

THE NATIONAL WATER COMMISSION

FINANCIAL STATEMENTS

MARCH 31, 2005



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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 21, of the National Water Commission as at and for the year ended March 31, 2005 and have obtained all the information and explanations which we required. The financial statements are the responsibility of management. 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 management as well as 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 International Financial Reporting Standards, give a true and fair view of the state of affairs of the commission as at March 31, 2005, and of its results of operations, changes in reserves and cash flows for the year then ended.

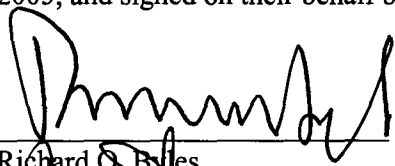
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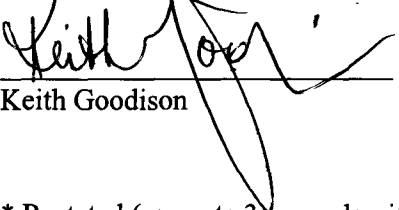
October 31, 2005

THE NATIONAL WATER COMMISSIONBalance Sheet  
March 31, 2005

	Notes	<u>Thousands of Dollars</u>	
		<u>2005</u>	<u>2004</u>
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	4	442,639	178,115
Short-term investments	5	386,146	58,353
Consumers' accounts receivable	6	1,156,421	781,827
Other accounts receivable and prepaid expenses	7	243,900	217,067
Inventories	2(e)	<u>665,306</u>	<u>640,954</u>
		<u>2,894,412</u>	<u>1,876,316</u>
<b>CURRENT LIABILITIES</b>			
Bank overdrafts and loans	8	351,234	214,813
Current maturities of long-term liabilities	9	100,000	92,663
Deposits and retentions		59,592	49,564
Trade accounts payable		477,539	354,584*
Other accounts payable	10	521,273	709,391*
Taxation payable	20	<u>163,500</u>	<u>-</u>
		<u>1,673,138</u>	<u>1,421,015</u>
<b>NET CURRENT ASSETS</b>		1,221,274	455,301
<b>NON CURRENT ASSETS</b>			
Property, plant & equipment	11	<u>25,514,884</u>	<u>25,758,793</u>
		<u>26,736,158</u>	<u>26,214,094</u>
Represented by:			
<b>RESERVES</b>		12,320,712	12,985,793*
<b>NON CURRENT LIABILITIES</b>			
Long-term liabilities	9	993,134	1,978,545
Deferred taxation	13	2,616,789	3,224,981*
Deferred income	14	4,466,837	2,379,930*
Employee benefit obligations	15	<u>6,338,686</u>	<u>5,644,845</u>
		<u>26,736,158</u>	<u>26,214,094</u>

The financial statements on pages 2 to 21, were approved by the Commissioners on October 31, 2005, and signed on their behalf by:

  
 \_\_\_\_\_ Chairman  
 Richard O. Byles

  
 \_\_\_\_\_ Commissioner  
 Keith Goodison

\* Restated (see note 3) or reclassified to conform to 2005 presentation.  
 The accompanying notes form an integral part of the financial statements.

THE NATIONAL WATER COMMISSIONStatement of Operations  
Year ended March 31, 2005

	Notes	<u>Thousands of Dollars</u>	
		<u>2005</u>	<u>2004</u>
Operating revenue	16	7,574,083	6,124,406
Operating expenses		(7,250,505)	(6,397,505)
Operating profit/(loss)		<u>323,578</u>	<u>( 273,099)</u>
Miscellaneous income:			
Foreign exchange gain		460	-
Interest income		42,291	18,167
Project management fees		1,623	14,336
Gain on disposal of property, plant & equipment		3,880	843
Amortisation of capital grants	14	197,431	59,950
Other income		<u>70,664</u>	<u>63,652</u>
		<u>316,349</u>	<u>156,948</u>
		<u>639,927</u>	<u>( 116,151)</u>
Other expenditure:			
Bank charges and interest		5,211	5,086
Loan interest		75,086	175,983
Depreciation		1,669,403	1,453,303
Foreign exchange loss		<u>-</u>	<u>106,706</u>
		<u>1,749,700</u>	<u>1,741,078</u>
Loss for the year before taxation	17	(1,109,773)	(1,857,229)
Taxation	20	<u>444,692</u>	<u>(3,224,981)*</u>
Net loss for the year after taxation		<u>( 665,081)</u>	<u>(5,082,210)*</u>

\* Restated (see note 3)

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

THE NATIONAL WATER COMMISSIONStatement of Changes in Reserves  
Year ended March 31, 2005

