



NATIONAL IRRIGATION COMMISSION LIMITED

FINANCIAL STATEMENTS

MARCH 31, 2018



KPMG
Chartered Accountants
P.O. Box 76
6 Duke Street
Kingston
Jamaica, W.I.
+1 (876) 922 6640
firmmail@kpmg.com.jm

INDEPENDENT AUDITORS' REPORT

To the Members of
NATIONAL IRRIGATION COMMISSION LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of National Irrigation Commission Limited ("the company"), set out on pages 5 to 41, 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 the company's financial performance and 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
NATIONAL IRRIGATION COMMISSION 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 scepticism 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
NATIONAL IRRIGATION COMMISSION 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.



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INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
NATIONAL IRRIGATION COMMISSION LIMITED

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.

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 the KPMG firm in blue ink, with the letters 'KPMG' in a stylized, cursive-like font.

Chartered Accountants
Kingston, Jamaica

July 12, 2018

NATIONAL IRRIGATION COMMISSION LIMITED

Statement of Financial Position
March 31, 2018

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
CURRENT ASSETS			
Cash and cash equivalents	4	162,369,566	128,476,981
Investments	5	11,668,170	22,683,918
Accounts receivable	6	123,395,115	116,615,066
Current portion of long-term receivables	7	8,432,920	9,043,179
Inventories		70,418,924	63,500,990
Income tax recoverable		9,140,998	9,097,119
Total current assets		<u>385,425,693</u>	<u>349,417,253</u>
NON-CURRENT ASSETS			
Long-term receivables	7	12,437,947	8,387,410
Employee benefits asset	8(a)	198,287,000	158,451,000
Intangible asset	9	3,915,166	5,220,132
Property, plant and equipment	10	<u>715,120,770</u>	<u>730,766,006</u>
Total non-current assets		<u>929,760,883</u>	<u>902,824,548</u>
Total assets		<u>\$1,315,186,576</u>	<u>1,252,241,801</u>
CURRENT LIABILITIES			
Accounts payable and accrued charges	11	341,414,000	311,748,722
Government of Jamaica project advances	12	26,828,207	113,544,605
Taxation		<u>53,732,545</u>	<u>39,738,616</u>
Total current liabilities		<u>421,974,752</u>	<u>465,031,943</u>
NON-CURRENT LIABILITY			
Deferred credit, being total non-current liability	13	<u>292,267,417</u>	<u>271,382,220</u>
Total liabilities		<u>714,242,169</u>	<u>736,414,163</u>
EQUITY			
Share capital	14	100	100
Capital reserve	15	408,130,161	408,130,161
Investment revaluation reserve	16	98,712	98,712
Accumulated surplus		<u>192,715,434</u>	<u>107,598,665</u>
Total equity		<u>600,944,407</u>	<u>515,827,638</u>
Total liabilities and equity		<u>\$1,315,186,576</u>	<u>1,252,241,801</u>

The financial statements on pages 5 to 41 were approved for issue by the Board of Directors on July 12, 2018 and signed on its behalf by:


Chairman
Senator Aubyn Hill


Director
Nigel Myrie

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

NATIONAL IRRIGATION COMMISSION LIMITED

Statement of Profit or Loss and Other Comprehensive Income
Year ended March 31, 2018

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
Operating revenue			
Water sales and drainage charges		477,487,014	527,931,174
Government of Jamaica subsidy on behalf of farmers	17	1,040,762,334	830,156,069
Other Government of Jamaica subsidy		<u>50,000,000</u>	<u>59,714,712</u>
		1,568,249,348	1,417,801,955
Cost of producing water and distributing it to farm gates	19	<u>(1,159,134,589)</u>	<u>(1,077,282,182)</u>
Gross operating surplus		409,114,759	340,519,773
Amortisation of deferred credit	13	33,633,383	33,899,714
Other income	18	9,838,339	5,214,005
Administrative expenses	19	<u>(384,584,936)</u>	<u>(377,990,510)</u>
Surplus before net finance income and taxation		68,001,545	1,642,982
Net finance income	20	<u>558,153</u>	<u>722,627</u>
Surplus before taxation		68,559,698	2,365,609
Taxation charge	21	<u>(13,993,929)</u>	<u>-</u>
Surplus for the year	22	<u>54,565,769</u>	<u>2,365,609</u>
Other comprehensive income			
<i>Item that will never be reclassified to profit or loss</i>			
Remeasurement of employee benefits asset	8(f)	30,551,000	859,000
<i>Item that is or may be reclassified subsequently to profit or loss</i>			
Increase in the fair value of available-for-sale investments		<u>-</u>	<u>58,127</u>
Total other comprehensive income		<u>30,551,000</u>	<u>917,127</u>
Total comprehensive income for the year		<u>\$ 85,116,769</u>	<u>3,282,736</u>

