



**ANNUAL** | **2017**  
**REPORT** | **2018**

# RUNAWAY BAY WATER COMPANY LIMITED ANNUAL REPORT 2017 - 2018

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# RUNAWAY BAY WATER COMPANY LIMITED ANNUAL REPORT 2017 - 2018

## Company History

**T**he Runaway Bay Water Company (RBWC) began operations in 1957 from a well in southern Cardiff Hall, Runaway Bay, St. Ann. The Company was established to provide potable water to the Cardiff Hall residential estate and commercial operations, Runaway Bay Golf Course and the hotel which now operates as Jewels Runaway Bay.

RBWC was acquired by the Urban Development Corporation (UDC) in 1977 along with the hotel, golf course and the unsold land in the Cardiff Hall development. The hotel and most of the land have since been sold, but RBWC remains a wholly owned subsidiary of the UDC.

The company in 1989 acquired another well plant in the adjacent Mount Edgecombe community and in 2014, obtained an OUR commercial licence to provide potable water and sewerage services to the New Era housing development in Caymanas Estate, St. Catherine.

Runaway Bay Water Company's customer base is commercial as well as residential. In Runaway Bay, the bulk of the water produced is sold to the National Water Commission (NWC) for distribution to their customers, while RBWC supplies Jewels Hotel and residential customers in Cardiff Hall. In St. Catherine the company services approximately 700 homeowners.

## Mission Statement

**T**he Runaway Bay Water Company, a wholly owned subsidiary of the Urban Development Corporation (UDC) is committed to facilitating the UDC's mandate and contributing to sustainable economic growth through the abstraction, treatment and distribution of potable water that exceeds the needs and expectations of our customers and at the standards set by the regulatory bodies for the industry.

We will endeavor to maximize returns by applying industry best practices along with innovative and effective management of our human and physical resources. We constantly monitor our processes, product and service to identify opportunities for improvement and growth.



# RUNAWAY BAY WATER COMPANY LIMITED ANNUAL REPORT 2017 - 2018

## Board of Directors



Mr. William Tavares-Finson  
(Chairman)



Mr. David Allen

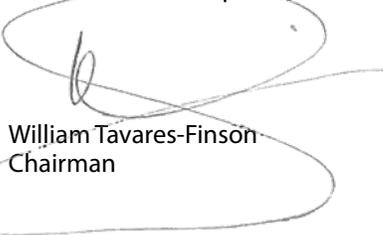
### Chairman's Message

The Runaway Bay Water Company continued to fulfil its mandate of providing potable water to customers in Cardiff Hall, St. Ann and Caymanas, St. Catherine during the review period. The operations, executed through two well plants located at Mount Edgecombe and Cardiff Hall in Runaway Bay, and one in Caymanas Estate, maintained the customer base of the previous year, that is, 450 at Runaway Bay and 680 at Caymanas.

The company recorded an asset base of \$203.052M, at the end of the financial year as against the previous year's \$170.524M, an increase of \$32.528M. Production for the year yielded 2.376 million m<sup>3</sup>, an increase in output of .062 million m<sup>3</sup> or 13.37% over the previous year's 2.314 million m<sup>3</sup>. On the expenditure side, there was a marginal increase of 3.34%, from \$164.03M in the prior year to \$166.17M. Net profit after taxation was \$19.42M, an increase of 21.98 % over the previous period of \$15.92 M. An overall commendable performance for the entity.

The RBWC maintained a primarily satisfied customer base by adhering to acceptable local and international standards for service and product quality. It should be noted that this and other achievements are in keeping with the objectives and set against the backdrop of operating an over 60-year-old facility at Runaway Bay.

Policy direction for the Company is provided by a two-member Board and we are grateful for the support of our stakeholders and partners, internal and external, to ensure another year's commendable performance. As Chairman, it is indeed my privilege to report on the activities of the Runaway Bay Water Company for the Financial Year April 2017 to March 2018.

  
William Tavares-Finson  
Chairman

## Manager's Overview

### Production and Sales

**T**he Runaway Bay Water Company (RBWC) currently abstracts, treats and sells an average of 6,340m<sup>3</sup> per day or 2.314 million m<sup>3</sup> per annum of potable water from its two wells in Runaway Bay and the one in Caymanas. At Runaway Bay Twenty percent (20%) of the potable water produced is sold directly to its 450 residential and commercial customers including Jewels Runaway Bay, Franklyn D. Resort and Runaway Bay Heart Hotel and the Carl Rattray Training College. The remaining 80% is sold wholesale to the National Water Commission (NWC) for distribution to its customers in adjacent communities. While at Caymanas, 680 residential customers at the New Era housing development are provided with water and sewerage services.

### Structure and Operation

**T**he RBWC is guided by a Board of Directors appointed by the UDC Board. The daily operations are the responsibility of a manager, assisted by a systems supervisor with 13 systems operators who carry out the monitoring, abstraction, treatment, storage and distribution of potable water. The Caymanas operation has its own management structure, led by the Director Caymanas Development Company (CDC) and a seven-member staff complement. They undertake administrative and commercial activities, while functions such as human resource management, information communication technology, engineering and other technical support are provided by the parent company, for which a management fee is paid by CDC. Receipts for payment of services are issued under the Runaway Bay Water Company name and for which that company retains a five percent (5%) commission on gross sales.

### Challenges

**T**he primary constraints are the facilities, which though functional as many are aged and, the availability of financing to undertake the required modernization of the Runaway Bay plants. It is expected that the proposed modernization and upgrading of the plant, equipment, tools, machinery, pipelines and storage facilities will result in improved production capacity and efficiency.

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## Summary of Four (4) years Production and Financial results

	2014/2015 M <sup>3</sup> Million	%Change Over Previous Over	2015/2016 M <sup>3</sup> Million	%Change Over Previous Over	2016/2017 M <sup>3</sup> Million	%Change Over Previous Over	2017/2018 M <sup>3</sup> Million	%Change Over Previous Over
Production	2,376	6.69	2,671	12.00	2314	-13.39	2,376	2.69
Sales	2,269	4.76	2,209	-3	2177	-1.45	2,215	1.75
UFW	107	67.19	462	332	137	-70.35	161	17.55
UFW%	4.50	64.23	17.30	284	5.91	-65.84	6.78	14.68
	\$ Million	%Change Over Previous Over						
Sales	152.63	4.79	170.69	12	187.82	10.04	197.37	5.09
Expense	152.11	14.46	149.46	-2	164.03	9.75	166.18	1.31
Net Profit	0.516	-96.02	21.224	4013	23.79	12.09	31.20	31.13
Taxation	0.005	99.63	9.26	185100	7.87	-15.01	11.78	49.68
Net (Loss) Profit After Tax*	0.511	-95.60	11.96	2241	15.92	33.11	19.42	21.98

*Unaccounted For Water (UFW)*

### Analysis of Financials

Revenue grew by 5.09% over the previous year, resulting from increased production and the client base in Caymanas, where the company provides potable water to the New Era Housing Development.

### Expenditure

Expenses were marginally increased by 1.31% due to the continued prudent management of assets, facilities and personnel. The ratio of revenue in relation to expense resulted in a significant increase in gross profit, taxation and net profit of \$31.20M as against \$23.79M recorded for the prior reporting period. The management and staff are committed to keeping the company profitable and to delivering excellent customer service.