	<u>Thousands of Dollars</u>		
	<u>Capital reserve (note 12)</u>	<u>Accumulated deficit</u>	<u>Total</u>
Balances at March 31, 2003:			
As previously reported	15,677,645	( 202,795)	15,474,850
Prior year adjustment (note 3)	<u>-</u>	<u>2,593,153</u>	<u>2,593,153</u>
As restated	15,677,645	2,390,358	18,068,003
Net loss for the year	<u>-</u>	<u>(5,082,210)</u>	<u>(5,082,210)</u>
Balances at March 31, 2004	15,677,645	(2,691,852)	12,985,793
Net loss for the year	<u>-</u>	<u>( 665,081)</u>	<u>( 665,081)</u>
Balances at March 31, 2005	<u>15,677,645</u>	<u>(3,356,933)</u>	<u>12,320,712</u>

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

THE NATIONAL WATER COMMISSIONStatement of Cash Flows  
Year ended March 31, 2005

	<u>Thousands of Dollars</u>	
	<u>2005</u>	<u>2004</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss for the year	( 665,081)	(5,082,210)*
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	1,669,403	1,453,303
Deferred taxation	( 608,192)	3,224,981*
Gain on disposal of property, plant & equipment	( 3,880)	( 843)
Employee benefits	693,841	598,527
Unrealised foreign exchange losses on long-term liabilities	-	218,970
Capital grants amortised	( 197,431)	( 59,950)
	<u>888,660</u>	<u>352,778</u>
(Increase)/decrease in current assets		
Short-term investments	( 327,793)	32,608
Consumers' accounts receivable	( 374,594)	441,392
Other accounts receivable and prepaid expenses	( 26,833)	37,407
Inventories	( 24,352)	5,053
(Decrease)/increase in current liabilities		
Deposits and retentions	10,028	13,074
Trade accounts payable	122,955	( 8,133)*
Other accounts payable	( 188,118)	( 296,186)*
Taxation payable	<u>163,500</u>	<u>-</u>
Net cash provided by operating activities	<u>243,453</u>	<u>577,993</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant & equipment	(1,425,513)	(1,964,767)
Proceeds from disposal of property, plant & equipment	<u>3,899</u>	<u>2,505</u>
Net cash used by investing activities	<u>(1,421,614)</u>	<u>(1,962,262)</u>
Net cash used before financing activities	<u>(1,178,161)</u>	<u>(1,384,269)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Short-term loan, net	( 25,187)	( 18,385)*
Long-term loan received	923,134	708,990
Repayment of long-term liabilities	-	( 62,511)
Capital grants received	<u>383,130</u>	<u>299,096</u>
Net cash provided by financing activities	<u>1,281,077</u>	<u>927,190</u>
Net increase/(decrease) in cash and cash equivalents	102,916	( 457,079)
Cash and cash equivalents at beginning of year	<u>73,182</u>	<u>530,261</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><u>176,098</u></u>	<u><u>73,182</u></u>
Comprising:		
Cash and bank balances	442,639	178,115
Bank overdrafts	( 266,541)	( 104,933)*
	<u><u>176,098</u></u>	<u><u>73,182</u></u>

\* Restated (see note 3) or reclassified to conform to 2005 presentation.  
The accompanying notes form an integral part of the financial statements.

## THE NATIONAL WATER COMMISSION

### Notes to the Financial Statements

March 31, 2005

#### 1. The Commission

The National Water Commission (the 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.

At March 31, 2005, the commission's employees aggregated 2,135 (2004: 2,110), of which 1,328 (2004: 1,287) were represented in collective bargaining arrangements.

#### 2. Statement of compliance, basis of preparation and significant accounting policies

##### (a) Statement of compliance:

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and their interpretations adopted by the International Accounting Standards Board (IASB).

##### (b) Basis of preparation:

These financial statements are presented in Jamaica dollars (\$), which is the currency in which the commission conducts the majority of its operations.

The financial statements are prepared on the historical cost basis, modified for the inclusion of certain classes of property, plant & equipment at deemed cost on the IFRS transition date of April 1, 2002 [note (i)].

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

##### (c) Cash and cash equivalents:

Cash and cash equivalents comprise cash and bank balances and call deposits.

Bank overdrafts that are repayable on demand and form an integral part of the commission's cash management activities, are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

##### (d) Reverse repurchase agreements:

A reverse repurchase agreement ("reverse repo") is a short-term transaction whereby an entity buys securities and simultaneously agrees to resell them on a specified date and at a specified price. In accordance with generally accepted accounting principles, reverse repos are accounted for as short-term collateralised lending.

The commission enters into agreements to purchase investments and to resell substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognised. The amounts paid are recognised as "securities purchased under resale agreements" and are collateralised by the underlying securities.