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

NATIONAL IRRIGATION COMMISSION LIMITED

Statement of Changes in Equity
Year ended March 31, 2018

	Share capital Note 14	Capital reserve Note 15	Investment revaluation reserve Note 16	Accumulated surplus	Total
Balances at March 31, 2016					
As previously reported	100	408,130,161	40,585	206,164,476	614,335,322
Prior year adjustments (note 29)	-	-	-	(101,790,420)	(101,790,420)
As restated	100	408,130,161	40,585	104,374,056	512,544,902
Surplus for the year	-	-	-	2,365,609	2,365,609
Other comprehensive income					
Remeasurement of employee benefits asset	-	-	-	859,000	859,000
Increase in fair value of available-for-sale investments	-	-	58,127	-	58,127
Total other comprehensive income	-	-	58,127	859,000	917,127
Total comprehensive income for the year	-	-	58,127	3,224,609	3,282,736
Balances at March 31, 2017	100	408,130,161	98,712	107,598,665	515,827,638
Surplus for the year	-	-	-	54,565,769	54,565,769
Other comprehensive income					
Remeasurement of employee benefits asset, being total comprehensive income	-	-	-	30,551,000	30,551,000
Total comprehensive income for the year	-	-	-	85,116,769	85,116,769
Balances at March 31, 2018	\$100	408,130,161	98,712	192,715,434	600,944,407

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

NATIONAL IRRIGATION COMMISSION LIMITED

Statement of Cash Flows
Year ended March 31, 2018

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
Cash flows from operating activities			
Surplus for the year		54,565,769	2,365,609
Adjustments:			
Depreciation	10	45,458,735	41,818,062
Amortisation of intangible asset	9	1,304,966	1,304,965
Amortisation of deferred credit	13	(33,633,383)	(33,899,714)
Asset written off	10	15,890,556	-
Employee benefits asset		(9,285,000)	(3,802,000)
Interest expense	20	3,200	-
Interest income	20	(561,353)	(722,627)
Taxation	21	13,993,929	-
Foreign exchange gains on bank balances		(3,470)	(34,085)
		<u>87,733,949</u>	<u>7,030,210</u>
Decrease/(increase) in current assets			
Investments		11,015,748	(2,340,287)
Accounts receivable		(6,215,798)	38,942,027
Inventories		(6,917,934)	7,243,832
Income tax recoverable		(43,878)	(77,124)
(Decrease)/increase in current liabilities			
Accounts payable and accrued charges		29,665,279	3,631,382
Government of Jamaica project advances		(86,716,398)	16,585,078
Net cash provided by operating activities		<u>28,520,968</u>	<u>71,015,118</u>
Cash flows from investing activity			
Purchase of property, plant and equipment	10	(45,704,055)	(31,552,792)
Long-term receivables		(4,050,537)	8,141,488
Interest received		607,359	731,964
Interest paid		(3,200)	-
Net cash used in investing activities		<u>(49,150,433)</u>	<u>(22,679,340)</u>
Cash flows from financing activities			
Deferred credit		54,518,580	-
Long-term liability		-	(1,244,845)
Net cash provided by/(used in) financing activities		<u>54,518,580</u>	<u>(1,244,845)</u>
Net increase in cash and cash equivalents		33,889,115	47,090,933
Effect of exchange rate fluctuations on cash held		3,470	34,085
Cash and cash equivalents at beginning of the year		<u>128,476,981</u>	<u>81,351,963</u>
Cash and cash equivalents at end of the year		<u>\$162,369,566</u>	<u>128,476,981</u>

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

NATIONAL IRRIGATION COMMISSION LIMITED

Notes to the Financial Statements Year ended March 31, 2018

1. Identification

National Irrigation Commission Limited (company) is incorporated and domiciled in Jamaica, and is wholly-owned by the Government of Jamaica through the Accountant General. The company's registered office is located at 191 Old Hope Road, Kingston 6.

