write off the assets over their expected useful lives. The depreciation rates are as follows:

Buildings and warehouses	2½%
Reservoirs pumps and sewerage plants:	
Raw water reservoirs, intakes, wells, mains and pumps	2% to 5%
Water treatment plants	2½%
Clear water reservoirs	2% to 3⅓%
Meters and pumps	10% and 15%
Sewerage plants	1⅔% and 3⅓%
Motor vehicles and equipment	10% to 25%

(i) Related parties:

Entities subject to the same ultimate control or significant influence as the commission are referred to in these financial statements as 'related parties'.

(j) Foreign currencies:

Foreign currency balances at the balance sheet date are translated at the rates of exchange ruling at that date. Transactions in foreign currencies are converted at the rates of exchange ruling on the dates of those transactions. Gains and losses arising from fluctuations in exchange rates are included in the statement of operations, except losses on loans for projects-in-progress, which are capitalised.

(k) Pension costs:

The Commission's payments for pension, applicable to a particular accounting period, are recognised as an expense in the statement of operations in the period in which these are incurred (note 19).

(l) Fair value of financial instruments:

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. For the purpose of these financial statements, financial assets have been determined to include cash resources and accounts receivable. Similarly, financial liabilities include accounts payable, deposits and retentions, bank overdrafts and loans.

THE NATIONAL WATER COMMISSION

Notes to the Financial Statements (Continued)
March 31, 2003

3. Cash resources

Cash resources include US\$11,392,000 (J\$637,046,336) [2002: US\$Nil] of loan funding received from National Commercial Bank for expenditure on the Negril Great River Project.

4. Consumers' accounts receivable

Consumers' accounts receivable are shown net of a provision for doubtful debts of \$2,357,055,000 (2002: \$2,062,049,000). Consumers' accounts receivable include \$454,502,000 (2002: \$358,099,000) receivable from Government Agencies.

5. Other accounts receivable and prepaid expenses

Other accounts receivable are shown net of a provision for doubtful debts of \$4,775,000 (2002: \$4,775,000).

6. Bank overdrafts and loans

	<u>Thousands of Dollars</u>	
	<u>2003</u>	<u>2002</u>
Bank overdrafts:		
Guaranteed by Government of Jamaica	75,000	75,000
Unsecured	<u>92,344</u>	<u>94,825</u>
	167,344	169,825
Bank loans:		
Guaranteed by Government of Jamaica	<u>128,265</u>	<u>124,877</u>
	<u>295,609</u>	<u>294,702</u>

Bank overdrafts and loans as indicated herein are subject to letters from the Ministry of Finance and Planning giving its irrevocable and unconditional undertaking to repay the amounts outstanding if the Commission is unable to do so from its own resources.

7. Long-term liabilities

	<u>Thousands of Dollars</u>	
	<u>2003</u>	<u>2002</u>
(a) Trafalgar Development Bank (€ 3,850,000)	238,190	-
(b) National Commercial Bank (US\$17,199,999)	967,279	-
(c) Caribbean Engineering Company Limited	290	275
(d) The Bank of Nova Scotia Jamaica Limited	-	104,000
(e) Government of Jamaica	-	66,694
	-	573,620
(f) National Commercial Bank Jamaica Limited	-	575,578
	-	163,483
(g) Chesapeake Global Trade & Finance Limited	-	239,544
(h) International Trust & Merchant Bank Limited	-	<u>600,000</u>
	1,205,759	2,323,194
Less: Current maturities	<u>290</u>	<u>174,068</u>
	<u>1,205,469</u>	<u>2,149,126</u>

THE NATIONAL WATER COMMISSION

Notes to the Financial Statements (Continued)
March 31, 2003

7. Long-term liabilities (cont'd)

- (a) This loan is guaranteed by the Government of Jamaica and is repayable in four (4) equal semi annual instalments commencing June 1, 2011. The loan bears interest at a fixed rate of 9.25% per annum for the ten (10) year duration of the loan. Interest is paid quarterly.
- (b) This loan is for ten (10) years with a moratorium on principal of eighteen (18) months. Interest paid quarterly, is fixed at 9.25% per annum for the first five (5) years then subject to re-negotiation for the next five years. This loan is repayable by thirty-four (34) equal quarterly instalments commencing August 11, 2004. The loan is guaranteed by the Government of Jamaica.
- (c) This unsecured loan bears interest at 5% and was scheduled to be repaid in equal monthly instalments by July 1999.
- (d-h) Based on a cabinet decision on January 20, 2003, the Government of Jamaica, through the Ministry of Finance and Planning, has agreed to formally convert into grants \$2.8 billion of Government of Jamaica loan funds spent on water and sewerage infrastructure (see note 12).

