

**BAHAMAS ELECTRICITY CORPORATION**

**Financial Statements For The  
Year Ended September 30, 2006  
And Independent Auditors' Report**

# **BAHAMAS ELECTRICITY CORPORATION**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Bahamas Electricity Corporation:

We have audited the accompanying financial statements of Bahamas Electricity Corporation ("the Corporation") which comprise the balance sheet as of September 30, 2006, and the related statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### **Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the 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 perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, 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 control 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Corporation as of September 30, 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Deloitte & Touche*

August 16, 2007

# BAHAMAS ELECTRICITY CORPORATION

## BALANCE SHEET SEPTEMBER 30, 2006

*(Expressed in thousands of Bahamian dollars)*

	2006	2005
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash	\$ 5,971	\$ 3,868
Accounts receivable - Private sector (Notes 5 and 23)	53,758	49,477
Current portion of electricity accounts receivable - Government Corporations and Departments (Notes 6 and 23)	2,533	3,200
Estimated unbilled revenue	24,592	22,214
Fuel surcharge recoverable (Note 7)	29,067	19,794
Inventories, net (Note 8)	37,340	31,757
Prepayments and other assets	16,010	11,321
Total current assets	<u>169,271</u>	<u>141,631</u>
NON-CURRENT ASSETS:		
Property, plant and equipment (Note 9)	563,657	510,205
Electricity accounts receivable, less current portion - Government Corporations and Departments (Notes 6 and 23)	-	45,145
Other accounts receivable - Government Corporations and Departments (Notes 6 and 23)	329	4,894
Total non-current assets	<u>563,986</u>	<u>560,244</u>
TOTAL	<u>\$ 733,257</u>	<u>\$ 701,875</u>

*(Continued)*

See notes to financial statements.

# BAHAMAS ELECTRICITY CORPORATION

## BALANCE SHEET SEPTEMBER 30, 2006

(Expressed in thousands of Bahamian dollars)


	2006	2005
<b>LIABILITIES AND INTEREST OF EQUITYHOLDER</b>		
CURRENT LIABILITIES:		
Bank overdrafts (Note 10)	\$ 34,885	\$ 17,465
Demand bank loans (Note 11)	28,800	28,800
Due to Government Corporations and Departments (Note 6)	13,369	-
Current portion of long-term borrowings (Note 12)	23,549	25,197
Accounts payable and accrued liabilities (Note 13)	146,582	133,488
Accrued dividends (Note 14)	633	633
Pension plan benefit obligations (Note 20)	14,731	9,218
Total current liabilities	<u>262,549</u>	<u>214,801</u>
NON-CURRENT LIABILITIES:		
Long-term borrowings, less current portion (Note 12)	129,588	149,571
Customers' deposits (Note 15)	36,972	33,102
Contributions in aid of construction not yet applied	15,812	12,516
Total non-current liabilities	<u>182,372</u>	<u>195,189</u>
INTEREST OF EQUITYHOLDER		
BAHAMAS GOVERNMENT:		
Contributed capital	10,550	10,550
Retained earnings	277,786	281,335
Total interest of equityholder	<u>288,336</u>	<u>291,885</u>
TOTAL	<u>\$ 733,257</u>	<u>\$ 701,875</u>

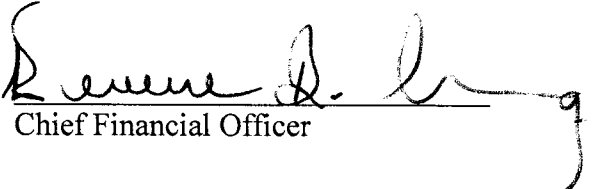
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See notes to financial statements.

These financial statements were approved by the Board of Directors as of August 16, 2007 and are signed on its behalf by:

  
Chairman

  
General Manager

  
Chief Financial Officer

# BAHAMAS ELECTRICITY CORPORATION

## STATEMENT OF INCOME

YEAR ENDED SEPTEMBER 30, 2006

(Expressed in thousands of Bahamian dollars)

	2006	2005
REVENUE:		
Sale of electricity (Notes 17 and 23)	\$ 382,299	\$ 312,593
OPERATING EXPENSES:		
Fuel used for generation of electricity (Note 18)	229,198	164,419
Operation, maintenance and administrative (Notes 19, 20 and 23)	113,544	107,124
Depreciation (Note 9)	28,352	27,264
Amortization of goodwill	-	147
Total operating expenses	<u>371,094</u>	<u>298,954</u>
OPERATING INCOME	<u>11,205</u>	<u>13,639</u>
INTEREST AND OTHER EXPENSES (INCOME):		
Interest on long-term borrowings (Note 23)	11,703	10,343
Write down of interest rate cap fees	1,094	568
Other income	(2,252)	(1,860)
Gain on sale of investments (Note 16)	-	(14,000)
Loss on sale of fixed assets	17	-
Exchange loss	1,171	953
Other interest and bank charges (Note 15)	2,434	2,801
Dividend income	-	(360)
Proceeds from insurance claims	<u>(46)</u>	<u>(112)</u>
Total interest and other expenses (income)	<u>14,121</u>	<u>(1,667)</u>
NET (LOSS) INCOME	<u>\$ (2,916)</u>	<u>\$ 15,306</u>

See notes to financial statements.

# BAHAMAS ELECTRICITY CORPORATION

## STATEMENT OF CHANGES IN EQUITY YEAR ENDED SEPTEMBER 30, 2006

*(Expressed in thousands of Bahamian dollars)*

	Contributed <u>Capital</u>	Investment Valuation <u>Reserve</u>	Retained <u>Earnings</u>	<u>Total</u>
Balance at September 30, 2004	\$ 10,550	\$ 11,880	\$ 266,662	\$ 289,092
Net income	-	-	15,306	15,306
Increase in fair value of available for-sale investment (Note 16)	-	2,120	-	2,120
Disposal of investment in securities (Note 16)	-	(14,000)	-	(14,000)
Dividends (Notes 14 and 23)	-	-	(633)	(633)
Balance at September 30, 2005	10,550	-	281,335	291,885
Net loss	-	-	(2,916)	(2,916)
Dividends (Notes 14 and 23)	-	-	(633)	(633)
Balance at September 30, 2006	<u>\$ 10,550</u>	<u>\$ -</u>	<u>\$ 277,786</u>	<u>\$ 288,336</u>

See notes to financial statements.