The principal activities of the company are:

- (a) The management, operation, maintenance and expansion of existing and future irrigation schemes established by the Government of Jamaica. The principal schemes currently in operation are Hounslow, Braco, Mid-Clarendon, Rio Cobre, Yallahs, Beacon/Little Park, Seven Rivers, Colbeck, St. Dorothy, New Forest and Yallahs IDB.
- (b) The identification and designation of the persons who shall be entitled to use the water generated by the irrigation schemes and the fixing and collection of rates or charges for such services rendered.

2. Statement of compliance and basis of preparation

(a) Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and comply with the provisions of the Jamaican Companies Act.

New and amended standards that became effective during the year

Certain new and amended standards which were issued, came into effect during the current financial year. The company has assessed them and has adopted those which are relevant to the financial statements, viz;

- Amendments to IAS 7, *Statement of Cash Flows*, effective for accounting periods beginning on or after January 1, 2017, requires an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows.
- Amendments to IAS 12, *Income Taxes*, effective for accounting periods beginning on or after January 1, 2017, clarifies the following:
 - The existence of deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.
 - A deferred tax asset can be recognised if the future bottom line of the tax return is expected to be a loss, if certain conditions are met.

NATIONAL IRRIGATION COMMISSION LIMITED

Notes to the Financial Statements (Continued)
Year ended March 31, 2018

2. Statement of compliance and basis of preparation (continued)

(a) Statement of compliance (continued)

New and amended standards that became effective during the year (continued)

- Amendments to IAS 12, *Income Taxes*, (continued)
 - Future taxable profits used to establish whether a deferred tax can be recognised should be the amount calculated before the effect of reversing temporary differences.
 - An entity can assume that it will recover an asset for more than its carrying amount if there is sufficient evidence that it is probable that the entity will achieve this.
 - Deductible temporary differences related to unrealised losses should be assessed on a combined basis for recognition unless a tax law restricts the use of losses to deductions against income of a specific type.

The adoption of these amended standards did not result in any changes to the presentation and disclosures in the financial statements.

New and amended standards and interpretations issued but not yet effective

At the date of approval of these financial statements, certain new and amended standards were in issue but were not yet effective and had not been early-adopted by the company. The company has assessed them and has concluded that the following may be relevant to its operations:

- The company is required to adopt IFRS 9, *Financial Instruments* from January 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, long-term receivables, investments. However, the company is still in the process of its assessment and the final impact has not yet been determined.

NATIONAL IRRIGATION COMMISSION LIMITED

Notes to the Financial Statements (Continued)
Year ended March 31, 2018

2. Statement of compliance and basis of preparation (continued)

(a) Statement of compliance (continued)

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

• IFRS 9, *Financial Instruments (continued)*

IFRS 9 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:

- (i) 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- (ii) 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.

The company believes that impairment losses are likely to increase and 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.

IFRS 9 will require extensive disclosures, in particular for credit risk and ECLs. The company’s assessment included an analysis to identify data gaps against current processes and the company is in the process of implementing the system and controls changes that it believes will be necessary to capture the required data.

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

- 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 and reserves as at January 1, 2018.
- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application:
 - (i) The determination of the business model within which a financial asset is held.

NATIONAL IRRIGATION COMMISSION LIMITED

Notes to the Financial Statements (Continued)
Year ended March 31, 2018

2. Basis of preparation (continued):

(a) Statement of compliance (continued):

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

- IFRS 9, *Financial Instrument* (continued)
 - The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application (continued):
 - (ii) The designation and revocation of previous designations of certain financial assets as measured at FVTPL.
 - (iii) The designation of certain investments in equity investments not held for trading at FVOCI.
- The company is required to adopt IFRS 15, *Revenue from Contracts with Customers* from January 1, 2018. The standard established a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18, *Revenue*, IAS 11, *Construction Contracts* and IFRIC 13, *Customer Loyalty Programmes*.

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.

Management has assessed that the main impact of this standard is in respect of fees and commission income. The company earns revenue from sales and drainage services as well as government subsidy and other funding. Based on preliminary review, IFRS 15 is not expected to have a material impact on the timing and recognition of the company's revenue. However, management has not yet completed its assessment and the financial impact has not yet being 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. Companies 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.

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.

NATIONAL IRRIGATION COMMISSION LIMITED

Notes to the Financial Statements (Continued)
Year ended March 31, 2018

2. Basis of preparation (continued):

(a) Statement of compliance (continued):

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

- 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 profits (tax losses), 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.
- Amendments to IFRS 9, *Financial Instruments*, effective retrospectively for annual periods beginning on or after January 1, 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.