Million M<sup>3</sup>

	2014/2015	2015/2016	2016/2017	2017/2018
<b>Production</b>	2,376	2,671	2314	2,376
<b>Sales</b>	2,269	2,209	2177	2,215
<b>UFW</b>	107	462	137	161

# RUNAWAY BAY WATER COMPANY LIMITED ANNUAL REPORT 2017 - 2018

	2014/15	2015/16	2016/17	2017/18
<b>UFW (%)</b>	4.50	17.30	5.91	6.78
<b>Target (%)*</b>	15.00	15.00	15.00	15.00

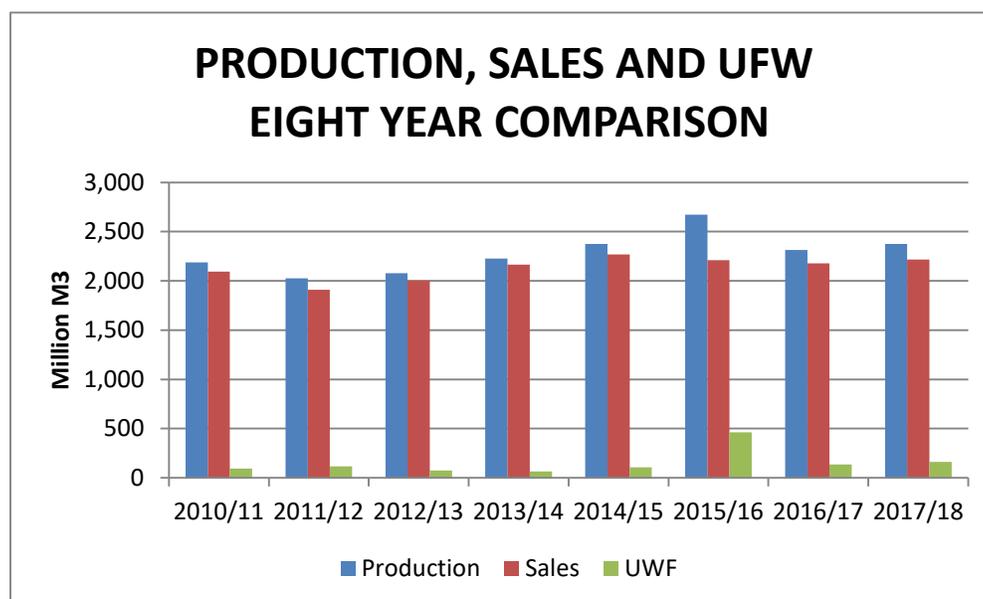
\*UFW (%) SHOULD BE LESS THAN TARGET % (15%)

\$Million

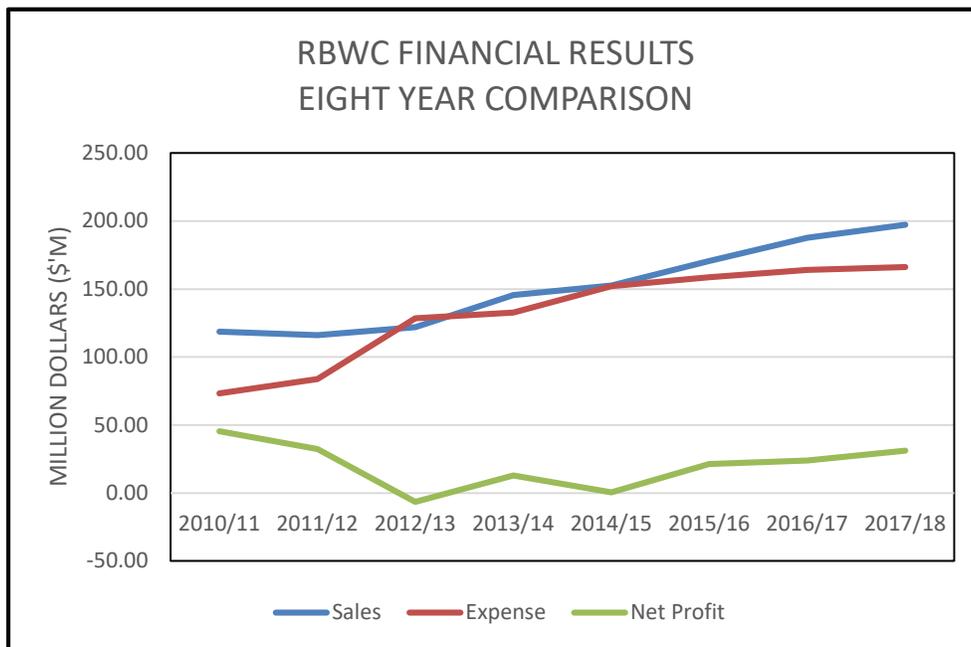
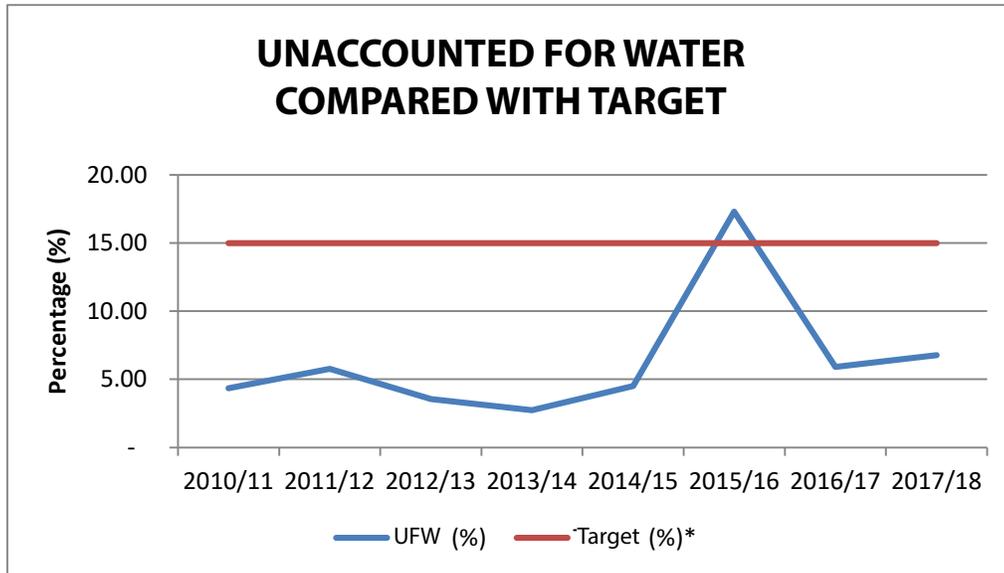
	2014/2015	2015/2016	2016/2017	2017/2018
<b>Sales</b>	152.63	170.69	187.82	197.37
<b>Expense</b>	152.11	149.46	164.03	166.17
<b>Net Profit after Tax</b>	0.52	11.96	15.92	19.42

The Company has remained a profitable entity and its highly competent staff is utilized to assist in the production and distribution of potable water at other UDC facilities and the maintenance of plumbing works at Ocho Rios Commercial Centre and Dunn's River Falls and Park.

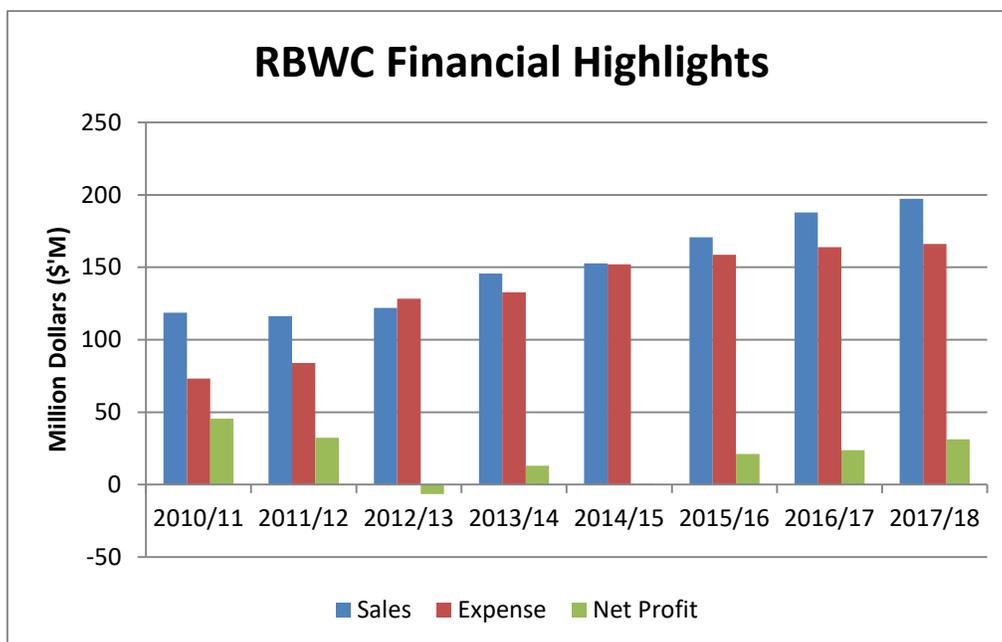
The Company's real opportunities for expansion lie with the development of UDC properties for residential and commercial activities in Cardiff Hall which would increase customer base as well as the commercial activities that are scheduled for Caymanas.