8. Other accounts payable

This comprises:

	<u>Thousands of Dollars</u>	
	<u>2003</u>	<u>2002</u>
Statutory deductions	791,505	510,483
Other salary related accruals	83,254	61,468
Accruals for retroactive pension	71,369	93,935
Interest payable	7,794	62,193
Other accruals	<u>245,249</u>	<u>93,942</u>
	<u>1,199,171</u>	<u>822,021</u>

THE NATIONAL WATER COMMISSION

Notes to the Financial Statements (Continued)
March 31, 2003

9. Fixed assets

	Thousands of Dollars					Total
	Land and land rights	Buildings and warehouses	Reservoirs, pumps and sewerage plants	Motor vehicles and equipment	Projects in progress (PIP)	
At cost or valuation:						
March 31, 2002	155,036	99,586	9,208,765	729,319	1,590,424	11,783,130
Additions	15,917	41,539	175,394	19,061	1,027,882	1,279,793
Transfer from PIP	-	-	668,621	-	(668,621)	-
Disposals/transfers	(30,996)	-	-	(14,725)	(152,275)	(197,996)
March 31, 2003	<u>139,957</u>	<u>141,125</u>	<u>10,052,780</u>	<u>733,655</u>	<u>1,797,410</u>	<u>12,864,927</u>
Depreciation:						
March 31, 2002	-	22,649	1,088,993	514,271	-	1,625,913
Charge for the year	-	7,500	361,658	76,461	-	445,619
Eliminated on disposal/transfers	-	-	-	(13,063)	-	(13,063)
March 31, 2003	<u>-</u>	<u>30,149</u>	<u>1,450,651</u>	<u>577,669</u>	<u>-</u>	<u>2,058,469</u>
Net book values:						
March 31, 2003	<u>139,957</u>	<u>110,976</u>	<u>8,602,129</u>	<u>155,986</u>	<u>1,797,410</u>	<u>10,806,458</u>
March 31, 2002	<u>155,036</u>	<u>76,937</u>	<u>8,119,772</u>	<u>215,048</u>	<u>1,590,424</u>	<u>10,157,217</u>

- (a) Land and land rights are shown at valuation of \$11,977,000 (2002: \$11,977,000) carried out by executive staff of the Commission during 1975, plus subsequent additions at cost.
- (b) Under Law 34 of 1936, certain of the lands are vested in the Commission but titles thereto are not registered in the name of the Commission, but are held by the Commissioner of Lands on its behalf.
- (c) Projects in progress include several projects that are being constructed by a related party and capital expenditure on these products totalled approximately \$423,235,000 (2002: \$554,964,000) at year-end.

10. Long-term receivable

Long-term receivable represented contributions to the National Housing Trust up to July 31, 1979. Contributions were refunded during the year.

THE NATIONAL WATER COMMISSION

Notes to the Financial Statements (Continued)
March 31, 2003

11. Capital reserve

This primarily comprises the capitalised value of public mains in subdivisions taken over by the Commission.

12. Capital grants

	<u>Thousands of Dollars</u>	
	<u>2003</u>	<u>2002</u>
Balance at beginning of year	<u>7,218,087</u>	<u>4,457,130</u>
Government of Jamaica (see note 7)	2,864,827	22,522
Project Expenditure – Catchment Tank Programme*	(121,391)	-
Caribbean Engineering Corporation Limited	-	2,738,435
International Grant - Japan International Bank Cooperation	<u>110,988</u>	<u>-</u>
	<u>2,854,424</u>	<u>2,760,957</u>
Balance at end of year	<u>10,072,511</u>	<u>7,218,087</u>

*This represents project expenditure incurred in respect of the Government of Jamaica (GOJ) Catchment Tank Programme, financed by Caribbean Development Bank, now, on completion, being transferred to the parish councils as mandated by the GOJ in 1989.

13. K Factor fund

Under the National Water Commission (Water Supply Services) (Rates and Charges) (Amendment) Regulations 1999, the Commission was empowered to impose a 4% charge, to be applied to water rates and charges for a period of two years. The amount so collected, termed the K factor, is to be used for the purpose of financing the Meter Installation and Pump Replacement Programme of the Commission. Effect was given to this directive between April 1, 1999 and February 28, 2001.