NATIONAL IRRIGATION COMMISSION LIMITED

Notes to the Financial Statements (Continued)
Year ended March 31, 2018

2. Basis of preparation (continued)

(a) Statement of compliance (continued):

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

- Amendments to IFRS 9, *Financial Instruments* (continued):

- (ii) Modifications to financial liabilities

If the initial application of IFRS 9 results in a change in accounting policy arising from modified or exchanged fixed rate financial liabilities, 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.

The company is assessing the impact that these new standards, amendments and interpretations may have on its financial statements, when they are adopted.

(b) Basis of preparation

The financial statements are prepared on the historical cost basis, except for available-for-sale investments carried at fair value, and are presented in Jamaica dollars which is the functional currency of the company.

The preparation of the financial statements in accordance with IFRS assumes that the company will continue in operational existence for the foreseeable future. This means, in part, that the statements of profit or loss and other comprehensive income and financial position assume no intention or necessity to liquidate the company or curtail the scale of operations. This is commonly referred to as the going concern basis.

(c) Accounting estimates and judgements

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of, and disclosures relating 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 those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised, if the revision affects only that year, or in the year of the revision and future years, if the revision affects both current and future years.

NATIONAL IRRIGATION COMMISSION LIMITED

Notes to the Financial Statements (Continued)
Year ended March 31, 2018

2. Basis of preparation (continued)

(c) Accounting estimates and judgements (continued)

Key sources of estimation uncertainty

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 presented below:

- Pension benefits

The amounts recognised in the statements of financial position and profit or loss and other comprehensive income for pension benefits are determined actuarially using several assumptions. The primary assumptions used in determining the amounts recognised include the discount rate used to determine the present value of estimated future cash flows required to settle the pension obligations.

The discount rate is determined based on the estimate of yield on long-term Government of Jamaica 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. Any changes in loss assumptions would impact the amounts recorded in the financial statements for these obligations.

- Allowance for impairment losses

In determining amounts recorded for impairment of accounts receivable 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 accounts receivable, for example, repayment default and adverse economic conditions. Management also makes estimates of the likely estimated future cash flows from impaired accounts receivable, as well as the timing of such cash flows. Historical loss experience is applied where indicators of impairment are not observable on individual significant accounts receivable and total trade accounts receivable with similar characteristics, such as credit risks.

- Determination of fair value of investments

When determining the fair value of investments, the company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a unit.

NATIONAL IRRIGATION COMMISSION LIMITED

Notes to the Financial Statements (Continued)
Year ended March 31, 2018

3. Significant accounting policies

(a) Financial instruments: - classification, recognition and derecognition, and measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. In these financial statements, financial assets have been determined to comprise cash and cash equivalents, investments, accounts receivable and long-term receivables. Financial liabilities comprise accounts payable and accrued charges and Government of Jamaica project advances.

Financial instruments are classified, recognised and measured in accordance with the substance of the terms of the contracts as set out herein.

(i) Classification of financial instruments

The company classifies non-derivative financial assets as loans and receivables and available-for-sale. Management determines the appropriate classification of investments at the time of purchase. Securities acquired and loans granted with fixed or determinable payments and which are not quoted in an active market, are classified as loans and receivables. Securities are classified as available-for-sale because they are designated as such or are not classified in any of the other categories.

The company classifies non-derivative financial liabilities into the other financial liabilities category.

(ii) Non-derivative financial assets and financial liabilities – recognition and derecognition

The company recognises a financial instrument when it becomes a party to the contractual terms of the instrument.

The company initially recognises loans and receivables and debt securities on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date.

The company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains all or substantially all the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the company is recognised as a separate asset or liability.

The company derecognises a financial liability when its contractual obligations expire or are discharged or cancelled.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the company has the legal right to offset the amounts and intends either to settle them on a net basis, or to realise the assets and settle the liabilities simultaneously.

NATIONAL IRRIGATION COMMISSION LIMITED

Notes to the Financial Statements (Continued)
Year ended March 31, 2018

3. Significant accounting policies (continued)

- (a) Financial instruments: - classification, recognition and derecognition, and measurement (continued)

- (iii) Non-derivative financial assets – measurement

Loans and receivables: On initial recognition loans and receivables are measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost, using the effective interest method, less impairment losses.