# RUNAWAY BAY WATER COMPANY LIMITED ANNUAL REPORT 2017 - 2018



# RUNAWAY BAY WATER COMPANY LIMITED ANNUAL REPORT 2017 - 2018



## OBJECTIVES FOR 2017/2018

### RESULTS OF SET GOALS AND OBJECTIVES FOR 2017/18:

The Runaway Bay Water Company achieved most of the objectives set for 2017/18 as indicated below:

- **Supply potable water at minimum pressure of 20 PSI and chlorine residue of 0.4 ppm to all customers 24 hours per day, 7 days per week, through an optimally functioning plant with a maximum downtime of 4%.**

The Company provided potable water service to customers across its distribution system in keeping with the stated standards. Adequate inventory was maintained to ensure that repairs were carried out within the established 24-hour time frame and maximum downtime of 4%.

- **Meet all standards set by all national regulatory bodies for the potable water industry.**

All standards and reporting requirements set by the industry regulatory bodies were met. These are Water Resources Authority, (WRA) Office of Utility Regulations, (OUR) Ministry of Labour and Social Security, (MOLSS) (factory regulators) Ministry of Health and Wellness (MOH&W) and National Environment and Planning Agency (NEPA).

# RUNAWAY BAY WATER COMPANY LIMITED

## ANNUAL REPORT 2017 - 2018

- **Reduce aged receivables to 50 days by March 2018.**

Receivables averaged approximately 65 days and did not meet the objective of 50 days. This resulted from delayed settling of accounts by large commercial customers. All outstanding balances were however paid up at the end of the financial year.

- **Maintain Customer satisfaction by providing service which exceeds expectations.**

This was achieved by providing potable water, maintaining communication with customers and resolving complaints in keeping with the established service standards.

- **All targets met through the dedicated output of staff and the prudent management of the Company's resources.**

Items	Budgeted for year 2017/2018 \$M.	Audited Financial result for Year 2017/2018 \$M.
Total Sales Revenue	198.47	197.37
Total Expense	164.77	166.17
Profit (Loss) before taxation	33.70	31.20

The financial targets were not met as sales were lower than budgeted, while expenses were higher resulting in a marginally lower than projected profit before taxation.

- **To have Occupational Health and Safety (OHS) policies and best practices documented and staff and external stakeholders, namely the local ODPEM, Police, Fire Departments and Hospitals sensitive to respond to emergencies, especially chlorine spill.**

OHS processes and procedures are continually reviewed and updated as required. Staff training was undertaken in the areas of emergency response to disasters, handling chlorine as well as the appropriate use of Personal Protected Equipment (PPE).

# RUNAWAY BAY WATER COMPANY LIMITED ANNUAL REPORT 2017 - 2018

## Directors' Compensation

April 2017 to March 2018

Position of Director	Directors Name	Directors Fee (Gross \$)	All Other Compensation Including Non-Cash Benefits (\$)	Travelling & Accommodation (\$)	Total Emoluments \$
Chairman	William Tavares- Finson	NIL	NIL	NIL	NIL
Director	David Adrian Allen	NIL	NIL	NIL	NIL
<b>TOTAL</b>		<b>NIL</b>	<b>NIL</b>	<b>NIL</b>	<b>NIL</b>

*One Directors' meeting held on October 17, 2017. There was however no compensation paid during the period, therefore recorded as NIL.*

## Senior Executives' Compensation

April 2017 to March 2018

Name of Senior Executive	Position of Senior Executive	Salary \$	House Rental \$	Motor Vehicle Allowance \$	One Of Payments \$	Increment Retro \$	Total \$
Collie Wallace	Manager	3,850,762.90	360,000.00	1,213,583.28	NIL	135,134.85	\$5,559,481.03
Blossetta Colthirst	Accounting Manager	2,353,681.20	NIL	1,213,583.28	NIL	NIL	\$3,567,264.48
<b>Total</b>		<b>6,204,444.10</b>	<b>3,60,000.00</b>	<b>2,427,166.56</b>	<b>NIL</b>	<b>135,134.85</b>	<b>\$9,126,745.51</b>

RUNAWAY BAY WATER COMPANY LIMITED

FINANCIAL STATEMENTS

MARCH 31, 2018



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Chartered Accountants  
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## INDEPENDENT AUDITORS' REPORT

To the Members of  
RUNAWAY BAY WATER COMPANY LIMITED

### **Report on the Audit of the Financial Statements**

#### *Opinion*

We have audited the financial statements of Runaway Bay Water Company Limited ("the company"), set out on pages 5 to 31, which comprise the statement of financial position as at March 31, 2018, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the company as at March 31, 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the Jamaican Companies Act.

#### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



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INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of  
RUNAWAY BAY WATER COMPANY LIMITED

**Report on the Audit of the Financial Statements (continued)**

*Responsibilities of Management and Those Charged with Governance for the Financial Statements*

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with IFRS and the Jamaican Companies Act, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the company's financial reporting process.

*Auditors' Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



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INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of  
RUNAWAY BAY WATER COMPANY LIMITED

Report on the Audit of the Financial Statements (continued)

*Auditors' Responsibilities for the Audit of the Financial Statements (Continued)*

- Obtain an understanding of internal control relevant to the audit 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 company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**Report on additional matters as required by the Jamaican Companies Act**

We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.



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INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of  
RUNAWAY BAY WATER COMPANY LIMITED

**Report on additional matters as required by the Jamaican Companies Act  
(Continued)**

In our opinion, proper accounting records have been maintained, so far as appears from our examination of those records, and the financial statements, which are in agreement therewith, give the information required by the Jamaican Companies Act in the manner required.

A handwritten signature of 'KPMG' in blue ink, written in a cursive, stylized font.

Chartered Accountants  
Kingston, Jamaica

June 24, 2020

RUNAWAY BAY WATER COMPANY LIMITED

Statement of Financial Position

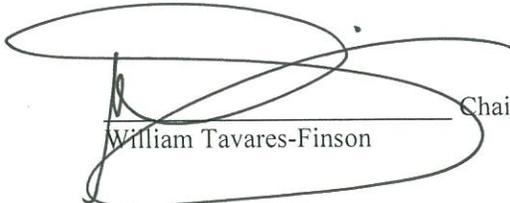
March 31, 2018

*(Expressed in thousands of Jamaica dollars unless otherwise stated)*

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	3	7,400	7,400
Due from parent corporation	4(a)	81,300	96,976
Employee benefits asset	5(a)	<u>36,313</u>	<u>29,215</u>
		<u>125,013</u>	<u>133,591</u>
CURRENT ASSETS			
Inventories		3,937	2,954
Trade and other receivables	6	70,807	27,320
Cash and cash equivalents		<u>3,295</u>	<u>6,659</u>
		<u>78,039</u>	<u>36,933</u>
TOTAL ASSETS		<u>203,052</u>	<u>170,524</u>
EQUITY AND LIABILITIES			
EQUITY			
Share capital	7	2	2
Capital reserve	8	866	866
Retained earnings		<u>135,100</u>	<u>111,959</u>
		<u>135,968</u>	<u>112,827</u>
NON-CURRENT LIABILITY			
Deferred tax liability	9	<u>9,742</u>	<u>7,399</u>
CURRENT LIABILITIES			
Trade and other payables	10	13,417	17,608
Taxation payable		<u>43,925</u>	<u>32,690</u>
		<u>57,342</u>	<u>50,298</u>
TOTAL LIABILITIES		<u>67,084</u>	<u>57,697</u>
TOTAL EQUITY AND LIABILITIES		<u>203,052</u>	<u>170,524</u>

The financial statements on pages 5 to 31 were approved for issue by the Board of Directors on June 24, 2020 and signed on its behalf by:

  
 \_\_\_\_\_ Director  
 David Allen

  
 \_\_\_\_\_ Chairman  
 William Tavares-Finson

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

RUNAWAY BAY WATER COMPANY LIMITED

Statement of Profit or Loss and Other Comprehensive Income

Year ended March 31, 2018

*(Expressed in thousands of Jamaica dollars unless otherwise stated)*

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
Gross operating revenue	11	197,372	187,819
Cost of operating revenue	12	( 82,293)	( 81,137)
Gross profit		115,079	106,682
Administrative expenses	13	( 83,665)	( 83,407)
Operating profit		31,414	23,275
Net finance cost – interest (expense)/income		( 218)	519
Profit before taxation		31,196	23,794
Taxation	14	( 11,777)	( 7,867)
Profit after tax		<u>19,419</u>	<u>15,927</u>
Other comprehensive income:			
Items that may never be reclassified to profit or loss:			
Re-measurement of employee benefits asset	5(e)	5,583	( 5,622)
Deferred tax on re-measurement of employee benefits asset		( 1,861)	1,874
Other comprehensive income for the year		<u>3,722</u>	( 3,748)
Total comprehensive income for the year		<u>23,141</u>	<u>12,179</u>

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

RUNAWAY BAY WATER COMPANY LIMITED

## Statement of Changes in Equity

Year ended March 31, 2018

*(Expressed in thousands of Jamaica dollars unless otherwise stated)*

	<u>Share capital</u>	<u>Capital reserve</u>	<u>Retained earnings</u>	<u>Total</u>
Balances at March 31, 2016	<u>2</u>	<u>866</u>	<u>99,780</u>	<u>100,648</u>
Total comprehensive income:				
Profit for the year	-	-	15,927	15,927
Other comprehensive income for the year	<u>-</u>	<u>-</u>	<u>( 3,748)</u>	<u>( 3,748)</u>
Total comprehensive income for the year	<u>-</u>	<u>-</u>	<u>12,179</u>	<u>12,179</u>
Balances at March 31, 2017	<u>2</u>	<u>866</u>	<u>111,959</u>	<u>112,827</u>
Total comprehensive income:				
Profit for the year	-	-	19,419	19,419
Other comprehensive income for the year	<u>-</u>	<u>-</u>	<u>3,722</u>	<u>3,722</u>
Total comprehensive income for the year	<u>-</u>	<u>-</u>	<u>23,141</u>	<u>23,141</u>
Balances at March 31, 2018	<u>2</u>	<u>866</u>	<u>135,100</u>	<u>135,968</u>

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

RUNAWAY BAY WATER COMPANY LIMITED

## Statement of Cash Flows

Year ended March 31, 2018

*(Expressed in thousands of Jamaica dollars unless otherwise stated)*

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit for the year	19,419	15,927
Adjustments to reconcile profit for the year to net cash provided by operating activities:		
Employee benefits asset	( 1,515)	( 908)
Taxation	11,777	7,867
Depreciation (note 3)	1,374	1,214
Interest expense/(income)	<u>218</u>	<u>( 519)</u>
	31,273	23,581
Changes in working capital		
Trade and other receivables	(43,487)	2,354
Inventories	( 983)	( 240)
Trade and other payables	<u>( 4,191)</u>	<u>1,022</u>
Cash generated by operations	(17,388)	26,717
Tax paid	( 60)	-
Interest received/(paid)	<u>( 218)</u>	<u>519</u>
Net cash (used)/provided by operating activities	<u>(17,666)</u>	<u>27,236</u>
<b>CASH FLOWS FROM INVESTING ACTIVITY</b>		
Additions to property, plant and equipment, being net cash used by investing activity (note 3)	<u>( 1,374)</u>	<u>( 1,304)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>		
Due from parent corporation, being net cash provided/(used) by financing activity	<u>15,676</u>	<u>(20,326)</u>
Net (decrease)/increase in cash and cash equivalents	( 3,364)	5,606
Cash and cash equivalents at the beginning of the year	<u>6,659</u>	<u>1,053</u>
Cash and cash equivalents at the end of the year	<u>3,295</u>	<u>6,659</u>

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

## RUNAWAY BAY WATER COMPANY LIMITED

Notes to the Financial Statements

Year ended March 31, 2018

*(Expressed in thousands of Jamaica dollars unless otherwise stated)*

### 1. Identification

Runaway Bay Water Company Limited (the company) is incorporated and domiciled in Jamaica, with registered office at 12 Ocean Boulevard, Kingston, Jamaica. The company is a wholly owned subsidiary of a Jamaican statutory corporation, Urban Development Corporation (parent corporation).

The principal activities of the company comprise:

- (i) Production and sale of water at Mount Edgecombe, Cardiff Hall, Caymanas Country Club Estates; and
- (ii) Provision of Sewerage facilities at Caymanas Country Club Estates.

### 2. Basis of preparation and significant accounting policies

- (a) Statement of compliance:

The financial statements as at and for the year ended March 31, 2018 (the reporting date) are prepared in accordance with International Financial Reporting Standards (IFRS), and comply with the provisions of the Companies Act.

#### **New amended standards that became effective during the year**

Certain new and amended standards came into effect during the current financial year. The adoption of those standards did not result in any change to the amounts and disclosures in the financial statements.

#### **New and amended standards issued but not yet effective**

At the date of authorisation of the financial statements, certain new and amended standards have been issued but are not yet effective and the company has not early-adopted them. The company has assessed the relevance of all such new standards and amendments with respect to its operations and has determined that the following may be relevant to its operations:

- The company is required to adopt IFRS 9 *Financial Instruments* from April 1, 2018. The standard replaces IAS 39 *Financial Instruments: Recognition and Measurement* and sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. It contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Based on its preliminary assessment, the company does not believe that the new classification requirements will have a material impact on its accounting for accounts receivables.

RUNAWAY BAY WATER COMPANY LIMITED

Notes to the Financial Statements (Continued)

Year ended March 31, 2018

*(Expressed in thousands of Jamaica dollars unless otherwise stated)*

2. Basis of preparation and significant accounting policies (continued)

(a) Statement of compliance (continued):

**New and amended standards issued but not yet effective (continued)**

• IFRS 9 *Financial Instruments* (continued)

IFRS 9 also replaces the ‘incurred loss’ model in IAS 39 with a forward-looking ‘expected credit loss’ (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset’s credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for short-term receivables without a significant financing component.

Based on its preliminary assessment, the company does not believe that the new impairment requirements will have a material impact on its accounting for trade receivables.

The company believes that impairment losses may become more volatile for assets in the scope of IFRS 9 impairment model. However, the company is still in the process of determining the likely financial impact on its financial statements.

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively except as described below:

- The company will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement as well as impairment changes. Differences in the carrying amounts of financial instruments resulting from the adoption of IFRS 9 will generally be recognised in retained earnings as at April 1, 2018.
- The determination of the business model within which a financial asset is held will have to be made on the basis of the facts and circumstances that exist at the date of initial application.

RUNAWAY BAY WATER COMPANY LIMITED

Notes to the Financial Statements (Continued)

Year ended March 31, 2018

*(Expressed in thousands of Jamaica dollars unless otherwise stated)*

2. Basis of preparation and significant accounting policies (continued)

(a) Statement of compliance (continued):

**New and amended standards issued but not yet effective (continued)**

- The company is required to adopt IFRS 15, *Revenue From Contracts With Customers*, effective April 1, 2018. IFRS 15 replaces IAS 11, *Construction Contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfer of Assets from Customers* and SIC-31 *Revenue – Barter Transactions Involving Advertising Services*. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties.

The company will apply a five-step model to determine when to recognise revenue, and at what amount. The model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised at a point in time, when control of goods or services is transferred to the customer; or over time, in a manner that best reflects the entity's performance.

There will be new qualitative and quantitative disclosure requirements to describe the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

Based on its preliminary review and due to the short-term nature of the contracts arising from sales, the company does not believe that IFRS 15 is expected to have a material impact on the timing and recognition of revenue. Management, however, has not yet completed its assessment and the financial impact has therefore not yet been determined.

- IFRS 16, *Leases*, which is effective for annual reporting periods beginning on or after January 1, 2019, eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Entities will be required to bring all major leases on-balance sheet, recognising new assets and liabilities. The on-balance sheet liability will attract interest; the total lease expense will be higher in the early years of a lease even if a lease has fixed regular cash rentals. Optional lessee exemption will apply to short-term leases and for low-value items with value of US\$5,000 or less.