The fund currently represents fixed assets - pumps and meters, net of depreciation.

14. Operating revenue

The Commission's revenue arises materially from the supply of water and sewerage services.

THE NATIONAL WATER COMMISSION

Notes to the Financial Statements (Continued)
March 31, 2003

15. Disclosure of expenses/(income) and related party transactions

(a) Operating expenses include:

	<u>Thousands of Dollars</u>	
	<u>2003</u>	<u>2002</u>
Audit fees - current year	4,100	3,800
- prior year	600	370
Staff costs	<u>2,383,846</u>	<u>2,175,287</u>

(b) Significant transactions with Government Agencies during the year were as follows:

	<u>Thousands of Dollars</u>	
	<u>2003</u>	<u>2002</u>
Revenue:		
Water and sewerage services	(579,088)	(578,479)
Interest income	-	3,596
Expenses:		
Purchases of water	42,804	24,639
Repairs and maintenance - plant & equipment	66,917	47,270
- reinstatement of roads	13,934	53,391
Interest expense (note 7)	-	3,531
Professional Fees	<u>1,000</u>	<u>9,000</u>

16. Prior year adjustment

This represents amount accrued for employer's Education Tax contributions for the years 1999 to 2002 for which the Commission is not liable (Education Tax Act 1988).

17. Commitments

(a) Capital:

At March 31, 2003, there were general capital commitments amounting to approximately \$26,578,000 (2002: \$50,929,000) in relation to contracts for capital expenditure.

Additionally, at March 31, 2003, capital commitments relating to the expansion of the Great River Water Supply project, amounting to €15,010,800 and US\$2,968,816 had been negotiated.

No provision has been made in these financial statements for the unexpended capital commitments as at balance sheet date.

(b) Lease:

At March 31, 2003, the Commission had lease commitments aggregating \$30,244,800 (\$2002: \$29,720,547) of which \$17,755,397 (2002: \$7,462,793) is due within one year.

THE NATIONAL WATER COMMISSION

Notes to the Financial Statements (Continued)
March 31, 2003

18. Contingent liabilities

- (a) The Commission was contingently liable at March 31, 2003 in respect of various lawsuits alleging damages aggregating approximately \$35 million (2002: \$43 million) the outcome of which cannot be determined at this time. Consequently, these have not been provided for in these financial statements.

At March 31, 2003, the Commission was liable for unpaid statutory deductions aggregating \$791,505,000 (2002: \$510,483,000).

- (b) In March 1999, the Commission was assessed for interest and penalties aggregating \$151,155,012 on income tax payable for the year 1997. The Ministry of Finance and Planning by letter dated October 29, 1999, granted approval for a full waiver of the outstanding penalty as at March 31, 1999. The Commissioner of Taxpayer, Audit and Assessment was informed of this decision, however, the claim has not been formally discharged.

Subsequent to year end, representation was made to the Ministry of Finance and Planning to have amounts receivable from Government Agencies for water and sewerage services supplied by the Commission offset against liabilities for statutory deductions, with the objective that neither party will charge interest or penalties.

The Minister of Finance and Planning approved the proposal for offset pending a formal decision by cabinet, with net amounts being subject to a payment schedule, envisaging full settlement in twelve equal installments thereafter.

19. Pension costs

Prior to December 31, 2001, pensions were paid to retired employees from internally generated funds under the Pension (Parochial Officers) Act. However, effective January 1, 2002, the Commission introduced a contributory superannuation scheme which was available to eligible employees, but most employees exercised their option to continue to be eligible for pensions under the Pension (Parochial Officers) Act.

While the Commissioners and management have been advised administratively that the Commission is responsible for all future post-retirement benefits, regardless of the option exercised by employees, appropriate legislative ratification and funding of past-service benefits is still pending. Consequently, no accruals for these benefits have been made in the financial statements.

Total expenses for the year aggregated \$169,459,000 (2002: \$119,930,000) of which \$43,047,000 (2002: \$9,169,000) represents employers' contribution under the contributory superannuation scheme.

THE NATIONAL WATER COMMISSION

Notes to the Financial Statements (Continued)
March 31, 2003

20. Financial instruments

Exposure to financial instrument risk arises in the ordinary course of the Commission's business. Derivative financial instruments are not presently used to reduce exposure to fluctuations in interest and foreign exchange rates.