The difference between the sale and repurchase considerations is recognised on an accrual basis over the period of the transaction and is included in interest income.

THE NATIONAL WATER COMMISSION

Notes to the Financial Statements (Continued)  
March 31, 2005

2. Statement of compliance, basis of preparation and significant accounting policies (cont'd)

(e) Accounts receivable:

Consumer and other accounts receivables are stated at cost less impairment losses.

(f) 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.

(g) Accounts payable and other liabilities:

Trade and other payables are stated at cost.

(h) Provisions:

A provision is recognised in the balance sheet when the commission has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the obligation.

(i) Property, plant & equipment:

Property, plant & equipment are stated at cost or deemed cost [note (b)] less accumulated depreciation and impairment losses.

Certain items of property, plant and equipment that were revalued to fair value on or prior to April 1, 2002 (the date of transition to IFRS) are measured on the basis of deemed cost. Gains and losses on revaluation as at that date are included in capital reserve.

(j) Depreciation:

Property plant & equipment 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	5%
Water treatment plants	5%
Clear water reservoirs	5%
Meters and pumps	10%
Sewerage plants	5%
Motor vehicles and equipment	25%

No depreciation is charged on land and land rights and on projects in progress.

(k) 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'.



THE NATIONAL WATER COMMISSION

Notes to the Financial Statements (Continued)  
March 31, 2005

2. Statement of compliance, basis of preparation and significant accounting policies (cont'd)

(l) Foreign currencies:

Transactions in foreign currencies are converted at the rates of exchange ruling on the dates of those transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Jamaica dollars at the rates of exchange ruling at that date. Gains and losses arising from fluctuations in exchange rates are included in the statement of operations.

For the purpose of the statement of cash flows, realised foreign currency gains and losses are treated as cash items, and included in cash flows from operating or financing activities, along with movements in the relevant balances.

(m) Employee benefits:

Pensions and other post-employment assets and obligations included in these financial statements have been actuarially determined by a qualified, independent actuary appointed by management. The appointed actuary's report outlines the scope of the valuation and the actuary's opinion. The actuarial valuations were conducted in accordance with IAS 19, and the financial statements reflect the commission's post-employment benefit obligations as computed by the actuary. In carrying out their audit, the auditors rely on the work of the actuary and the actuary's report.

(i) Defined benefit arrangements:

Prior to December 31, 2001, pensions were paid to retired employees from internally generated funds under the Pensions (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 Pensions (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.

The commissioners have accounted for their constructive obligation, in respect of pension payable under the Pensions (Parochial Officers) Act, as defined benefit arrangements.

The commission's net obligation in respect of defined pension benefits under both arrangements, described above, is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that value is discounted to determine the present value, and the fair value of any plan assets is deducted. The discount rate applied is the yield at balance sheet date on long-term government instruments that have maturity dates approximating the terms of the commission's obligation. The calculation is performed by an independent actuary, using the projected unit credit method.

When the benefits of the arrangements are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the statement of operations on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are vested immediately, the expense is recognised immediately in the statement of operations.

THE NATIONAL WATER COMMISSION

Notes to the Financial Statements (Continued)  
March 31, 2005

2. Statement of compliance, basis of preparation and significant accounting policies (cont'd)

(m) Employee benefits (cont'd):

(i) Defined benefit arrangements (cont'd):

In calculating the commission's obligation in respect of the arrangements at the balance sheet date, actuarial gains or losses which exceed ten percent (10%) of both the present value of the defined benefit obligation and the fair value of plan assets, are recognised in the statement of operations over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

Where the calculation results in a benefit to the commission, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

(ii) Other post-retirement benefits:

The commission provides post-retirement benefits to pensioners as is required under the Pensions (Parochial Officers) Act. These benefits are usually conditional upon the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using a methodology similar to that for defined benefit pension plans and the present value of future benefits at the balance sheet date is shown as an obligation on the balance sheet.

Cumulative unrecognised gains and losses are recognised in a manner similar to the defined benefit pension plan.

(n) Impairment:

The carrying amounts of the commission's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, an asset's recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of operations.

(i) Calculation of recoverable amounts:

The recoverable amount of the commission's receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

THE NATIONAL WATER COMMISSION

Notes to the Financial Statements (Continued)  
March 31, 2005

2. Statement of compliance, basis of preparation and significant accounting policies (cont'd)

(n) Impairment (cont'd):

(ii) Reversals of impairment:

An impairment loss in respect of receivables is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. An impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(o) Interest-bearing borrowings:

Interest-bearing borrowings are recognised initially at cost. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost, with any difference between cost and redemption value being recognised in the statement of operations over the period of the borrowing on an effective interest basis.