# BAHAMAS ELECTRICITY CORPORATION

## STATEMENT OF CASH FLOWS YEAR ENDED SEPTEMBER 30, 2006

(Expressed in thousands of Bahamian dollars)

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net (loss) income	\$ (2,916)	\$ 15,306
Items not involving cash:		
Provision for doubtful debts (Note 6)	2,074	773
Amortization of goodwill	-	147
Amortization of rate cap fees	1,095	568
Gain on sale of investment in securities (Note 16)	-	(14,000)
Loss on disposal of fixed assets	17	3
Trade in value of vehicle	-	19
Depreciation (Note 9)	<u>28,352</u>	<u>27,264</u>
Operating income before working capital changes	28,622	30,080
(Increase) decrease in accounts receivable:		
- Private sector	(6,355)	(12,040)
- Government Corporations and Departments	45,179	(6,270)
Increase in estimated unbilled revenue	(2,378)	(7,511)
Increase in fuel surcharge recoverable	(9,273)	(1,327)
Increase in inventories	(5,583)	(2,039)
Increase in prepayments and other assets	(5,784)	(6,312)
Increase in due to Government Corporations and Departments	13,369	-
Increase in accounts payable and accrued liabilities	13,094	48,994
Increase in pension plan benefit obligations	5,513	2,325
Increase in customers' deposits	<u>3,870</u>	<u>3,174</u>
Net cash from operating activities	<u>80,274</u>	<u>49,074</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of property, plant and equipment (Note 9)	(84,434)	(42,385)
Contributions in aid of construction (Note 9)	2,613	2,989
Proceeds from the sale of the investments	-	16,000
Decrease (increase) in other accounts receivable - Government Corporations and Departments	4,565	(614)
Contributions in aid of construction not yet applied	<u>3,296</u>	<u>5,528</u>
Net cash used in investing activities	<u>(73,960)</u>	<u>(18,482)</u>

(Continued)

See notes to financial statements.

# BAHAMAS ELECTRICITY CORPORATION

## STATEMENT OF CASH FLOWS YEAR ENDED SEPTEMBER 30, 2006

*(Expressed in thousands of Bahamian dollars)*

	<b>2006</b>	<b>2005</b>
CASH FLOWS FROM FINANCING ACTIVITY:		
Repayment of long-term borrowings	<u>(21,631)</u>	<u>(21,663)</u>
Net cash used in financing activity	<u>(21,631)</u>	<u>(21,663)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(15,317)	8,929
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>(13,597)</u>	<u>(22,526)</u>
CASH AND CASH EQUIVALENTS END OF YEAR	<u><u>\$ (28,914)</u></u>	<u><u>\$ (13,597)</u></u>
CASH AND CASH EQUIVALENTS IS REPRESENTED BY:		
Cash	\$ 5,971	\$ 3,868
Bank overdrafts	<u>(34,885)</u>	<u>(17,465)</u>
	<u><u>\$ (28,914)</u></u>	<u><u>\$ (13,597)</u></u>
SUPPLEMENTARY INFORMATION:		
Interest paid	<u>\$ 11,620</u>	<u>\$ 10,488</u>
Dividends received	<u>\$ -</u>	<u>\$ 360</u>
Dividends paid (Note 14)	<u>\$ 633</u>	<u>\$ 633</u>

See notes to financial statements.

*(Concluded)*

# BAHAMAS ELECTRICITY CORPORATION

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED SEPTEMBER 30, 2006

*(Expressed in thousands of Bahamian dollars)*

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### 1. GENERAL

Bahamas Electricity Corporation (the "Corporation") is incorporated under the laws of the Commonwealth of The Bahamas in accordance with the provisions of The Electricity Act of 1956, as amended, with its registered office at P.O. Box N-7509, Nassau, Bahamas and headquartered at Big Pond, Baillou Hill Road office.

The Corporation is the provider of electricity for consumption on most islands throughout The Commonwealth of The Bahamas.

### 2. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

At the date of authorization of these financial statements, the International Accounting Standards Board ("IASB") has issued International Financial Reporting Standard ("IFRS") 6, IFRS 7, and International Financial Reporting Interpretations Committee ("IFRIC") 4-10, which are not yet effective. Furthermore, IASB has issued amendments to IFRS 4, International Accounting Standard ("IAS") 1, IAS 19, and IAS 39, which are also not yet effective. The withdrawal of IAS 14 and application of IFRS 8 is effective for accounting periods commencing January 1, 2009.

Management anticipates that the future adoption of these Standards and Interpretations applicable to the Corporation will have no material impact on the financial statements of the Corporation.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Corporation's financial statements have been prepared in accordance with International Financial Reporting Standards. The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The following is a summary of the significant accounting policies:

- a) **Cash** - Cash consists of cash on hand and balances with banks.
- b) **Cash and cash equivalents** - Cash and cash equivalents consist of cash less bank overdraft balances.

- c) **Accounts Receivable - Private Sector** - Accounts receivable – Private Sector is carried net of a provision for uncollectible electricity accounts receivable.

The private sector provision for uncollectible electricity accounts receivable is calculated as follows:

- i) Accounts receivable over 90 days – 100%
- ii) Accounts receivable 60 – 90 days – 10%
- iii) The total provision against i) and ii) above is reduced by 30% as an estimate for all customer deposits held

Additionally, electricity accounts receivable for large commercial customers and other receivables are reviewed periodically by credit personnel and senior management to determine whether specific provisions are required. Factors such as the financial strength of such customers and payment history are considered in determining the necessary provisions.

- d) **Accounts Receivable - Government Corporations and Departments** – It is the policy of the Corporation not to make provisions against any outstanding receivables from Government Corporations and Departments.

Other accounts receivable - Government Corporations and Departments are comprised of non-electricity amounts due from the respective Government Corporations and Departments for various rechargeable projects and usage of poles.