RUNAWAY BAY WATER COMPANY LIMITED

Notes to the Financial Statements (Continued)

Year ended March 31, 2018

*(Expressed in thousands of Jamaica dollars unless otherwise stated)*

2. Basis of preparation and significant accounting policies (continued)

(a) Statement of compliance (continued):

**New and amended standards issued but not yet effective (continued)**

- IFRS 16, *Leases* (continued)

Lessor accounting remains similar to current practice as the lessor will continue to classify leases as finance and operating leases. Finance lease accounting will be based on IAS 17 lease accounting, with recognition of net investment in lease comprising lease receivable and residual asset. Operating lease accounting will be based on IAS 17 operating lease accounting.

- IFRIC 23, *Uncertainty Over Income Tax Treatments*, is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12.

An entity has to consider whether it is probable that the relevant tax authority would accept the tax treatment, or group of tax treatments, that is adopted in its income tax filing.

If the entity concludes that it is probable that the tax authority will accept a particular tax treatment in the tax return, the entity will determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment included in its income tax filings and record the same amount in the financial statements. The entity will disclose uncertainty.

If the entity concludes that it is not probable that a particular tax treatment will be accepted, the entity has to use the most likely amount or the expected value of the tax treatment when determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. The decision should be based on which method provides better prediction of the resolution of the uncertainty.

If facts and circumstances change, the entity is required to reassess the judgements and estimates applied.

IFRIC 23 reinforces the need to comply with existing disclosure requirements regarding:

- judgements made in the process of applying accounting policy to determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- assumptions and other estimates used; and
- potential impact of uncertainties that are not reflected in the financial statements.

RUNAWAY BAY WATER COMPANY LIMITED

Notes to the Financial Statements (Continued)

Year ended March 31, 2018

*(Expressed in thousands of Jamaica dollars unless otherwise stated)*

2. Basis of preparation and significant accounting policies (continued)

(a) Statement of compliance (continued):

**New and amended standards issued but not yet effective (continued)**

- Amendments to IFRS 9, *Financial Instruments*, effective retrospectively for annual periods beginning on or after 1 January 2019 clarifies the treatment of:

(i) Prepayment features with negative compensation:

Financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9.

(ii) Modifications to financial liabilities:

If the initial application of IFRS 9 results in a change in accounting policy for these modifications or exchanges, then retrospective application is required, subject to particular transitional reliefs. There is no change to the accounting for costs and fees when a liability has been modified (but not substantially) - these are recognised as an adjustment to the carrying amount of the liability and are amortised over the remaining term of the modified liability.

- Amendment to IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* is effective for annual reporting periods beginning on or after January 1, 2020, and provides a definition of 'material' to guide preparers of financial statements in making judgements about information to be included in financial statements.

*"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."*

- Amendments to References to Conceptual Framework in IFRS Standards is effective retrospectively for annual reporting periods beginning on or after January 1, 2020. The revised framework covers all aspects of standard setting including the objective of financial reporting.

The main change relates to how and when assets and liabilities are recognised and de-recognised in the financial statements.

- New 'bundle of rights' approach to assets will mean that an entity may recognise a right to use an asset rather than the asset itself;
- A liability will be recognised if a company has no practical ability to avoid it. This may bring liabilities on balance sheet earlier than at present.

RUNAWAY BAY WATER COMPANY LIMITED

Notes to the Financial Statements (Continued)

Year ended March 31, 2018

*(Expressed in thousands of Jamaica dollars unless otherwise stated)*

2. Basis of preparation and significant accounting policies (continued)

(a) Statement of compliance (continued):

**New and amended standards issued but not yet effective (continued)**

- Amendments to References to Conceptual Framework in IFRS Standards (continued)
  - A new control-based approach to de-recognition will allow an entity to derecognise an asset when it loses control over all or part of it; the focus will no longer be on the transfer of risks and rewards.
- Amendment to IAS 19, Employee Benefits is effective for annual reporting periods beginning on or after January 1, 2019, and specifies how a company should determine pension expenses when there are changes to a defined benefit pension plan.

The amendment requires a company to use updated actuarial assumptions to determine its current service cost and net interest for the remaining period when there is an amendment, curtailment or settlement of a defined benefit plan. The effect of the net asset ceiling is disregarded when calculating the gain or loss on the settlement of the defined benefit plan and is dealt with separately in other comprehensive income.

- Annual Improvements to IFRS Standards 2015-2017 cycle contain amendments to IAS 12, Income Taxes and IAS 23, Borrowing Costs, are effective for annual reporting periods beginning on or after January 1, 2019.
  - (i) IAS 12 is amended to clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognized consistently (either in profit or loss, OCI or equity) with the transactions that generated the distributable profits.
  - (ii) IAS 23 is amended to clarify that the general borrowings pool used to calculate eligible borrowing costs excludes borrowings that specifically finance qualifying assets that are still under development or construction. The change will apply to borrowing costs incurred on or after the date of initial adoption of the amendment.

Management is assessing the impact of adopting these new and amended standards and interpretations on its financial statements when they become effective.

(b) Basis of measurement:

The financial statements have been prepared on the historical cost basis, modified for the inclusion of freehold land at fair value.

RUNAWAY BAY WATER COMPANY LIMITED

Notes to the Financial Statements (Continued)

Year ended March 31, 2018*(Expressed in thousands of Jamaica dollars unless otherwise stated)*2. Basis of preparation and significant accounting policies (continued)

## (c) Functional and presentation currency:

These financial statements are presented in Jamaica dollars (\$), which is the company's functional currency, and amounts are shown in thousands of Jamaica dollars, unless otherwise indicated.

## (d) Use of estimates and judgements:

The preparation of the financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of, and disclosures related to, assets, liabilities, contingent assets and contingent liabilities at the reporting date, and the income and expenses for the year then ended. Actual amounts could differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next financial year are discussed below:

## (i) Allowance for impairment losses on receivables:

In determining amounts recorded for impairment losses on receivables in the financial statements, management makes judgements regarding indicators of impairment, that is, whether there are indicators that suggest there may be a measurable decrease in the estimated future cash flows from receivables, for example, default and adverse economic conditions. Management also makes estimates of the likely estimated future cash flows of impaired receivables as well as the timing of such cash flows. Historical loss experience is applied where indicators of impairment are not observable on individual significant receivables with similar characteristics, such as credit risks.

## (ii) Pension and other post-employment benefits:

The amounts recognised in the statement of financial position for pension and other post-employment benefits are determined actuarially using several assumptions. The primary assumptions used in determining the amounts recognised include expected long-term return on plan assets, the discount rate used to determine the present value of estimated future cash flows required to settle the pension and any other post-employment obligations.

The expected return on plan assets assumed considers the long-term historical returns, asset allocation and future estimates of long-term investment returns.

RUNAWAY BAY WATER COMPANY LIMITED

Notes to the Financial Statements (Continued)

Year ended March 31, 2018*(Expressed in thousands of Jamaica dollars unless otherwise stated)*2. Basis of preparation and significant accounting policies (continued)

## (d) Use of estimates and judgements (continued):

## (ii) Pension and other post-employment benefits (continued):

The discount rate is determined based on the estimated yield on long-term government securities that have maturity dates approximating the terms of the company's obligation; in the absence of such instruments in Jamaica, it has been necessary to estimate the rate by extrapolating from the longest-tenor security on the market. The estimate of expected rate of increase in medical costs is determined based on inflationary factors. Any changes in these assumptions will impact the amounts recorded in the financial statements for these obligations.

## (e) Property, plant and equipment:

## (i) Recognition and measurement:

Items of property, plant and equipment are measured at cost or valuation less accumulated depreciation and impairment losses, if any.