(a) Credit risk:

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

For certain consumers, the Commission requires cash deposits, which generally cover their significant credit risk. Additionally, management has credit practices in place to minimise exposure to credit risk generally. This involves procedures for the disconnection of services to, and recovery of amounts owed by, defaulting customers.

There is concentration in respect of consumers' accounts receivable with agencies of the Government of Jamaica (see note 4), which at March 31, 2003, represented 35% (2002: 30%) of total consumers' accounts receivable.

(b) Interest rate risk:

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Commission materially contracts financial liabilities at floating interest rates. These primarily relate to bank overdrafts and loans subject to interest rates fixed in advance, which may be varied by appropriate notice by the lenders.

At March 31, 2003, financial liabilities subject to interest aggregated \$1,493,899,000 (2002: \$2,423,198,000).

(c) Foreign currency risk:

The Commission incurs foreign currency risk primarily on purchases and borrowings that are denominated in a currency other than the Jamaica dollar. The currencies giving rise to foreign currency risk are the United States dollar (US\$), the Euro dollar (€) and Pound Sterling (£).

At March 31, 2003, net foreign currency liabilities aggregated approximately:

	<u>2003</u>	<u>2002</u>
United States dollar (US\$)	(6,837,000)	(31,178,000)
Euro (€)	(3,846,000)	Nil
Pound Sterling (£)	(15,780)	Nil

THE NATIONAL WATER COMMISSION

Notes to the Financial Statements (Continued)
March 31, 2003

20. Financial instruments (cont'd)

(d) Liquidity risk:

Liquidity risk, also referred to as funding risk, is the risk that the Commission will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

The Commission's material liabilities and significant receivables are guaranteed by or are otherwise with the Government of Jamaica as counter-party. Consequently, no material liquidity risk is assessed at balance sheet date.

(e) Market risk:

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market.

At March 31, 2003, the Commission has no significant exposure to market risk.

(f) Cash flow risk:

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount. The commission manages this risk through budgetary measures, ensuring, as far as possible, that fluctuations in cash flows relating to monetary financial assets and liabilities are matched, to mitigate any significant adverse cash flows.

(g) Fair value of financial instruments:

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The cost reflected in the financial statements for cash resources, accounts receivable, accounts payable, bank overdrafts and short-term loans are assumed to approximate to their fair values. Long-term liabilities are stated at contracted settlement values. Additionally, the cost of all monetary assets and liabilities has been appropriately adjusted to reflect estimated losses on realisation or discounts on settlement.

THE NATIONAL WATER COMMISSION

SUPPLEMENTARY INFORMATION TO THE
FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2003

THE NATIONAL WATER COMMISSIONSupplementary Information to the Financial Statements
Year ended March 31, 2003

	<u>Thousands of Dollars</u>			<u>Thousands of Dollars</u>		
	<u>2003</u>			<u>2002</u>		
	<u>Water</u>	<u>Sewage</u>	<u>Total</u>	<u>Water</u>	<u>Sewage</u>	<u>Total</u>
OPERATING REVENUE						
Water	2,675,062	-	2,675,062	2,732,746	-	2,732,746
Sewage	-	669,791	669,791	-	569,601	569,601
Service charge	425,622	-	425,622	413,615	-	413,615
Price adjustment mechanism	1,274,136	-	1,274,136	1,005,879	-	1,005,879
Bulk water	9,259	-	9,259	6,079	-	6,079
Bulk water shipping	3,065	-	3,065	2,256	-	2,256
New installations	62,130	-	62,130	53,029	-	53,029
Reconnections	35,352	-	35,352	22,089	-	22,089
Cesspool & other sewerage	3,049	-	3,049	2,937	-	2,937
Employee discount-water	(11,695)	-	(11,695)	(10,783)	-	(10,783)
	<u>4,475,980</u>	<u>669,791</u>	<u>5,145,771</u>	<u>4,227,847</u>	<u>569,601</u>	<u>4,797,448</u>
OPERATING EXPENSES						
Salaries, wages and related costs	2,230,865	152,981	2,383,846	1,962,170	213,117	2,175,287
Repairs and maintenance	605,530	45,797	651,327	637,920	41,816	679,736
Administration	940,431	2,720	943,151	960,122	2,199	962,321
Electricity	969,190	71,616	1,040,806	824,706	63,180	887,886
Telephone	58,403	-	58,403	39,559	106	39,665
Fuel and lubrications	55,418	271	55,689	49,844	-	49,844
Purchases – water	<u>48,756</u>	<u>-</u>	<u>48,756</u>	<u>44,038</u>	<u>-</u>	<u>44,038</u>
	<u>4,908,593</u>	<u>273,385</u>	<u>5,181,978</u>	<u>4,518,359</u>	<u>320,418</u>	<u>4,838,777</u>
Operating profit/(loss)	(<u>432,613</u>)	<u>396,406</u>	(<u>36,207</u>)	(<u>290,512</u>)	<u>249,183</u>	(<u>41,329</u>)