- e) **Estimated Unbilled Revenue** - Estimated unbilled revenue is utility services provided, but not yet billed to customers for the month of September. Utility service billings are based on meter readings used to determine usage on a cycle basis (i.e., readings are made at various times during the month for different groups of customers).
- f) **Fuel Surcharge Recoverable** - The Corporation is entitled to recover from consumers any increase in the cost of fuel, over a set base cost price. These costs are recovered in subsequent periods, in the form of a surcharge on consumer billings.
- g) **Inventories** - Fuel inventory is stated at cost which is determined on a first-in, first-out basis. Stores inventory is stated at average cost less a specific provision for obsolete items, as determined by management.
- h) **Rechargeable work in progress** - This arise from work performed on the Corporation's equipment which has been damaged by members of the public by way of accident. Any shortfall or excess arising from such contracts are included under other income and are not recognized until the contracts are substantially completed.
- i) **Property, Plant and Equipment** - Property, plant and equipment are stated at cost less accumulated depreciation. Cost includes, where appropriate, labour costs of the Corporation's employees and an allocation of overhead.

Depreciation and amortization is based on management estimates of the future useful life of fixed assets. Estimates may change due to technological developments, competition, changes in market conditions and other factors and may result in changes in the estimated useful life and in the amortization or depreciation charges. The Corporation reviews the future useful life of fixed assets periodically taking into consideration the factors mentioned above and all

other important factors. Estimated useful life for similar type of assets may vary due to factors such as growth rate, maturity of the market, history and expectations for replacements or transfer of assets, climate etc.

In case of significant changes in the estimated useful lives, depreciation and amortization charges are adjusted prospectively.

Depreciation is calculated on the straight-line basis over the estimated useful lives of the related assets when it is available for use as follows:

Buildings and structures	5 – 40 years
Generating plant and machinery	3 – 25 years
Transmission and distribution equipment	25 years
Vehicles and mobile plant	2 – 10 years
Furniture and fittings – office and residential	2 – 10 years
Computer hardware and office equipment	3 – 7 years
Computer software	1 – 3 years
Tools, instruments and equipment	8 – 25 years

Repairs and maintenance are charged to operating expense, and major improvements which extend the useful lives of the assets are capitalized.

Interest is capitalized during the construction phase of major projects. The capitalized interest is recorded as part of the asset to which it relates and is amortized or depreciated over the estimated useful life of the asset.

Capital work-in-progress is stated at cost which includes, where appropriate, labour costs and an allocation of overhead. Depreciation charges are deferred on capital work-in-progress until project completion, at which time such assets are transferred to specific categories of property, plant and equipment.

Included in capital-work-in-progress is “Contract work-in-progress” which represents work performed at the request of or for the benefit of customers where contributions in aid of construction are received. Upon completion of the work the asset is transferred to the specific categories of property, plant and equipment

- j) **Impairment of assets** - At each balance sheet date, the Corporation reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). The recoverable amount is the higher of fair value less costs to sell and value in use. An impairment loss is recognized as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.
- k) **Customers' deposits** - Funds obtained from customers as security towards the provision of electrical services. The amounts are reported in the balance sheet as a non-current liability.
- l) **Contributions in aid of construction** - Amounts received from customers as a contribution towards the cost of installing transmission and distribution equipment. Transmission and distribution equipment includes mains and services, meters and

transformers, and switchgear. Title to the equipment for which contributions are received remains with the Corporation. Contributions in aid of construction received with respect to incomplete projects are reported in the balance sheet as non-current liabilities. Upon completion of the project the contribution received is transferred to the specific category of property, plant and equipment thereby reducing the cost of the reported asset by the amount. As such the cost of the property, plant and equipment represents the amount invested by the Corporation.

- m) **Investment in Securities** - Investment in securities are classified as available-for-sale and are measured at subsequent reporting dates at fair value. Unrealized gains and losses for the year are included in the Investment Revaluation Reserve in equity until derecognized.
- n) **Goodwill** - Goodwill arising on the purchase of Treasure Cay Utilities Company was amortized over a five-year period on a straight-line basis from October 1, 2000 to September 30, 2005.
- o) **Rate Cap Transaction** - This relates to a five year \$128,000 syndicated loan with an option to renew for a further five years (Note 12f). The cost to obtain the rate cap for the first 5 year period was \$2,830. The cost to obtain the rate cap for the second 5 year period was \$2,070. The rate caps are measured at fair market value.
- p) **Sale of Electricity** - Sale of electricity is recognized on an accrual basis. Customers are billed monthly for electricity consumed on a cyclical basis. Sale of electricity includes the estimated billing value of services rendered from the last meter reading until the end of the financial year, and fuel surcharge recoverable but not billed to consumers as at the year-end less a rebate.

The Board of Directors approved a reduction in the Tariff Basic Rate/rebate ranging from 11% to 17% for New Providence and the Family Island residential customers and large commercial customers effective the first quarter of the Corporation's fiscal year 2004.

The Corporation absorbs the cost of street lighting as an annual operating expense.

- q) **Retirement Benefit Costs** - For defined benefit retirement plans, the cost of providing 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 plan 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 benefit obligation as adjusted for unrecognized actuarial gains and losses, any unrecognized past service costs and is reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognized actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

r) **Foreign Currency Translation** - Assets and liabilities in currencies other than Bahamian dollars are translated at the rates of exchange prevailing at the year-end. Income and expense items in currencies other than Bahamian dollars are translated at rates of exchange prevailing at the date of transaction. Gains and losses arising from translation are recorded in the statement of income.

s) **Borrowing Costs** - Borrowing costs directly attributable to long-term projects are added to the cost of those assets, until such time as the assets are completed and ready for their intended use.

All other borrowing costs are recognized in the statement of income in the year in which they are incurred.

t) **Related Parties** - Related parties include all Ministries and Departments of The Bahamas Government, Government Corporations, Subsidiaries and Agencies as well as key management personnel of the Corporation.

#### 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Certain amounts included in or affecting the Corporation's financial statements and related disclosure 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 statements 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. The Corporation evaluates such estimates on an ongoing basis based upon historical results and experience, consultation with experts, trends and other methods considered reasonable in the particular circumstances; as well as the forecasts as to how these might change in the future.