Cost includes expenditures that are directly attributable to the acquisition of the assets. The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of an item if it is probable that the future economic benefits embodied within the part will flow to the company and its costs can be measured reliably. The costs of day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred. Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

## (ii) Depreciation:

Depreciation is charged on the straight-line basis at annual rates estimated to write down each part of an item of property, plant and equipment to its estimated residual value at the end of their expected useful life. The estimated useful lives are as follows:

Buildings	20 years
Machinery and equipment	10 years
Furniture and fixtures	10 years
Computer equipment	5 years
Motor vehicle	5 years

No depreciation is charged on freehold land and work-in-progress.

Depreciation methods, useful lives and residual values are reassessed annually.

RUNAWAY BAY WATER COMPANY LIMITED

Notes to the Financial Statements (Continued)

Year ended March 31, 2018

*(Expressed in thousands of Jamaica dollars unless otherwise stated)*

2. Basis of preparation and significant accounting policies (continued)

(f) Impairment:

The carrying amounts of the company's assets are reviewed at each reporting date to determine whether there is any indication of impairment; if any such indication exists, the asset's recoverable amount is estimated. 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 profit or loss.

(i) Calculation of recoverable amount:

The recoverable amount of the company'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 fair value less costs to sell 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.

(ii) Reversals of impairment:

An impairment loss is reversed if the recoverable amount of an asset can be related objectively to an event occurring after the impairment loss was recognised and there has been a change in the estimates used to determine the recoverable amount. All impairment losses are recognised in profit or loss.

An impairment loss is reversed only to the extent that the assets 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.

(g) Related parties:

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the "reporting entity" in this case the company).

(a) A person or a close member of that person's family is related to the company if that person:

- (i) has control or joint control over the company;
- (ii) has significant influence over the company; or
- (iii) is a member of the key management personnel of the company or of a parent of the company.

RUNAWAY BAY WATER COMPANY LIMITED

Notes to the Financial Statements (Continued)

Year ended March 31, 2018

*(Expressed in thousands of Jamaica dollars unless otherwise stated)*

2. Basis of preparation and significant accounting policies (continued)

(g) Related parties (continued):

(b) An entity is related to the company if any of the following conditions applies:

- (i) The entity and the company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the company or an entity related to the company.
- (vi) The entity is controlled, or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the company or to the parent of the company.

(c) A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

(h) Taxation:

Taxation charged for the year comprises current and deferred tax. Taxation is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in other comprehensive income.

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

Deferred tax is provided 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 reporting date.

A deferred tax liability is recognised for all taxable temporary differences except to the extent that the company 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.

2. Basis of preparation and significant accounting policies (continued)

RUNAWAY BAY WATER COMPANY LIMITED

Notes to the Financial Statements (Continued)

Year ended March 31, 2018*(Expressed in thousands of Jamaica dollars unless otherwise stated)*

## (h) Taxation (continued):

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 asset is reduced to the extent that it is no longer probable that the related tax benefit will be realised.

## (i) Employee benefits:

Employee benefits are all forms of consideration given by the company in exchange for service rendered by employees. These include current or short-term benefits such as salaries, bonuses, NIS contributions, and annual vacation leave, post-employment benefits such as pension and other long-term employee benefits such as termination benefits.

Employee benefits that are earned as a result of past or current service are recognised in the following manner: Short-term employee benefits are recognised as a liability, net of payments made, and charged as expense. The expected cost of vacation leave that accumulates is recognised when the employee becomes entitled to the leave.

The only post-employment benefit that the company provides is pension, provided to employees who have satisfied certain minimum service requirements. The cost of the benefit is accounted for as follows:

The cost of the pensions and the related asset or obligation 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 valuation was conducted in accordance with IAS 19, using the projected unit credit method and the financial statements reflect the company's post-employment benefit asset as computed by the actuary. In carrying out their audit, the auditors have relied on the actuary's report.

The company's net asset in respect of its defined benefit plan (note 5) is calculated by estimating the amount of future benefits 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 is determined by reference to the yield at the reporting date on long-term government instruments with maturities approximating the term of the company's obligation.

In calculating the company's obligation in respect of the plan, actuarial gains and losses are recognised immediately in other comprehensive income. Net interest expense and other expenses related to the plan are recognised in profit or loss.

When the calculation results in a potential benefit to the company, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

RUNAWAY BAY WATER COMPANY LIMITED

Notes to the Financial Statements (Continued)

Year ended March 31, 2018*(Expressed in thousands of Jamaica dollars unless otherwise stated)*2. Basis of preparation and significant accounting policies (continued)

## (j) Trade and other receivables:

Trade and other receivables are measured at cost, less impairment losses.

## (k) Cash and cash equivalents:

Cash and cash equivalents comprise cash in hand and at bank, including short-term deposits where the maturities do not exceed three months from the date of placement and are measured at cost.

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

## (l) Inventories:

Inventories, materially comprising pipes, fittings and spare parts are measured at the lower of cost, determined on the first-in, first-out basis, and net recoverable value. The cost of inventories includes expenses incurred in acquiring and bringing the items to their existing location and condition.

## (m) Trade and other payables:

Trade and other payables are measured at cost.

## (n) Share capital:

Ordinary shares are classified as equity and measured at amortised cost.

## (o) Revenue recognition:

Revenue from the sale of goods and services is recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer or the service has been performed. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, or material associated costs on the possible return of goods.

RUNAWAY BAY WATER COMPANY LIMITED

Notes to the Financial Statements (Continued)

Year ended March 31, 2018

*(Expressed in thousands of Jamaica dollars unless otherwise stated)*

3. Property, plant and equipment

	<u>Land</u>	<u>Building</u>	<u>Machinery and equipment</u>	<u>Furniture and fixtures</u>	<u>Computer equipment</u>	<u>Motor vehicle</u>	<u>Work-in progress</u>	<u>Total</u>
At cost or valuation:								
At March 31, 2016	1,300	5,708	4,876	3,067	33	500	106	15,590
Additions	<u>-</u>	<u>558</u>	<u>483</u>	<u>263</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,304</u>
At March 31, 2017	1,300	6,266	5,359	3,330	33	500	106	16,894
Additions	<u>-</u>	<u>-</u>	<u>115</u>	<u>800</u>	<u>459</u>	<u>-</u>	<u>-</u>	<u>1,374</u>
At March 31, 2018	<u>1,300</u>	<u>6,266</u>	<u>5,474</u>	<u>4,130</u>	<u>492</u>	<u>500</u>	<u>106</u>	<u>18,268</u>
Depreciation:								
At March 31, 2016	-	4,954	1,908	1,069	33	316	-	8,280
Charge for the year	<u>-</u>	<u>307</u>	<u>451</u>	<u>355</u>	<u>-</u>	<u>101</u>	<u>-</u>	<u>1,214</u>
At March 31, 2017	-	5,261	2,359	1,424	33	417	-	9,494
Charge for the year	<u>-</u>	<u>313</u>	<u>578</u>	<u>339</u>	<u>61</u>	<u>83</u>	<u>-</u>	<u>1,374</u>
March 31, 2018	<u>-</u>	<u>5,574</u>	<u>2,937</u>	<u>1,763</u>	<u>94</u>	<u>500</u>	<u>-</u>	<u>10,868</u>
Net book values:								
March 31, 2018	<u>1,300</u>	<u>692</u>	<u>2,537</u>	<u>2,367</u>	<u>398</u>	<u>-</u>	<u>106</u>	<u>7,400</u>
March 31, 2017	<u>1,300</u>	<u>1,005</u>	<u>3,000</u>	<u>1,906</u>	<u>-</u>	<u>83</u>	<u>106</u>	<u>7,400</u>

The carrying amount of the company's land approximates fair value as determined by the estate department of the parent corporation on March 31, 2012, which takes account of similar properties in the same location and recent sales. Changes arising on revaluation of land are accounted for in capital reserve (see note 8).

This fair value was determined using level 3 fair value measurements, as the valuation model used both observable and unobservable inputs and the unobservable inputs are considered significant to the fair value measurement. There were no transfers into or out of level 3 during the year.

The directors are of the opinion that there is no material change in the fair value at the reporting date and that of the valuation report date.

4. Related party balances and transactions

(a) The statement of financial position includes the following balances with related parties:

	<u>2018</u>	<u>2017</u>
Advances to parent corporation	<u>81,300</u>	<u>96,976</u>

No specific terms of repayment have been determined in respect of these amounts, which are unsecured and interest-free. However, repayment is not expected before March 31, 2019.