- (b) Cash and cash equivalents

Cash comprises cash in hand and demand and call deposits with banks. Cash equivalents are short-term, highly liquid investments where original maturities do not exceed three months, are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments, rather than for investment or other purposes. Cash and cash equivalents are measured at amortised cost.

- (c) Investments

Investments consist of resale agreements and units held in NCB Capital Markets CAPFunds.

- (i) The company purchases Government securities and agrees to resell them on a specified date and at a specified price ('resale agreements' or 'reverse repurchase agreements'). The company, on paying cash to the counterparty, sometimes, takes possession of the underlying securities, although title is not formally transferred, unless that counterparty fails to repurchase the securities on the date specified or to honour other conditions.

Resale agreements are accounted for as short-term collateralised lending. Resale agreements are classified as loans and receivables and are carried at amortised cost less impairment. The difference between the purchase and resale considerations is recognised on the accrual basis over the period of the engagement, using the effective interest method.

- (ii) Units held in NCB Capital Markets CAPFunds are classified as available-for-sale and are carried at fair value. Changes in the fair value are included in the investment revaluation reserve.

- (d) Property, plant and equipment and depreciation

- (i) Owned assets

Property, plant and equipment are measured at cost, less accumulated depreciation and impairment losses [see note 3(h)].

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied in the part will flow to the company and its cost can be reliably measured.

NATIONAL IRRIGATION COMMISSION LIMITED

Notes to the Financial Statements (Continued)
Year ended March 31, 2018

3. Significant accounting policies (continued)

(d) Property, plant and equipment and depreciation (continued)

(ii) Depreciation

Property, plant and equipment with the exception of capital work-in-progress are depreciated using the straight-line method at annual rates estimated to write down the assets to their residual values over their expected useful lives. The depreciation rates are as follows:

Building and leasehold improvements	2½%
Utility plant	2-3%
Furniture, fixtures and equipment	10% and 20%
Motor vehicles	20%
Machinery and equipment	2½%

The depreciation rates, useful lives and residual values are reassessed at each reporting date.

(e) Capital grants

Grants for acquisition of property, plant and equipment and amounts equivalent to the value of property, plant and equipment received as gifts, (including an amount equivalent to the values ascribed to utility plant at the districts, which were taken over by way of gift in 1990), are included in the Deferred Credit account. Annually, an amount equivalent to the depreciation charge for the year on these assets is transferred to surplus or deficit.

(f) Inventories

Inventories are measured at the lower of cost or net realisable value determined on the first-in-first-out basis.

(g) Employee benefits

Employee benefits comprise 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, annual leave; post-employments 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. Post-employment benefits are accounted for as described below.

NATIONAL IRRIGATION COMMISSION LIMITED

Notes to the Financial Statements (Continued)
Year ended March 31, 2018

3. Significant accounting policies (continued)

(g) Employee benefits (continued)

Post-employment benefits, comprising pension obligations, included in the financial statements, are 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 is conducted in accordance with IAS 19, and the financial statements reflect the company's post-employment benefit asset as computed by the actuary. In carrying out their audit, the auditors rely on the work of the actuary and the actuary's report.

(i) Defined benefit pension plan

The company's net asset in respect of the defined-benefit pension plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that value is discounted to determine the present value, and the fair value of any plan assets is deducted. The discount rate is the yield at reporting date on long-term Government of Jamaica bonds that have maturity dates approximating the terms of the company's obligation. The calculation is performed by a qualified actuary, using the projected unit credit method.

When the benefits of the plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The company recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Remeasurement of the net benefit asset, which comprises actual gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The company determines the net interest income on the net defined benefit asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit asset, taking into account any changes in the net defined benefit asset during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in surplus or deficit.

(ii) Termination benefits

Termination benefits are expected at the earlier of when the company can no longer withdraw the offer of those benefits and when the company recognises cost for a restructuring. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

(h) 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 estimate. 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 surplus or deficit.

NATIONAL IRRIGATION COMMISSION LIMITED

Notes to the Financial Statements (Continued)
Year ended March 31, 2018

3. Significant accounting policies (continued)

(h) Impairment (continued)

(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 in respect of receivables is reversed, if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

If the fair value of an impaired available-for-sale debt security subsequently increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through the income statement; otherwise subsequent increases in fair value are recognised through other comprehensive income.