(a) **Impairment** - The Corporation has significant balances due from customers. Receivables from customers include Accounts receivable – Private Sector, Estimated Unbilled Revenue, Fuel Surcharge Recoverable and balances due from the Government and Government Corporations (collectively "accounts receivables"). These assets are tested for impairment when circumstances indicate that there may be a potential impairment. Estimating recoverable amounts of accounts receivables must in part be based on management's evaluations, including its estimates of future performance, the length of time the receivables have been outstanding, assumptions of the future market conditions and credit risks associated with the assets. Changes in circumstances and in management's evaluations and assumptions may give rise to impairment losses in the relevant periods.

The Corporation has significant balances in inventory, some portion of this inventory is in the form of spare parts for the Corporation's property, plant and equipment. The Corporation also has significant balances in property, plant and equipment. Management analyzes its inventory and property, plant and equipment balances for indication of impairment based on industry standards and technology changes. Any

change in these standards may give rise to a change in the impairment loss, the effect of which is recognized once determined.

- (b) **Depreciation and amortization** - Depreciation and amortization is based on management estimates of the future useful life of fixed assets. Estimates may change due to technological developments, changes in market conditions and other factors and may result in changes in the estimated useful life and in the amortization or depreciation charges. The Corporation reviews the future useful life of fixed assets periodically taking into consideration the factors mentioned above and all other important factors. In case of significant changes in the estimated useful lives, depreciation and amortization charges are adjusted prospectively.
- (c) **Retirement Benefit** - The Corporation provides retirement benefits to employees of the Corporation based on their final pensionable salary. The expense and obligation related to the retirement benefit plan is based on a number of assumptions some of which are the discount rate, expected rate of return on the Plan assets, future salary increases, future pension increases and the portion of employees opting for early retirement. Changes in these assumptions will result in an increase or decrease in the pension obligation and the related expense which are adjusted prospectively. Details of the assumptions used are presented in note 20 to these financial statements.
- (d) **Legal proceedings, claims and regulatory discussions** - The Corporation is subject to various legal proceedings, claims and regulatory discussions, the outcomes of which are subject to significant uncertainty. The Corporation evaluates, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. Unanticipated events or changes in these factors may require the Corporation to increase or decrease the amount the Corporation has accrued for any matter or accrue for a matter that has not been previously accrued because it was not considered probable, or a reasonable estimate could not be made. Details of the legal matters are presented in note 25 these financial statements.

## 5. ACCOUNTS RECEIVABLE – PRIVATE SECTOR

Accounts receivable – private sector consist of the following:

	<b>2006</b>	<b>2005</b>
Sale of electricity	\$ 71,673	\$ 65,741
Other receivables	<u>7,416</u>	<u>6,993</u>
	79,089	72,734
Less: Provision for doubtful debts	<u>(25,331)</u>	<u>(23,257)</u>
	<u>\$ 53,758</u>	<u>\$ 49,477</u>
Movement of provision for doubtful debts:		
Balance, beginning of year	\$ 23,257	\$ 22,484
Bad debts (Noe 19)	<u>2,074</u>	<u>773</u>
Balance, end of year	<u>\$ 25,331</u>	<u>\$ 23,257</u>

**6. ACCOUNTS RECEIVABLE – GOVERNMENT CORPORATIONS AND DEPARTMENTS**

	<b>2006</b>	<b>2005</b>
Sale of electricity, less receipts under government liquidation plan - current portion	<u>\$ 2,533</u>	<u>\$ 3,200</u>
Sale of electricity, less receipts under government liquidation plan - long-term portion	<u>\$ -</u>	<u>\$ 45,145</u>
Other accounts receivable - Government Corporations and Departments	<u>\$ 329</u>	<u>\$ 4,894</u>

2006 Liquidation Plan

The Corporation and the Bahamas Government established a plan to liquidate the outstanding Government Corporations' and Departments' receivables and payables balances.

There was a netting of customs duty owed by the Corporation in the amount of \$71,655 against the outstanding balances due from the Government Corporations and Departments of \$58,286. As a result of the netting there is a credit balance due to the Government Corporations' and Departments' of \$13,369. This credit balance will be applied to the future outstanding balances due from the Corporation's and Departments on their electricity accounts receivable.

Under the arrangement, the following outstanding balances as at September 30, 2006 were included in the liquidation plan:

Electricity accounts receivables - Government Corporations and Departments	\$ 48,576
Electricity accounts receivables - Airport Authority	<u>9,710</u>
	<u>58,286</u>
Offset by:	
Stamp tax and duty payable - Public Treasury	<u>71,655</u>
Due to Government Corporations and Departments	<u>\$ 13,369</u>

## 7. FUEL SURCHARGE RECOVERABLE

Fuel surcharge recoverable consists of the following:

	<b>2006</b>	<b>2005</b>
Deferred under recovery for previous year	\$ 1,699	\$ 3,020
Deferred under recovery for current year	<u>27,368</u>	<u>16,774</u>
	<u>\$ 29,067</u>	<u>\$ 19,794</u>

The Corporation will recover the \$ 29,067 (2005: \$16,774) over the next fiscal year through customer billings.

The Corporation has deferred the collection of \$1,699 (2005: \$3,020) of the fuel cost. This amount is included in the fuel surcharge recoverable, which is to be recovered in subsequent periods.

## 8. INVENTORIES, NET

Inventories are comprised of the following:

	<b>2006</b>	<b>2005</b>
Stores	\$ 33,068	\$ 29,898
Provision for obsolescence	<u>(5,028)</u>	<u>(5,028)</u>
	28,040	24,870
Fuel	<u>9,300</u>	<u>6,887</u>
	<u>\$ 37,340</u>	<u>\$ 31,757</u>

## 9. PROPERTY, PLANT AND EQUIPMENT

The movement in property, plant and equipment during the year is as follows:

	2005		Contributions		2006	
	Beginning Balance	Additions	Disposal	Applied	Transfers	Ending Balance
<b>COST:</b>						
Land & buildings	\$ 60,905	\$ 137			\$ 94	\$ 61,136
Generating plant & machinery	414,662	30,296			17,261	462,219
Transmission & distribution equipment	232,856	5,083		(2,613)	1,897	237,223
Vehicles & mobile plant	21,976	150	(356)		2,706	24,476
Furniture & fittings	3,954				364	4,318
Computer & office equipment	6,939				245	7,184
Capital work-in-progress	110,506	48,768	-	-	(22,567)	136,707
	<u>\$ 851,798</u>	<u>\$ 84,434</u>	<u>\$ (356)</u>	<u>\$ (2,613)</u>	<u>\$ -</u>	<u>\$ 933,263</u>