RUNAWAY BAY WATER COMPANY LIMITED

Notes to the Financial Statements (Continued)

Year ended March 31, 2018*(Expressed in thousands of Jamaica dollars unless otherwise stated)*4. Related party balances and transactions (continued)

- (b) The statement of profit or loss and other comprehensive income includes the following transactions with related parties:

	<u>2018</u>	<u>2017</u>
Sales to related companies:		
Caymanas Development Company Limited	47	215
St. Ann Development Company Limited	<u>311</u>	<u>218</u>
	<u>358</u>	<u>433</u>
Management fees paid to parent corporation (note 13)	<u>56,000</u>	<u>56,000</u>
Expenses paid to related companies:		
Caymanas Development Company Limited	<u>30,229</u>	<u>27,323</u>

Transactions were in the ordinary course of business and in the opinion of management, were on terms no less favourable than would have been obtained if the transactions had been with unrelated parties.

5. Employee benefits asset

The company participates in a defined benefit pension Plan, where the assets of the Plan are held independently of the company's asset in a separate fund administered by trustees.

- (a) The amounts recognised in the statement of financial position are determined as follows:

	<u>2018</u>	<u>2017</u>
Fair value of plan assets	99,014	84,540
Present value of defined benefit obligations	<u>(62,701)</u>	<u>(51,695)</u>
	36,313	32,845
Effect of asset ceiling	<u>-</u>	<u>3,630</u>
Asset recognised in the statement of financial position	<u>36,313</u>	<u>29,215</u>

- (b) Movements in fair value of plan assets:

	<u>2018</u>	<u>2017</u>
At the beginning of year	84,540	100,291
Expected return on plan assets	8,049	9,041
Administrative expenses	( 224)	( 308)
Total contributions	1,319	1,126
Benefits paid	( 1,992)	( 541)
Re-measurements on plan assets	<u>7,322</u>	<u>( 25,069)</u>
At end of year	<u>99,014</u>	<u>84,540</u>

RUNAWAY BAY WATER COMPANY LIMITED

Notes to the Financial Statements (Continued)

Year ended March 31, 2018*(Expressed in thousands of Jamaica dollars unless otherwise stated)*5. Employee benefits asset (continued)

(c) The plan assets are comprised as follows:

	<u>2018</u>		<u>2017</u>	
	\$	%	\$	%
Equity	28,804	30	23,214	27
Fixed income	16,202	16	16,508	20
Mortgage and real estate	30,979	31	22,934	27
Foreign currency	15,162	15	14,510	17
CPI bond	<u>7,867</u>	<u>8</u>	<u>7,374</u>	<u>9</u>
	<u>99,014</u>	<u>100.00</u>	<u>84,540</u>	<u>100</u>

These assets form a part of the Urban Development Corporation pension plan totaling \$3,658,291,000 (2017: \$3,286,027,000).

(d) Movements in present value of the defined benefit obligations:

	<u>2018</u>	<u>2017</u>
At the beginning of year	51,695	66,362
Current service cost	1,457	2,187
Interest cost	4,885	5,934
Employees' contribution	941	830
Benefits paid	( 1,992)	( 541)
Re-measurements on defined benefit obligation	<u>5,715</u>	<u>(23,077)</u>
Balance at end of year	<u>62,701</u>	<u>51,695</u>

(e) Movements in net asset recognised in the statement of financial position:

	<u>2018</u>	<u>2017</u>
Balance at beginning of the year	<u>29,215</u>	<u>33,929</u>
Included in profit or loss:		
Administrative expenses	( 224)	( 308)
Current service cost	( 1,457)	( 2,187)
Net interest cost	<u>2,818</u>	<u>3,107</u>
	<u>1,137</u>	<u>612</u>
Included in other comprehensive income:		
Re-measurement gain/(loss) due to actuarial gains/(losses)	<u>5,583</u>	<u>( 5,622)</u>
Other:		
Contributions paid	<u>378</u>	<u>296</u>
	<u>36,313</u>	<u>29,215</u>

RUNAWAY BAY WATER COMPANY LIMITED

Notes to the Financial Statements (Continued)

Year ended March 31, 2018*(Expressed in thousands of Jamaica dollars unless otherwise stated)*5. Employee benefits asset (continued)

(f) The principal actuarial assumptions used were as follows:

	<u>2018</u>	<u>2017</u>
	%	%
Discount rate	7.5	9.5
Future salary increases	5.5	6.5
Future pension increases	4.5	5
Long term rate of inflation	<u>3.5</u>	<u>6.5</u>

(g) Sensitivity analysis:

The calculation of the projected benefit asset is sensitive to the assumptions used. The table below summarises how the projected benefit asset measured at the end of the reporting period would have increased/(decreased) as a result of a change in the respective assumptions by one percentage point. In preparing the analyses for each assumption, all other assumptions were held constant. The economic assumptions are somewhat linked as they are all related to inflation. Hence, for example, a 1% reduction in the long-term discount rate, would cause same reduction in the salary growth rate.

	<u>2018</u>		<u>2017</u>	
	1% <u>Increase</u>	1% <u>Decrease</u>	1% <u>Increase</u>	1% <u>Decrease</u>
Discount rate	11,422	(15,349)	8,867	(11,801)
Salary increase	7,889	( 6,518)	6,082	( 5,031)
Pension adjustment	<u>5,822</u>	<u>( 5,052)</u>	<u>4,547</u>	<u>( 3,959)</u>

The average expected remaining service life of the employees is 24.6 years (2017: 22.4 years).

6. Trade and other receivables

	<u>2018</u>	<u>2017</u>
Trade receivables	93,211	42,721
Other receivables	<u>52</u>	<u>152</u>
	93,263	42,873
Less: impairment provision	<u>(22,456)</u>	<u>(15,553)</u>
	<u>70,807</u>	<u>27,320</u>

RUNAWAY BAY WATER COMPANY LIMITED

Notes to the Financial Statements (Continued)

Year ended March 31, 2018*(Expressed in thousands of Jamaica dollars unless otherwise stated)*6. Trade and other receivables (continued)

The aging of trade receivables at the reporting date was as follows:

	<u>2018</u>		<u>2017</u>	
	Gross	Impairment	Gross	Impairment
Current	16,308	-	15,593	-
Past due 31-60 days	20,777	-	10,533	-
Past due 61-90 days	4,389	-	1,278	236
More than 90 days	<u>51,737</u>	<u>22,456</u>	<u>15,317</u>	<u>15,317</u>
Trade receivables	<u>93,211</u>	<u>22,456</u>	<u>42,721</u>	<u>15,553</u>

The movement in allowance for impairment in respect of trade receivables during the year was as follows:

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	15,553	15,553
Impairment loss recognised in profit or loss	<u>6,903</u>	<u>-</u>
Balance at end of year	<u>22,456</u>	<u>15,553</u>

7. Share capital

	<u>2018</u>	<u>2017</u>
Authorised:		
1,000 ordinary shares of no par value		
Stated, issued and fully paid:		
1,000 ordinary shares of no par value	<u>2</u>	<u>2</u>

8. Capital reserve

This represents unrealised revaluation surplus on land.