(p) Revenue recognition:

Operating revenue is recognised when billings are made for services provided by the commission.

(q) Grants:

Grants received are deferred where the benefit of a grant is represented by property, plant & equipment. Annual transfers, equivalent to depreciation charged on property, plant & equipment funded by a grant, are made from the deferred credit account to the statement of operations. In all other cases, grants are brought to account as revenue of the period in which they are received.

(r) Income taxes:

Taxation on the profit or loss for the year comprises current and deferred tax. Taxation is recognised in the statement of operations, except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is computed using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date.

THE NATIONAL WATER COMMISSION

Notes to the Financial Statements (Continued)  
March 31, 2005

2. Statement of compliance, basis of preparation and significant accounting policies (cont'd)

(r) Income taxes (cont'd):

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the commission is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(s) 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 and cash equivalents, short-term investments and accounts receivable. Similarly, financial liabilities include accounts payable, deposits and retentions, bank overdrafts, short-term loans and long-term liabilities.

(t) Determination of fair value:

Fair value amounts represent estimates of the arm's length consideration that would be currently agreed between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market price, if one exists. Some financial instruments lack an available trading market. These instruments have been valued using present value or other valuation techniques and the fair value shown may not necessarily be indicative of the amounts realisable in an immediate settlement of the instruments.

3. Prior year adjustments

As indicated in note 9(f), the Government of Jamaica, through the Ministry of Finance and Planning has converted approximately \$4.7 billion of Government of Jamaica loan funds spent on water and sewage infrastructure into grants during the period to June 2004. Due to the adverse impact of the Public Enterprises (Removal of Tax Concessions) Act 2003, wherein the commission is liable to income tax effective January 1, 2004, the commission has elected to forgo capital allowances on water and sewage infrastructure financed through government grants as otherwise the grants received would be considered taxable. During the course of matching grants received to capital expenditure, the commission identified grants received prior to April 1, 2002 (the date of conversion to IFRS) that could not be readily related to capital expenditure. These amounts, aggregating \$2.6 billion have therefore been credited directly to equity as a prior period adjustment (note 14).

As a consequence of the foregoing tax election, the commission has restated the deferred tax liability as at March 31, 2004, and the tax expense for the year then ended (notes 13 and 20).

4. Cash and cash equivalents

At March 31, 2005, cash and cash equivalents included US\$2,509,931 (2004: Nil) of loan funding received from National Commercial Bank Jamaica Limited.

THE NATIONAL WATER COMMISSIONNotes to the Financial Statements (Continued)  
March 31, 20055. Short-term investments

	<u>Thousands of Dollars</u>	
	<u>2005</u>	<u>2004</u>
Reverse repurchase agreements:		
Jamaica dollars	303,852	-
United States dollars [2005: US\$1,151,556 (2004: Nil)]	70,663	-
Certificates of deposit:		
Jamaica dollars	11,631	9,021
United States dollars [2005: Nil (2004: US\$811,496)]	-	<u>49,332</u>
	<u>386,146</u>	<u>58,353</u>

Short-term investments had maturities ranging between one and twelve months from the balance sheet date.

6. Consumers' accounts receivable

Consumers' accounts receivable are shown net of a provision for impairment losses of \$3,148,755,000 (2004: \$2,771,839,000). Consumers' accounts receivable include \$248,454,904 (2004: \$15,631,000) receivable from Government Agencies.

7. Other accounts receivable and prepaid expenses

These are shown net of a provision for impairment losses of \$19,053,000 (2004: \$16,358,000).

8. Bank overdrafts and loans

	<u>Thousands of Dollars</u>	
	<u>2005</u>	<u>2004</u>
Bank overdrafts:		
Guaranteed by Government of Jamaica	75,000	75,000
Unsecured	<u>191,541</u>	<u>29,933</u>
	266,541	104,933
Bank loans:		
Guaranteed by Government of Jamaica	<u>84,693</u>	<u>109,880</u>
	<u>351,234</u>	<u>214,813</u>

Bank overdrafts and loans (see note 9) 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.