	2005		Disposal	2006	Net book Value	
	Beginning Balance	Depreciation			2006	2006
<b>ACCUMULATED DEPRECIATION:</b>						
Land & buildings	\$ 29,642	\$ 1,156	\$ -	\$ 30,798	\$ 30,338	\$ 31,263
Generating plant & machinery	191,923	16,066	-	207,989	254,229	222,739
Transmission & distribution equipment	92,915	8,871	-	101,786	135,436	139,941
Vehicles & mobile plant	17,639	1,677	(339)	18,977	5,501	4,337
Furniture & fittings	2,976	498	-	3,474	844	978
Computer & office equipment	6,498	84	-	6,582	602	441
Capital work-in-progress	-	-	-	-	136,707	110,506
	<u>\$ 341,593</u>	<u>\$ 28,352</u>	<u>\$ (339)</u>	<u>\$ 369,606</u>	<u>\$ 563,657</u>	<u>\$ 510,205</u>

For the year ended September 30, 2006, interest of \$544 was capitalized (2005: \$89).

## **10. BANK OVERDRAFTS**

Bank overdrafts include a line of credit in the amount of \$13,000 with the Scotiabank (Bahamas) Limited. This facility is charged interest at Bahamian prime plus 1% per annum. At the year end the Corporation, with the approval of the Bank's management, received an increase in its credit line of \$25,000 resulting in a temporary limit of \$38,000.

Bank overdrafts also include a revolving credit facility in the amount of £900 (B\$1,673) with Crown Agents Financial Services Limited, who acts on behalf of the Corporation as purchasing agents in the United Kingdom. This facility is charged interest at the annual rate of LIBOR (London Inter-Bank Offering Rate) plus 1½% per annum.

## **11. DEMAND BANK LOANS**

Demand bank loans are comprised of the following:

- a) A \$2,000 (2005: \$2,000) term loan denominated in Bahamian dollars from The Bank of The Bahamas Limited, a related party. The loan is payable on demand and bears interest at Bahamian prime plus 1% (2005: Bahamian prime plus 1%) per annum. Interest is paid on a monthly basis.
- b) A \$3,000 (2005: \$3,000) term loan denominated in Bahamian dollars from the Bank of The Bahamas Limited, a related party. The loan is payable on demand and bears interest at Bahamian prime plus 0.75% (2005: Bahamian prime plus 0.75%) per annum. Interest is paid on a monthly basis.
- c) A \$2,000 (2005: \$2,000) term loan denominated in Bahamian dollars from the Bank of The Bahamas Limited, a related party. The loan is payable on demand and bears interest at Bahamian prime plus 0.50% (2005: Bahamian prime plus 0.50%) per annum. Interest is paid on a monthly basis.
- d) On January 10, 2003, the Corporation secured a \$17,000 demand loan facility from Scotiabank (Bahamas) Limited to reduce the existing overdraft facility and to assist in funding temporary increases in working capital needs. The Corporation repaid \$7,000 on August 19, 2003. During 2004 the Corporation was able to secure an additional advance of \$11,800 on this loan. The total balance due on this loan at September 30, 2006 is \$21,800 (2005: \$21,800). The loan bears interest at Bahamian prime plus 1.125% per annum (2005: Bahamian prime plus 1.125%). Interest is paid on a monthly basis.

Bahamian prime at September 30, 2006, was 5.5 % (2005: 5.5%).

See note 26 below for further details on the demand loans.

## 12. LONG-TERM BORROWING

Long-term borrowing comprises:

	2006		2005	
	Current Maturities	Long-term	Current Maturities	Long-term
National Insurance Board (a)	\$ 736	\$ 3,117	\$ 677	\$ 3,854
National Insurance Board (a)	-	11,578	2,144	9,434
European Economic Community (b)	1,269	-	883	
European Investment Bank (c)	1,745	8,529	1,694	10,274
Consortium loan I (d)	4,513	12,854	4,513	17,504
Consortium loan II (e)	2,486	10,310	2,486	12,505
Consortium loan III (f)	12,800	83,200	12,800	96,000
	-	-	-	-
	\$ 23,549	\$ 129,588	\$ 25,197	\$ 149,571

### a. The National Insurance Board

On December 1, 1989, a loan facility of \$10,000 was arranged with The National Insurance Board towards the funding of the overall expansion of generation and transmission facilities in New Providence. The loan bears interest at ½% per annum below Bahamian prime, but not less than 8½% per annum at any time. The principal amount of the loan is repayable in 42 semi-annual installments, and mature, on January 26, 2011. The loan is guaranteed by The Bahamas Government.

On July 30, 2003, a new facility of \$20,000 was arranged with The National Insurance Board towards the funding of additional working capital and to discharge and meet its Corporation's financial obligations. This loan was originally due for repayment in full on November 1, 2003. On May 20, 2004, an amendment to the repayment term was agreed with NIB for an additional 5 years at a rate not to exceed prime plus 0.5% per annum. The Corporation is in the process of renegotiating the repayment terms of this loan with NIB. Subsequent to the balance sheet date, the lender has agreed to reschedule the loan so that the loan is now repayable in equal quarterly installments over 3 years.

On the basis of the post year-end agreement to reschedule the repayments, the relevant portions of the loan continue to be treated as long term. The loan bears interest at Bahamian Prime plus 1½% per annum. Interest is paid on a monthly basis and was changed to a quarterly basis effective February 1, 2004.

## **b. European Economic Community**

The loan facility of Euros 1,000 (B\$1,269) was granted to partially fund the installation of a public electricity supply on Cat Island. The loan was not granted to the Corporation but to the Government of the Bahamas. However, the loan proceeds were given to the Corporation and will be repaid by the Corporation therefore, in substance, the loan is that of the Corporation.

Interest is charged at the rate of 1% per annum and is payable semi-annually in arrears. The principal amount is repayable in 60 semi-annual payments ranging from 1.43% to 1.93% per annum of the loan amount and were scheduled to commence September 1, 2000.

To date the Corporation has made no principal nor interest payments on this loan, as a result the loan is included in current portion of long-term borrowings.