9. Deferred tax liability

(a) Deferred tax liability is attributable to the following:

	<u>2018</u>	<u>2017</u>
Employee benefits asset	(12,104)	(9,738)
Accrued vacation	1,263	1,447
Property, plant and equipment	<u>1,099</u>	<u>892</u>
	<u>(9,742)</u>	<u>(7,399)</u>

RUNAWAY BAY WATER COMPANY LIMITED

Notes to the Financial Statements (Continued)

Year ended March 31, 2018*(Expressed in thousands of Jamaica dollars unless otherwise stated)*9. Deferred tax liability (continued)

	<u>2018</u>			
	<u>2017</u>	<u>Recognised in OCI</u>	<u>Recognised in income [note 14(a)]</u>	<u>2018</u>
Employee benefits asset	(9,738)	(1,861)	(505)	(12,104)
Accrued vacation	1,447	-	(184)	1,263
Property, plant and equipment	<u>892</u>	<u>-</u>	<u>207</u>	<u>1,099</u>
	<u>(7,399)</u>	<u>(1,861)</u>	<u>(482)</u>	<u>(9,742)</u>

	<u>2017</u>			
	<u>2016</u>	<u>Recognised in OCI</u>	<u>Recognised in income [note 14(a)]</u>	<u>2017</u>
Employee benefits asset	(11,309)	1,874	( 303)	(9,738)
Accrued vacation	1,632	-	( 185)	1,447
Property, plant and equipment	<u>830</u>	<u>-</u>	<u>62</u>	<u>892</u>
	<u>( 8,847)</u>	<u>1,874</u>	<u>( 426)</u>	<u>(7,399)</u>

10. Trade and other payables

	<u>2018</u>	<u>2017</u>
Trade payables	4,818	1,980
Customer deposits	2,475	2,521
Accrued vacation leave	3,791	4,341
Accruals	<u>2,333</u>	<u>8,766</u>
	<u>13,417</u>	<u>17,608</u>

11. Gross operating revenue

	<u>2018</u>	<u>2017</u>
Water income	176,132	166,001
Sewage income	10,825	10,682
Meter rental charges	10,100	9,347
Connection and disconnection fees and other miscellaneous income	<u>315</u>	<u>1,789</u>
	<u>197,372</u>	<u>187,819</u>

The company's revenue arises materially from the supply of water and the provision of sewerage facilities (see note 1).

RUNAWAY BAY WATER COMPANY LIMITED

Notes to the Financial Statements (Continued)

Year ended March 31, 2018*(Expressed in thousands of Jamaica dollars unless otherwise stated)*

12. <u>Cost of operating revenue</u>		
	<u>2018</u>	<u>2017</u>
Cost of sales-water	30,169	27,323
Direct salaries and wages [note 12(i)]	33,784	32,879
Electricity	18,340	18,500
Other direct costs	<u>-</u>	<u>2,435</u>
	<u>82,293</u>	<u>81,137</u>
(i) <u>Direct salaries and wages</u>		
	<u>2018</u>	<u>2017</u>
Salaries and wages	26,936	25,472
Statutory contributions	3,011	2,800
Other staff cost	<u>3,837</u>	<u>4,607</u>
	<u>33,784</u>	<u>32,879</u>
13. <u>Administrative expenses</u>		
	<u>2018</u>	<u>2017</u>
Bad debts	6,903	-
Audit and accounting fees	1,950	1,950
Depreciation	1,374	1,214
Directors' emoluments	-	17
Legal and professional fees	1,761	7,899
Management fees [note 4(b)]	56,000	56,000
Motor vehicle expenses	4,539	4,125
Other expenses	4,892	6,817
Repairs and maintenance	<u>6,246</u>	<u>5,385</u>
	<u>83,665</u>	<u>83,407</u>
14. <u>Taxation</u>		
(a) The income tax charge is computed at 33 $\frac{1}{3}$ % (2017: 33 $\frac{1}{3}$ %) of the results for the year as adjusted for taxation purposes and comprises the following:		
	<u>2018</u>	<u>2017</u>
Current taxation:		
Current year tax expense	11,295	7,441
Deferred:		
Origination and reversal of temporary differences (note 9)	<u>482</u>	<u>426</u>
	<u>11,777</u>	<u>7,867</u>

RUNAWAY BAY WATER COMPANY LIMITED

Notes to the Financial Statements (Continued)

Year ended March 31, 2018*(Expressed in thousands of Jamaica dollars unless otherwise stated)*14. Taxation (continued)

	<u>2018</u>	<u>2017</u>
(b) Profit before taxation	<u>31,196</u>	<u>23,794</u>
‘Expected’ tax charge computed at 33 $\frac{1}{3}$ %	10,388	7,931
Tax effect of treating the following items differently for financial statement and tax reporting purposes:		
Disallowed expenses and other capital adjustments, net	<u>1,389</u>	( 64)
	<u>11,777</u>	<u>7,867</u>

15. Financial risk management

A financial instrument is any contract that gives rise to a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. The company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the company’s exposure to each of the above risks, the company’s objectives, policies and processes for measuring and managing risk, and the company’s management of capital.

The company's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The company regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Board of Directors along with senior management of the parent corporation are ultimately responsible for the establishment and oversight of the company's risk management framework. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity.

There has been no change during the year to the company’s exposure to these financial instruments risks or the manner in which it manages and measures the risks.

The company does not use derivative financial instruments as a means of managing these risks.

RUNAWAY BAY WATER COMPANY LIMITED

Notes to the Financial Statements (Continued)

Year ended March 31, 2018*(Expressed in thousands of Jamaica dollars unless otherwise stated)*15. Financial risk management (continued)

## (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. Credit risk arises principally from trade receivables, related party receivables and cash and cash equivalents.

(i) *Trade and other receivables*

The company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Management has established a credit policy under which each customer is analysed individually for creditworthiness prior to the company's offering them a credit facility. Credit limits are assigned to each customer and are reviewed regularly.

Customers credit risk is monitored according to their credit characteristics such as whether it is an individual or company, geographic location, industry, aging profile, and previous financial difficulties. Trade and other receivables relate mainly to the company's utility customers.

The company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The company addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

The company's average credit period on the sale of service is 30 days. The company has provided fully for trade and other receivables for which their recoverability is in doubt. Historical experience dictates that amounts past due beyond 90 days are generally not recoverable. Such amounts are provided for based on an estimate of amounts that would be irrecoverable, determined by taking into consideration past default experience, current economic conditions and expected receipts and recoveries once impaired.

(ii) *Cash and cash equivalents*

Cash and cash equivalents are placed with substantial financial institutions that are appropriately licensed and regulated; management believes these institutions have minimal risk of default.

(iii) *Due from parent corporation*

All related party transactions are authorized and approved by the directors and the parent corporation has the ability to effect set-off of amounts due.

RUNAWAY BAY WATER COMPANY LIMITED

Notes to the Financial Statements (Continued)

Year ended March 31, 2018*(Expressed in thousands of Jamaica dollars unless otherwise stated)*15. Financial risk management (continued)

## (b) Liquidity risk:

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

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, and the availability of funding through an adequate amount of committed facilities.

The management of the company manages this risk by maintaining adequate financial assets in liquid form, and has a commitment from the parent corporation, based on a pre-approved budget, to provide funds to the company when needed.

The contractual outflows as at March 31, 2018 and 2017 for trade and other payables is reflected in its carrying amounts and may require settlement with 12 months of the reporting date.

There has been no change to the company's exposure to liquidity risk or the manner in which it measures and manages the risk during the year.

## (c) Market risk:

The company takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks mainly arise from changes in foreign currency exchange rates and interest rates. Market risk is monitored by the management team.

There has been no change to the company's exposure to market risks or the manner in which it manages and measures the risk.

*(i) Currency risk*

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The company only operates locally and as such has very limited exposure to foreign exchange risk. The company manages its foreign exchange risk by ensuring that the net exposure in foreign assets and liabilities is kept to an acceptable level by monitoring currency positions.

As at the reporting date, the company had no exposure to currency risk, as it had no foreign currency balances.

RUNAWAY BAY WATER COMPANY LIMITED

Notes to the Financial Statements (Continued)

Year ended March 31, 2018*(Expressed in thousands of Jamaica dollars unless otherwise stated)*15. Financial risk management (continued)

## (c) Market risk (continued):

(ii) *Interest rate risk*

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

At the reporting date, the company had no exposure to interest rate risk as it had no material interest-bearing financial instruments.

## (d) Capital risk management:

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Board of Directors monitors the return on capital, which the company defines as profit after tax divided by equity.

There were no changes to the company's approach to capital management during the year and the company is not subject to any external capital requirements.

## (e) Fair value:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Market price is used to determine fair value where an active market exists as it is the best evidence of the fair value of a financial instrument. The company does not carry any financial instruments at fair value. Where the carrying amount is estimated to approximate fair value, no fair value computation or disclosure is done.

The fair value of cash and cash equivalents, trade and other receivables and trade and other payables is assumed to be their carrying values due to the short-term nature of these instruments.

The fair value of due from parent corporation could not be determined as the amount is interest-free and has no set repayment terms.