THE NATIONAL WATER COMMISSION

Notes to the Financial Statements (Continued)  
March 31, 2005

9. Long-term liabilities

	<u>Thousands of Dollars</u>	
	<u>2005</u>	<u>2004</u>
(a) Trafalgar Development Bank Limited [Nil (2004: € 3,850,000)]	-	288,705
(b) National Commercial Bank Jamaica Limited [Nil (2004: US\$17,199,999)]	-	1,049,298
(c) The Bank of Nova Scotia Jamaica Limited	170,000	170,000
(d) BNP – Paribas [Nil (2004:€7,507,591)]	-	563,205
(e) National Commercial Bank Jamaica Limited [US\$15,000,000 (2004: Nil)]	<u>923,134</u>	<u>-</u>
	1,093,134	2,071,208
Less: Current maturities	( 100,000)	( 92,663)
	<u>993,134</u>	<u>1,978,545</u>

- (a) This loan, which was guaranteed by the Government of Jamaica, was repayable in four (4) equal semi annual instalments commencing June 1, 2011, was converted into grants on June 30, 2004 [see also note (f)].
- (b) This loan, which was for a period of ten (10) years with a moratorium on principal repayments of eighteen (18) months, was repayable by thirty-four (34) equal quarterly instalments commencing August 11, 2004. The loan, which was guaranteed by the Government of Jamaica, was converted into grants on June 30, 2004 [see also note (f)].
- (c) This loan is for a period of four (4) years with a moratorium on principal repayments of eighteen (18) months. Interest is payable in arrears at a fixed rate of 27.74% from date of initial disbursement on October 1, 2003 to December 31, 2003. Thereafter, interest is payable at 1.75% per annum above the existing Treasury Bill rate.
- (d) This loan, which was guaranteed by the Government of Jamaica, was repayable in seven (7) consecutive and equal semi-instalments and bore interest at 5.63% per annum, was converted into grants on June 30, 2004 [see also note (f)].
- (e) This loan is for a period of seven years and six months and is repayable in equal six monthly instalments commencing June 30, 2006 and ending on June 30, 2012. The loan bears interest at a fixed rate of 8.5% per annum for its duration. Interest is payable semi-annually, commencing June 30, 2005.
- (f) Based on a cabinet decision on June 7, 2004 the Government of Jamaica, through the Ministry of Finance and Planning, agreed to formally convert into grants approximately \$1.9 billion of Government of Jamaica loan funds spent on water and sewerage infrastructure. The conversion into grants by the government, which commenced in June 2002, aggregated \$4.7 billion (see also notes 3 and 14).

10. Other accounts payable

	<u>Thousands of Dollars</u>	
	<u>2005</u>	<u>2004</u>
Statutory deductions	53,169	46,345
Interest payable	10,005	44,590 *
Other payables and accrued charges	<u>458,099</u>	<u>618,456 *</u>
	<u>521,273</u>	<u>709,391</u>

\* Reclassified to conform to 2005 presentation

THE NATIONAL WATER COMMISSION

Notes to the Financial Statements (Continued)  
March 31, 2005

11. Property, plant & equipment

	<u>Thousands of Dollars</u>					
	<u>Freehold land and land rights</u>	<u>Buildings and warehouses</u>	<u>Reservoirs, pumps and sewerage plants</u>	<u>Motor vehicles and equipment</u>	<u>Projects in progress</u>	<u>Total</u>
At cost or deemed cost:						
March 31, 2004	433,670	1,152,010	22,829,743	774,503	3,434,328	28,624,254
Additions	2,918	10,407	59,745	64,865	1,287,578	1,425,513
Disposals/transfers	( 11,217)	-	1,971,409	( 380)	(1,960,192)	( 380)
March 31, 2005	<u>425,371</u>	<u>1,162,417</u>	<u>24,860,897</u>	<u>838,988</u>	<u>2,761,714</u>	<u>30,049,387</u>
Depreciation:						
March 31, 2004	-	57,324	2,610,744	197,393	-	2,865,461
Charge for the year	-	28,880	1,505,284	135,239	-	1,669,403
Eliminated on disposal/transfers	-	-	-	( 361)	-	( 361)
March 31, 2005	<u>-</u>	<u>86,204</u>	<u>4,116,028</u>	<u>332,271</u>	<u>-</u>	<u>4,534,503</u>
Net book values:						
March 31, 2005	<u>425,371</u>	<u>1,076,213</u>	<u>20,744,869</u>	<u>506,717</u>	<u>2,761,714</u>	<u>25,514,884</u>
March 31, 2004	<u>433,670</u>	<u>1,094,686</u>	<u>20,218,999</u>	<u>577,110</u>	<u>3,434,328</u>	<u>25,758,793</u>

- (a) Freehold land and buildings are accounted for on the deemed cost basis less appropriate depreciation. At March 31, 2005, net deemed cost included in the financial statements aggregated \$1.5 billion (2004: \$1.5 billion).
- (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 Carib Engineering Corporation Limited, also controlled by the Government of Jamaica. At March 31, 2005, capital expenditure on these products aggregated approximately \$439,099,000 (2004: \$419,718,000).