## **c. European Investment Bank**

### Loan Facility for New Providence Power Expansion – Phase II

On December 17, 1996, a loan facility of Euros 20,000 (B\$23,600) was granted to assist with the funding of the electric power generation and transmission capacity expansion in New Providence. The total cost of the project was estimated to be US \$96,000.

The loan is guaranteed by The Bahamas Government and is repayable in US dollars in semi-annual installments. The first installment was due on June 10, 2000, and the final installment on due December 10, 2011.

The rate of interest payable is the greater of 3% per annum and the average of the standard interest rates charged on comparable loans (in terms of the currency of the disbursements, final maturity, and repayment conditions) made by the EIB at the issue date of the disbursement notice. This average rate is reduced by an annual interest rate subsidy of 3.45%.

## **d. Consortium Loan I**

On March 14, 2001, the Corporation entered into a consortium agreement for the provision of a loan facility in the amount of \$45,130 (split into US\$27,900 and B\$17,230) to assist in the purchase of a 30 megawatt diesel engine as well as the necessary transmission and distribution work relative to New Providence Power Expansion phase III. The consortium lead bank is Scotiabank (Bahamas) Limited and includes Royal Bank of Canada, Canadian Imperial Bank of Commerce and Barclays Bank. (Canadian Imperial Bank of Commerce and Barclays Bank have now merged to become FirstCaribbean International Bank (Bahamas) Limited). Each bank at the time contributed 25% of the facility which is unsecured.

The loan bears interest at LIBOR plus 1.125% per annum for the US\$ portion and Bahamian prime plus 1.125% per annum for the B\$ portion.

The loan will be repaid over five years via a ten year amortization, namely, in twenty consecutive quarterly principal installments commencing from October 2003. Nineteen installments in the sum of \$1,128 (split into US\$697 and B\$431) and a final lump sum payment of \$17,517 (split into US\$11,685 and B\$5,832).

The lenders will have the option to renew for an additional five years and will have the right of first refusal for the renewal of the loan.

**e. Consortium Loan II**

On October 8, 2001, the Corporation entered into another contractual agreement for the provision of a loan facility in the amount of \$24,869 (split into US\$20,144 and B\$4,725) to assist in the purchase of a 30 megawatt diesel engine as well as the necessary transmission and distribution work relative to New Providence Power Expansion phase III.

The consortium lead bank is Scotiabank (Bahamas) Limited and includes Royal Bank of Canada, Canadian Imperial Bank of Commerce and Barclays Bank. (Canadian Imperial Bank of Commerce and Barclays Bank have now merged to become FirstCaribbean International Bank (Bahamas) Limited). Each bank at the time contributed 25% of the facility which is unsecured.

The loan bears interest at LIBOR plus 1.125% per annum for the US\$ portion and Bahamian prime plus 1.125% for the B\$ portion.

The total amount drawn down during the current year was US\$ 0 and B\$ 0 (2005: US\$ 1,265 and B\$ 338).

The loan will be repaid over five years via a ten year amortization, namely, in twenty consecutive quarterly principal installments commencing from October 31, 2003. Nineteen installments in the sum of \$622 (split into US\$504 and B\$118) and a final lump sum payment of the remaining balance.

The lenders will have the option to renew for an additional five years and will have the first refusal for the renewal of the loan.

**f. Consortium Loan III**

Board approval was obtained on September 18, 2003, for the Corporation to enter into a consortium loan with several commercial banks in The Bahamas. On November 21, 2003, the Corporation entered into the consortium agreement for the provision of a loan facility in the amount of US\$128,000. The lead bank for the consortium is Scotiabank (Bahamas) Limited; and includes Citibank N.A., FirstCaribbean International Bank (Bahamas) Limited, Royal Bank of Canada and Bank of The Bahamas Limited.

The Banks have agreed on the following loan facilities:

	<u>Amount</u>	<u>%</u>
Scotiabank (Bahamas) Limited	\$ 31,000	24.22
Citibank N. A.	29,000	22.66
FirstCaribbean International Bank (Bahamas) Limited	29,000	22.66
Royal Bank of Canada	29,000	22.66
Bank of The Bahamas Limited	<u>10,000</u>	<u>7.80</u>
	<u>\$ 128,000</u>	<u>100.00</u>

The loan bears interest at LIBOR plus the 1.125%. (LIBOR is two business days prior to the beginning of such interest period for delivery on the 1st day of such interest period). The agreement requires that the Corporation pays the fixed leg and receives a floating rate of USD-LIBOR-BBA with a cap rate of 4.5% per annum. The floating rate is payable on an excess basis above the rate. In the event that there is no excess, there will be no floating amount payable by the bank for any calculation period. Effectively the bank absorbs the cost of any interest charge over and above 4.5% per annum. The purpose of the loan was to refinance its four loans with the Inter-American Development Bank (IDB). The Corporation shall repay the Syndicated loan over five (5) years, amortized over ten (10) years by repaying the original sum of US\$128,000 commencing six (6) months from the date of advance for nineteen (19) consecutive quarterly installments; eighteen (18) installments in the sum of \$3,200 and a final lump sum payment of \$70,400. The Syndicated loan is guaranteed by The Government of The Bahamas.

**g. Minimum principal payments required on long-term borrowings are as follows:**

2007	\$ 23,549
2008	33,922
2009	22,414
2010	21,804
2011	17,899
Thereafter	<u>33,549</u>
	<u>\$ 153,137</u>

### 13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

	<b>2006</b>	<b>2005</b>
Stamp tax and duty payable - Public Treasury	\$ 14,883	\$ 53,264
Trade creditors - Government and other	123,136	72,906
Vacation pay accruals	5,900	5,904
Other accrued charges	372	136
Accrued interest payable	<u>2,291</u>	<u>1,278</u>
	<u>\$ 146,582</u>	<u>\$ 133,488</u>

### 14. ACCRUED DIVIDENDS

In accordance with Section 19 subsection 2 (b) of The Electricity Act, the Corporation accrues an annual dividend of 6% based on capitalization of \$10,550. The previous year's dividend amount is offset against long-term receivable from Government Corporations and Departments.