In respect of other assets, an impairment loss is reversed, if there has been a change in the estimates used to determine the recoverable amount.

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.

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve to the income statement. The amount reclassified is the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in the income statement.

(i) Taxation

Income tax on the surplus or deficit for the year comprises current and deferred tax. Income tax is recognised in surplus or deficit, except to the extent that it relates to items recognised in other comprehensive income 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.

NATIONAL IRRIGATION COMMISSION LIMITED

Notes to the Financial Statements (Continued)
Year ended March 31, 2018

3. Significant accounting policies (continued)

(i) Taxation (continued)

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

(j) Accounts receivable

Accounts receivable are measured at their amortised cost, less impairment losses.

(k) Intangible asset

Intangible asset, which represents computer software costs, is measured at cost less accumulated amortisation and, if any, impairment losses. It is being amortised on the straight-line basis at annual rates estimated to write down the assets over their expected useful lives, not exceeding a period of ten years. Costs associated with maintaining computer software programs are recognised as expense as incurred.

(l) Accounts payable and accrued charges

Accounts payable and accrued charges are measured at their amortised cost.

(m) Foreign currencies

Foreign currency balances at the reporting date are translated at the rates of exchange ruling on that date.

Transactions in foreign currencies are converted at the rates of exchange ruling at the dates of those transactions.

Gains and losses arising from fluctuations in exchange rates are included in surplus or deficit.

(n) Related parties

A related party is a person or entity that is related to 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.

NATIONAL IRRIGATION COMMISSION LIMITED

Notes to the Financial Statements (Continued)
Year ended March 31, 2018

3. Significant accounting policies (continued)

(n) Related parties (continued)

(B) An entity is related to a 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.

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

(o) Revenue recognition

Revenue from water sales and drainage services is recognised in surplus or deficit when water is delivered to the customer, drainage services are rendered and the amounts can be reliably measured.

Government subsidy and other funding are recognised when received.

(p) Interest income and expense

Interest income and expense are recognised in surplus or deficit on the accrual basis, using the effective interest method.

4. Cash and cash equivalents

	<u>2018</u>	<u>2017</u>
Cash	112,734	119,779
Bank balances	<u>162,256,832</u>	<u>128,357,202</u>
	<u>\$162,369,566</u>	<u>128,476,981</u>

NATIONAL IRRIGATION COMMISSION LIMITED

Notes to the Financial Statements (Continued)
Year ended March 31, 2018

5. Investments

	<u>2018</u>	<u>2017</u>
Loans and receivables		
Resale agreements [see note (i) below]	10,318,478	21,334,226
Available-for-sale		
Units held in NCB Capital Markets CAPFunds	<u>1,349,692</u>	<u>1,349,692</u>
	<u>\$11,668,170</u>	<u>22,683,918</u>

(i) Resale agreements include \$1,816,408 (2017: \$12,937,741) which is being held in escrow on behalf of one (2017: two) former employees who died intestate; and is not available to the company for operational use.

(ii) At the reporting date, the fair value of underlying securities used as collateral for resale agreements was \$10,871,980 (2017: \$22,471,943).

6. Accounts receivable

	<u>2018</u>	<u>2017</u>
Trade receivables for water sales and drainage charges [<u>note 25(b)(ii)</u>]	138,856,525	141,270,035
Staff loans	11,915,919	10,224,735
Other receivables	<u>43,622,208</u>	<u>23,987,773</u>
	194,394,652	175,482,543
Provision for impairment losses	<u>(70,999,537)</u>	<u>(58,867,477)</u>
	<u>\$123,395,115</u>	<u>116,615,066</u>

(i) Provision for impairment losses is in respect of the following:

	<u>2018</u>	<u>2017</u>
Trade receivables	62,674,412	58,867,477
Other receivables	<u>8,325,125</u>	<u>-</u>
	<u>\$70,999,537</u>	<u>58,867,477</u>

(ii) The aging of trade receivables at the reporting date was:

	<u>2018</u>		<u>2017</u>	
	<u>Gross</u>	<u>Impairment allowance</u>	<u>Gross</u>	<u>Impairment allowance</u>
Not past due	48,456,698	2,252,494	40,789,068	2,252,494
Past due 1-30 days	25,137,405	4,469,735	31,001,767	4,469,735
Past due 31-60 days	1,888,466	1,286,369	11,257,510	1,286,369
Past due 61-90 days	1,655,744	574,994	2,421,235	574,994
More than 90 days	<u>61,718,212</u>	<u>54,090,820</u>	<u>55,800,455</u>	<u>50,283,885</u>
	<u>\$138,856,525</u>	<u>62,674,412</u>	<u>141,270,035</u>	<u>58,867,477</u>