THE NATIONAL WATER COMMISSION

Supplementary Information to the Financial Statements
Year ended March 31, 2003

	<u>Thousands of Dollars</u>			<u>Thousands of Dollars</u>		
	<u>2003</u>			<u>2002</u>		
	<u>Water</u>	<u>Sewage</u>	<u>Total</u>	<u>Water</u>	<u>Sewage</u>	<u>Total</u>
SALARIES AND WAGES						
Salaries and wages	1,507,897	108,631	1,616,528	1,238,593	183,372	1,421,965
Allowances – motor vehicle	123,334	4,370	127,704	108,911	3,679	112,590
Allowances – uniform	50,228	5,716	55,944	125,374	-	125,374
Allowances – other	192,328	16,152	208,480	214,261	15,544	229,805
Pension costs	169,459	-	169,459	119,930	-	119,930
Insurance (group)	73,975	3,995	77,970	66,595	-	66,595
Travelling and transportation	11,174	6,734	17,908	10,686	4,915	15,601
Statutory contributions	<u>102,470</u>	<u>7,383</u>	<u>109,853</u>	<u>77,820</u>	<u>5,607</u>	<u>83,427</u>
	<u>2,230,865</u>	<u>152,981</u>	<u>2,383,846</u>	<u>1,962,170</u>	<u>213,117</u>	<u>2,175,287</u>
REPAIRS AND MAINTENANCE						
General repairs (pipes)	122,631	2,523	125,154	122,883	-	122,883
Materials and supplies	49,394	869	50,263	37,433	18,205	55,638
Motor vehicles	77,425	6,143	83,568	70,695	5,576	76,271
Plant and equipment	160,241	20,934	181,175	232,472	808	233,280
Building	48,103	10,472	58,575	38,748	7,732	46,480
Chemicals	38,512	408	38,920	31,719	442	32,161
Equipment rental	55,864	3,194	59,058	48,387	2,132	50,519
Reinstatement of roads	16,777	455	17,232	27,401	6,916	34,317
Office furniture and equipment	15,441	72	15,513	15,408	-	15,408
Claims and contingencies	<u>21,142</u>	<u>727</u>	<u>21,869</u>	<u>12,774</u>	<u>5</u>	<u>12,779</u>
	<u>605,530</u>	<u>45,797</u>	<u>651,327</u>	<u>637,920</u>	<u>41,816</u>	<u>679,736</u>

THE NATIONAL WATER COMMISSIONSupplementary Information to the Financial Statements
Year ended March 31, 2003

	<u>Thousands of Dollars</u>			<u>Thousands of Dollars</u>		
	<u>2003</u>			<u>2002</u>		
	<u>Water</u>	<u>Sewage</u>	<u>Total</u>	<u>Water</u>	<u>Sewage</u>	<u>Total</u>
ADMINISTRATION						
Bad debts	411,287	-	411,287	503,192	-	503,192
Rent, rates and taxes	52,176	-	52,176	51,361	122	51,483
Security services	88,827	-	88,827	70,924	-	70,924
Insurance charges	158,899	-	158,899	96,579	-	96,579
Donations	471	-	471	6,187	-	6,187
Computer services	35,954	23	35,977	33,315	17	33,332
Printing and stationery	17,245	5	17,250	15,441	29	15,470
Consultancy fees	75,294	1,192	76,486	82,070	-	82,070
Postage and cables	40,560	-	40,560	45,748	10	45,758
Overseas travel	1,355	-	1,355	821	-	821
Audit fees	4,773	-	4,773	4,170	-	4,170
Staff welfare	31,418	1,264	32,682	33,687	1,978	35,665
Miscellaneous expenses	2,317	72	2,389	2,758	43	2,801
Legal expenses	3,865	-	3,865	3,756	-	3,756
Advertising	<u>15,990</u>	<u>164</u>	<u>16,154</u>	<u>10,113</u>	<u>-</u>	<u>10,113</u>
	<u>940,431</u>	<u>2,720</u>	<u>943,151</u>	<u>960,122</u>	<u>2,199</u>	<u>962,321</u>