### 15. CUSTOMERS' DEPOSITS

These amounts are held by the Corporation as security against charges for electricity and are refundable on termination of supply and settlement of outstanding charges. On October 1, 2003, the Board of Directors resolved to pay interest on customer's deposits at 3% per annum calculated on a daily basis. Interest paid for the year ended September 30, 2006, totaled \$1,020 (2005: \$912).

### 16. INVESTMENT VALUATION RESERVE

The Corporation sold its 2 million common shares (10%) in Cable Bahamas Ltd., a company incorporated under the laws of The Commonwealth of The Bahamas. The Corporation did not exercise significant influence over the investee and recognized this investment in securities as an available-for-sale financial asset. The initial cost of this investment was \$2,000.

The movement in Investment Valuation Reserve is summarized as follow:

	<b>2006</b>	<b>2005</b>
Balance, beginning of year	\$ -	\$ 11,880
Increase in fair value for the year	-	2,120
Sale of investment in securities	-	(14,000)
	<u>          </u>	<u>          </u>
Balance, end of the year	<u>\$ -</u>	<u>\$ -</u>

## **17. SALE OF ELECTRICITY**

Sale of electricity is summarized as follows:

	<b>2006</b>	<b>2005</b>
New Providence:		
Residential	\$ 211,347	\$ 156,984
Commercial and Industrial	119,429	118,982
	<u>330,776</u>	<u>275,966</u>
Less rebate	(13,805)	(13,946)
	<u>316,971</u>	<u>262,020</u>
Family Islands:		
Eleuthera	12,187	9,408
Abaco	23,984	17,051
Other	32,765	27,371
	<u>68,936</u>	<u>53,830</u>
Less rebate	(3,608)	(3,257)
	<u>65,328</u>	<u>50,573</u>
	<u>\$ 382,299</u>	<u>\$ 312,593</u>

## **18. FUEL USED FOR GENERATION OF ELECTRICITY**

	<b>2006</b>	<b>2005</b>
Fuel cost comprises:		
Landed cost	\$ 195,882	\$ 140,660
Government duty and stamp taxes	33,316	23,759
	<u>229,198</u>	<u>164,419</u>
	<u>\$ 229,198</u>	<u>\$ 164,419</u>

## 19. OPERATION, MAINTENANCE AND ADMINISTRATIVE EXPENSES

	<b>2006</b>	<b>2005</b>
Generation	\$ 47,935	\$ 45,079
Distribution	17,247	18,466
Management and administration costs	18,010	17,679
Finance	2,732	3,187
Customer Service	6,328	6,514
Human Resources and training	2,599	3,201
Supply chain	2,288	2,639
Bad debts (Note 5)	2,074	773
Insurance general	3,642	3,436
Pension Scheme costs (Note 20)	<u>10,689</u>	<u>6,150</u>
	<u>\$ 113,544</u>	<u>\$ 107,124</u>

## 20. PENSION PLAN

The Bahamas Electricity Corporation Employees Pension Plan (the "Plan"), is a defined benefit plan, established under Section 23 of The Electricity Act of 1956, as amended, and provides retirement benefits to employees of the Corporation based on their final pensionable salary.

Contributions to the Plan are charged to pension scheme costs in the statement of income so as to spread the cost of pensions over the employees' working lives with the Corporation. Contributions are made solely by the Corporation at a rate of 13% of basic salary (19% prior to September 1, 1995 and 13% prior to October 1, 1984).

The Projected Unit Credit Actuarial Cost Method is the valuation method used to reflect retirement benefits. Actuarial valuations are made annually. The most recent actuarial valuation of the plan assets and the present value of the defined benefit obligations was carried out at September 30, 2006.

The actuarial valuation as of September 30 revealed the following:

	<b>2006</b>	<b>2005</b>
Present value of funded obligations	\$ 184,761	\$ 174,949
Fair value of Plan assets	<u>(124,032)</u>	<u>(116,634)</u>
Liability for defined benefit obligations	60,729	58,315
Unrecognized actuarial gains	<u>(45,998)</u>	<u>(49,097)</u>
Actuarial liability at September 30	<u>\$ 14,731</u>	<u>\$ 9,218</u>

Movement in recognized liability is as follows:

	<b>2006</b>	<b>2005</b>
Opening liability	\$ 9,218	\$ 7,896
Expense recognized in the income statement	10,689	6,150
Contributions received	<u>(5,176)</u>	<u>(4,828)</u>
	<u>\$ 14,731</u>	<u>\$ 9,218</u>

Movement in the present value of the defined benefit obligations are as follows:

	<b>2006</b>	<b>2005</b>
Opening defined benefit obligation	\$ 174,949	\$ 128,595
Service costs	5,988	4,304
Interest costs	10,248	9,608
Actuarial (gains) loss	(1,882)	36,929
Benefits paid	<u>(4,542)</u>	<u>(4,487)</u>
Closing defined benefit obligation	<u>\$ 184,761</u>	<u>\$ 174,949</u>

Movement in the present value of the plan assets are as follows:

Opening fair value of plan assets	\$ 116,634	\$ 111,133
Actual return on assets	6,801	7,790
Employer contributions	5,177	4,828
Benefits and expenses paid	(4,580)	(4,515)
Actuarial loss	<u>-</u>	<u>(2,602)</u>
Closing fair value of plan assets	<u>\$ 124,032</u>	<u>\$ 116,634</u>

The expense which is recognized in the statement of income is included within operating expenses and comprises:

Current service costs	\$ 6,026	\$ 4,332
Interest on obligations	10,248	9,608
Expected return on the Plan assets	(8,185)	(7,790)
Net amortization amount	<u>2,600</u>	<u>-</u>
Expense recognized in the statement of income	<u>\$ 10,689</u>	<u>\$ 6,150</u>

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

	<b>2006</b>	<b>2005</b>
Discount rate	6.00%	6.00%
Expected return on the Plan assets	7.00%	7.00%
Future salary increases (average)	5.84%	5.91%
Future pension increases	2.00%	2.00%
Proportion of employees opting for early retirement	60.00%	60.00%

## **21. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES**

Due to their short term nature the fair value of financial assets and liabilities of the Corporation approximate their carrying values as reported in these financial statements.