12. Capital reserve

	<u>Thousands of Dollars</u>	
	<u>2005</u>	<u>2004</u>
Arising on transfer of assets (i)	64,026	64,026
Revaluation reserve on IFRS transition date (ii)	<u>15,613,619</u>	<u>15,613,619</u>
	<u>15,677,645</u>	<u>15,677,645</u>

- (i) This primarily comprises the capitalised value of public mains in subdivisions taken over by the commission from the parish councils.
- (ii) This represents the surpluses/losses arising on the revaluation of the commission's property, plant and equipment as at the IFRS transition date of April 1, 2002.

THE NATIONAL WATER COMMISSION

Notes to the Financial Statements (Continued)  
March 31, 2005

13. Deferred taxation

Deferred taxation arises in respect of the treatment of the following items differently for tax and accounting purposes:

	<u>Thousands of Dollars</u>	
	<u>2005</u>	<u>2004</u>
Accounts receivable	( 911)	( 61)
Accounts payable	15,441	28,523*
Property, plant & equipment	(6,233,160)	(5,935,085)*
Deferred capital grants	1,488,946	793,310*
Employee benefits	2,112,895	1,881,427
Tax value of losses carried forward	<u>-</u>	<u>6,905*</u>
	<u>(2,616,789)</u>	<u>(3,224,981)</u>

\* Restated (see note 3)

14. Deferred income

	<u>Thousands of Dollars</u>	
	<u>2005</u>	<u>2004</u>
Deferred capital grants at beginning of year		
As previously reported	4,973,083	4,733,937
Prior year adjustment (see note 3)	(2,593,153)	(2,593,153)
	<u>2,379,930</u>	<u>2,140,784</u>
Government of Jamaica [see also note 9(f)]	2,087,023	18,642
Red Stripe (Desnoes & Geddes Limited)	25,000	-
International grants:		
Inter-American Development Bank (IDB)	-	47,470
Japan International Bank Cooperation	<u>172,315</u>	<u>232,984</u>
	<u>2,284,338</u>	<u>299,096</u>
	4,664,268	2,439,880
Reduced by transfers to the statement of operations consequent on depreciation charged for the year on property, plant & equipment purchased out of capital grants	( 197,431)	( 59,950)
Balance at end of year	<u>4,466,837</u>	<u>2,379,930</u>

15. Employee benefit obligations

	<u>2005</u>	<u>2004</u>
	<u>\$'000</u>	<u>\$'000</u>
Employee benefit obligation in respect of:		
Pensions (Parochial Officers) Act	4,319,000	4,067,000
NWC Pension Scheme	<u>309,635</u>	<u>297,845</u>
Pension benefit obligations (a)	4,628,635	4,364,845
Post-retirement medical and other benefit obligations (b)	<u>1,710,051</u>	<u>1,280,000</u>
	<u>6,338,686</u>	<u>5,644,845</u>



THE NATIONAL WATER COMMISSIONNotes to the Financial Statements (Continued)  
March 31, 200515. Employee benefit obligations (cont'd)

## (a) Pension benefit obligations:

	<u>2005</u> \$'000	<u>2004</u> \$'000
Present value of obligations	5,435,793	5,011,451
Fair value of plan assets	( 104,508)	( 60,124)
Unrecognised actuarial losses	( 702,650)	( 586,482)
Liability recognised in balance sheet	<u>4,628,635</u>	<u>4,364,845</u>

## (i) Movements in liability recognised in the balance sheet:

	<u>2005</u> \$'000	<u>2004</u> \$'000
Balance at beginning of year	4,364,845	3,955,318
Contributions paid	( 513,693)	( 225,169)
Expense recognised in the statement of operations	<u>777,483</u>	<u>634,696</u>
Balance at end of year	<u>4,628,635</u>	<u>4,364,845</u>

## (ii) Expense recognised in the income statement:

	<u>2005</u> \$'000	<u>2004</u> \$'000
Current service costs	170,576	136,424
Interest on obligations	602,176	503,002
Expected return/(loss) on plan assets	<u>4,731</u>	( 4,730)
	<u>777,483</u>	<u>634,696</u>
Actual loss on plan assets	<u>23,505</u>	<u>4,435</u>

## (iii) Principal actuarial assumptions at the balance sheet date (expressed as weighted averages):

	<u>2005</u>	<u>2004</u>
Discount rate	12.5%	12.5%
Expected return on plan assets	12.5%	9.5%
Future salary increases	7.0%	9.0%
Future pension increases	<u>7.5%</u>	<u>9.0%</u>

## (b) Post-retirement medical and other benefit obligations:

	<u>Thousands of Dollars</u>	
	<u>2005</u>	<u>2004</u>
Present value of obligations	1,280,000	1,510,000
Unrecognised actuarial gain/(loss)	<u>430,051</u>	( 230,000)
Liability recognised in balance sheet	<u>1,710,051</u>	<u>1,280,000</u>