## **22. COMMITMENTS**

Significant capital commitments are as follows:

	<b>2006</b>	<b>2005</b>
1. DA - 13 Slow speed Diesel CPPS	\$ 3,922	\$ 17,074
2. Power Station - Central Andros	<u>800</u>	<u>-</u>
	<u>\$ 4,722</u>	<u>\$ 19,079</u>

The DA-13 will generate 18 MW of electricity; its efficiency is comparable to the existing DA9-DA12 generators.

## 23. RELATED PARTY BALANCES AND TRANSACTIONS

Related party balances and transactions are as follows:

	<b>2006</b>	<b>2005</b>
Accounts receivable - Private Sector	\$ 11	\$ 11
Current portion of electricity accounts receivable		
Government Corporations and Departments	\$ 2,533	\$ 3,211
Electricity accounts receivable, less current portion -		
Government Corporations and Departments	\$ -	\$ 45,145
Other receivables - Government Corporations and Departments	\$ 329	\$ 4,894
Demand bank loans	\$ 5,000	\$ 5,000
Due to Government Corporations and Departments	\$ 13,369	\$ -
Demand bank loans	\$ 5,000	\$ 5,000
Current portion of long-term borrowings	\$ 736	\$ 2,821
Accounts payable and accrued liabilities	\$ 20,903	\$ 57,462
Accrued dividends	\$ 633	\$ 633
Long-term borrowings, less current portion	\$ 14,695	\$ 13,288
Sale of electricity	\$ 27,281	\$ 30,416
Interest on long-term borrowings	\$ 1,607	\$ 1,714
Key management compensation	\$ 1,450	\$ 1,450

## 24. RISK MANAGEMENT

The Corporation's credit risk is primarily attributable to its electricity receivables. The Corporation does not believe it is subject to any significant concentration of credit risk as its accounts receivable are largely derived from sales of electricity supplied to consumers throughout The Bahamas. In addition, the Corporation holds customer deposits by way of security deposits.

The Corporation is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings and by the use, in the case of Consortium loan III described in Note 12f above, of an interest rate cap.

## 25. CONTINGENT LIABILITIES

- a) In late 1996, a fuel line leak was discovered in the Carmichael Road area of New Providence. Approximately 45,000 gallons of automotive diesel fuel had leaked into the ground covering an area of approximately 120,000 square feet. Ongoing remediation efforts have resulted in an estimated recovery of 22,000 gallons of the fuel.

The plaintiff was awarded a sum of \$376 of which \$275 represents the value of the plaintiff's property on Carmichael Road which is to be conveyed to the Corporation. The plaintiff's counsel has advised that the plaintiff intends to appeal this action.

- b) In a Supreme Court Action, a plaintiff is claiming for damages in respect of property and personal injury as a result of a road traffic accident on March 29th, 2000. This accident was due to the alleged negligence of the Corporation. The plaintiff is requesting a settlement in the amount of \$500 plus 15% to cover legal fees.
- c) In 1982, the Government of The Bahamas made a compulsory acquisition of a property situated in the Bluff, South Andros. Based upon the presumed acquisition of 20 acres, the Government allocated 6 acres to the Corporation and a power station was erected before the acquisition was completed. Issues regarding the ownership of the property and consequently the possible removal of the power station have now risen. The plaintiff commenced legal action against The Government and the Corporation. They are claiming for un-rightful ownership and possession along with damages for trespassing over the property. This matter was set down for trial in February 2003, and was adjourned. The outcome of this matter is uncertain at this stage.
- d) As a result of the New Providence Power Expansion Programme Phase II Project, poles and transmission lines have been located on and over private properties, resulting in claims of trespass and encroachment against the Corporation by the landowners. The Corporation may be contingently liable up to the amount of \$1,000 for such trespasses and encroachments.
- e) A demand letter was served on the Corporation requesting compensation of \$10,000. This was as a result of injuries suffered by a minor, in August 2002, when he allegedly mistook a Corporation's transformer box for an electrical outlet and attempted to use it to recharge a golf cart. There is no court action at this time and the claim has been referred to the Corporation's insurers in compliance with its general liability insurance policy. Management is of the opinion that the actual outcome of this matter will not materially affect the results of the Corporation.
- f) In a Supreme Court action, a plaintiff is claiming damages in respect of property loss as a result of fire. This accident was due to the alleged negligence of the Corporation. The plaintiff is claiming damages of \$4,294 for the loss and damage of the building and its contents, interest thereon and costs. Management is of the opinion that the actual outcome of this matter would not materially affect the results of the Corporation.

*(Continued)*

In addition to the above matters, the Corporation is involved in a number of lawsuits as a defendant. Management is also of the opinion that the eventual outcome of these matters, legal and otherwise, would not significantly affect the results of the Corporation. Accordingly, no provision has been made in these financial statements relative to these matters.

*(Concluded)*

## **26. SUBSEQUENT EVENT**

The Corporation has issued bonds through its Placement Agent Scotiabank (Bahamas) Limited totaling \$100,000 at a discount rate of 99.75. The Fixed Rate Bonds are structured in three tranches as follows:

Series A – Ten (10) year – US \$57,000 maturing 2016.  
Series B – Fifteen (15) year – B\$21,500 maturing 2021.  
Series C – Twenty (20) year – B\$21,500 maturing 2026.

The effective coupon rate was to be fixed as at the closing date of the bond as listed below:

- (i) 10 year US Treasuries plus 1.85% per annum.
- (ii) 15 year Government of The Bahamas Registered Stock plus 0.075% per annum.
- (iii) 20 year Government of The Bahamas Registered Stock plus 0.075% per annum.

A Letter of Awareness from the Government of the Commonwealth of The Bahamas was provided indicating that it did not object to the transaction.

The proceeds of the bond was used to pay off an existing debt of \$28,800 with the remaining balance to provide funding for capital expenditure projects.

Payment of interest will commence six (6) months after disbursement and will continue semiannually thereafter until maturity of all the Bonds. Interest will be calculated on a 30/360 day basis.

Assignment of the sinking fund is to the Trustee (CIBC Trust Company Bahamas Limited) on behalf of the bondholders for full repayment of the bond amount. The Sinking fund is to be established within six-months from the date of bond execution.

The bond was fully subscribed and funds were available on December 29, 2006.

\* \* \* \* \*