THE NATIONAL WATER COMMISSIONNotes to the Financial Statements (Continued)  
March 31, 200515. Employee benefit obligations (cont'd)

## (b) Post-retirement medical and other benefit obligations (cont'd):

## (i) Movements in liability recognised in the balance sheet:

	<u>Thousands of Dollars</u>	
	<u>2005</u>	<u>2004</u>
Balance at beginning of year	1,280,000	1,091,000
Contributions paid	( 15,000)	( 7,000)
Expense recognised in the statement of operations	<u>445,051</u>	<u>196,000</u>
Balance at end of year	<u>1,710,051</u>	<u>1,280,000</u>

## (ii) Expense recognised in the statement of operations:

	<u>Thousands of Dollars</u>	
	<u>2005</u>	<u>2004</u>
Current service costs	250,051	37,000
Interest on obligations	<u>195,000</u>	<u>159,000</u>
	<u>445,051</u>	<u>196,000</u>

## (iii) Principal actuarial assumptions at the balance sheet date (expressed as weighted averages):

	<u>2005</u>	<u>2004</u>
Discount rate	12.5%	12.5%
Medical claims growth	<u>10.5%</u>	<u>10.5%</u>

16. Operating revenue

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

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

## (a) Loss for the year before taxation is stated after charging:

	<u>Thousands of Dollars</u>	
	<u>2005</u>	<u>2004</u>
Audit fees	5,700	5,100
Staff costs	<u>3,333,171</u>	<u>3,312,807</u>

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

	<u>Thousands of Dollars</u>	
	<u>2005</u>	<u>2004</u>
Revenue:		
Water and sewerage services	(781,138)	(660,638)
Expenses:		
Purchases of water	41,491	32,450
Repairs and maintenance	198,333	60,302
- plant & equipment	7,821	14,893
- reinstatement of roads	-	-
Professional fees	<u>-</u>	<u>34,879</u>

THE NATIONAL WATER COMMISSIONNotes to the Financial Statements (Continued)  
March 31, 200518. Commitments

## (a) Capital:

At March 31, 2005, there were capital commitments amounting to approximately \$255,450,000 (2004: \$22,485,000) in relation to contracts for capital expenditure.

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

## (b) Lease:

At March 31, 2005, the commission had lease commitments aggregating \$32,225,026 (2004: \$40,284,000) of which \$31,793,185 (2004: \$30,158,000) is due within one year.

19. Contingent liabilities

(a) At March 31, 2005 the commission was contingently liable in respect of various lawsuits alleging damages aggregating approximately \$58.5 million (2004: \$79 million) the outcome of which cannot be determined at this time. Consequently, these have not been provided for in these financial statements.

(b) At March 31, 2005, the commission was liable for unpaid statutory deductions aggregating \$53,169,000 (2004: \$46,345,000) a portion of which is outstanding for over one month.

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.

(c) At March 31, 2005, no provision has been made in the financial statements for employee benefit and other post-retirement liabilities relating to two categories of employees who have not made a claim for their pension and other post employment benefits.

The first category comprises employees who separated, voluntarily or otherwise between 1988 and 1995, who were in non-pensionable posts at the time of separation. Employees in this category were reclassified to pensionable posts retroactively. The second category relates to employees who voluntarily separated from pensionable posts with at least 10 years of service and before the age of 55 years.

Based on inconsistent claim experience, the lack of data and the relatively long period of time since employee termination, management believes any significant liability arising will be less than probable and hence no provision has been made in the financial statements.

THE NATIONAL WATER COMMISSIONNotes to the Financial Statements (Continued)  
March 31, 200520. Taxation

- (a) Taxation is computed at 33 $\frac{1}{3}$ % of the commission's results for the year, adjusted for tax purposes, and comprises:

	<u>Thousands of Dollars</u>	
	<u>2005</u>	<u>2004</u>
Current tax expense:		
Income tax	163,500	-
Deferred taxation:		
Origination and reversal of temporary differences	( 615,097)	3,224,981
Tax benefit of unused tax losses	<u>6,905</u>	<u>-</u>
	<u>( 444,692)</u>	<u>3,224,981</u>

- (b) Reconciliation of tax expense:

	<u>Thousands of Dollars</u>	
	<u>2005</u>	<u>2004</u>
Deficit before taxation	( <u>1,109,773</u> )	( <u>1,857,229</u> )
Computed "expected" tax expense @ 33 $\frac{1}{3}$ %	( 369,924 )	( 619,076 )
Difference between deficit for financial statements and tax reporting purposes in respect of:		
Capital grants	( 761,446 )	( 813,295 )
Assets financed by capital grants	668,326	689,678
Disallowed expenses and other items	18,352	3,946,959
Tax losses in year of transition to taxation (note 3)	<u>-</u>	<u>20,715</u>
Actual tax (credit)/expense	( <u>444,692</u> )	<u>3,224,981</u>

- (c) Tax losses brought forward and set off against taxable profits for the year ended March 31, 2005 aggregated \$20.7 million.

21. 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 6), which at March 31, 2005, represented 8% (2004: 14%) of total consumers' accounts receivable.

THE NATIONAL WATER COMMISSIONNotes to the Financial Statements (Continued)  
March 31, 200521. Financial instruments (cont'd)

## (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, 2005, financial liabilities subject to interest aggregated \$1,444,368,000 (2004: \$2,286,021,000).

## (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, 2005, net foreign currency assets/(liabilities) aggregated approximately:

	<u>2005</u>	<u>2004</u>
United States dollar (US\$)	(11,293,000)	( 16,468,000)
Euro (€)	3,894	( 11,357,000)
Pound Sterling (£)	<u>-</u>	<u>( 22,000)</u>

## (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, 2005, 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.

THE NATIONAL WATER COMMISSION

Notes to the Financial Statements (Continued)  
March 31, 2005

21. Financial instruments (cont'd)

## (g) Fair value disclosure:

The cost reflected in the financial statements for cash and cash equivalents, 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, 2005

THE NATIONAL WATER COMMISSIONSupplementary Information to the Financial Statements  
Year ended March 31, 2005

	<u>Thousands of Dollars</u>	
	<u>2005</u>	<u>2004</u>
<b>OPERATING REVENUE</b>		
Water	4,760,953	2,888,532
Sewage	1,321,133	776,693
Service charge	844,983	494,168
Price adjustment mechanism	379,504	1,736,046
Bulk water	7,513	5,165
Bulk water shipping	3,472	2,746
New installations	150,602	64,922
Reconnections	65,600	42,264
Cesspool & other sewerage	9,707	6,619
Operating grant	30,583	120,611
Employee discount-water	<u>33</u>	<u>( 13,360)</u>
	<u>7,574,083</u>	<u>6,124,406</u>
<b>OPERATING EXPENSES</b>		
Salaries, wages and related costs	3,333,171	3,312,807
Repairs and maintenance	1,039,284	619,011
Administration	1,038,814	975,414
Electricity	1,608,696	1,295,188
Telephone	72,588	72,507
Fuel and lubrications	85,299	72,596
Purchases – water	<u>72,653</u>	<u>49,982</u>
	<u>7,250,505</u>	<u>6,397,505</u>
Operating profit/(loss)	<u>323,578</u>	<u>( 273,099)</u>



THE NATIONAL WATER COMMISSIONSupplementary Information to the Financial Statements  
Year ended March 31, 2005

	<u>Thousands of Dollars</u>	
	<u>2005</u>	<u>2004</u>
<b>SALARIES AND WAGES</b>		
Salaries, wages and benefits	2,158,380	2,261,374
Allowances – motor vehicle	175,386	175,028
Allowances – uniform	5,228	97,209
Allowances – other	175,096	106,135
Pensions and Gratuity paid	502,414	436,228
Insurance (group)	109,552	85,862
Travelling and transportation	72,015	35,683
Statutory contributions	<u>135,100</u>	<u>115,288</u>
	<u>3,333,171</u>	<u>3,312,807</u>
<b>REPAIRS AND MAINTENANCE</b>		
General repairs (pipes)	81,237	87,690
Materials and supplies	221,307	98,813
Motor vehicles	104,969	86,813
Plant and equipment	305,092	161,767
Building	98,431	53,650
Chemicals	73,488	32,509
Equipment rental	88,397	57,617
Reinstatement of roads	26,855	20,451
Office furniture and equipment	7,382	11,212
Claims and contingencies	<u>32,126</u>	<u>8,489</u>
	<u>1,039,284</u>	<u>619,011</u>
<b>ADMINISTRATION</b>		
Bad debts	496,400	458,481
Rent, rates and taxes	58,341	49,934
Security services	88,792	80,805
Insurance charges	151,209	163,177
Donations	-	3,027
Computer services	29,807	34,210
Printing and stationery	25,888	18,326
Consultancy fees	23,776	36,330
Postage and cables	49,849	44,943
Overseas travel	3,903	1,361
Audit and accounting fees and expenses	5,881	7,379
Staff welfare	48,359	38,026
Miscellaneous expenses	20,964	14,398
Legal expenses	4,475	429
Advertising	<u>31,170</u>	<u>24,588</u>
	<u>1,038,814</u>	<u>975,414</u>