NATIONAL IRRIGATION COMMISSION LIMITED

Notes to the Financial Statements (Continued)
Year ended March 31, 2018

6. Accounts receivable (continued)

(iii) The movement in the allowance for impairment during the year was as follows:

	<u>2018</u>	<u>2017</u>
Balance as at April 1	58,867,477	40,628,382
Amounts written back	(12,532,495)	(11,551,980)
Increase in allowance for impairment	<u>24,664,555</u>	<u>29,791,075</u>
Balance as at March 31	<u>\$70,999,537</u>	<u>58,867,477</u>

(iv) Other receivables includes deposits on property, plant and equipment of \$18,214,263 (2017: \$3,250,103).

7. Long-term receivables

	<u>2018</u>	<u>2017</u>
Refundable utility deposits	2,575,379	2,575,379
Employee loans	<u>18,295,488</u>	<u>14,855,210</u>
	20,870,867	17,430,589
Less: Current portion	<u>(8,432,920)</u>	<u>(9,043,179)</u>
	<u>\$12,437,947</u>	<u>8,387,410</u>

Employee loans are for the purchase of motor vehicles and are repayable over 4-8 years. The interest rate on motor vehicle loans is 0%. The loans are remeasured at commercial bank interest rate and are secured by the respective motor vehicles [see note 25(b)(iii)] on which the loans are outstanding.

8. Employee benefits asset

The company sponsors a defined-benefit pension plan for all employees who have satisfied certain minimum service requirements. The benefits are computed at 2% of pensionable salary for each year of membership in the plan and on other increments as determined by the pension plan.

Amounts recognised in the financial statements in respect of this benefit are as follows:

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

	<u>2018</u>	<u>2017</u>
Present value of funded obligation	(1,296,605,000)	(954,686,000)
Fair value of plan assets	1,557,365,000	1,313,495,000
Unrecognised asset due to asset ceiling	<u>(62,473,000)</u>	<u>(200,358,000)</u>
Asset recognised in the statement of financial position	<u>\$ 198,287,000</u>	<u>158,451,000</u>

NATIONAL IRRIGATION COMMISSION LIMITED

Notes to the Financial Statements (Continued)
Year ended March 31, 2018

8. Employee benefits asset (continued)

(b) Movement in the amounts recognised in the statement of financial position:

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	158,451,000	153,790,000
Contributions paid	19,355,000	18,576,000
Pension expense recognised in profit or loss	(10,070,000)	(14,774,000)
Remeasurement recognised in other comprehensive income	<u>30,551,000</u>	<u>859,000</u>
Balance at end of year	<u>\$198,287,000</u>	<u>158,451,000</u>

(c) Movement in the present value of obligation:

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	954,686,000	980,933,000
Service costs	27,103,000	30,337,000
Interest on obligation	89,276,000	86,706,000
Employees' contributions	23,297,000	20,531,000
Benefits paid	(48,035,000)	(61,720,000)
Annuities purchased	13,220,000	25,883,000
Actuarial losses/(gains) arising from:		
Changes in financial assumptions	354,422,000	(68,561,000)
Experience adjustments	(117,364,000)	(59,423,000)
Balance at end of year	<u>\$1,296,605,000</u>	<u>954,686,000</u>

(d) (i) Movement in fair value of plan assets:

	<u>2018</u>	<u>2017</u>
Fair value of plan assets at beginning of year	1,313,495,000	1,134,723,000
Employees' contributions	23,297,000	20,531,000
Employer's contributions	19,355,000	18,576,000
Interest income on plan assets	125,343,000	102,269,000
Benefits paid	(48,035,000)	(61,720,000)
Annuities purchased	13,220,000	25,883,000
Actuarial gains/(losses) arising from:		
Change in financial assumptions	18,851,000	(3,840,000)
Experience adjustments	<u>91,839,000</u>	<u>77,073,000</u>
Fair value of plan assets at end of year	<u>\$1,557,365,000</u>	<u>1,313,495,000</u>

NATIONAL IRRIGATION COMMISSION LIMITED

Notes to the Financial Statements (Continued)
Year ended March 31, 2018

8. Employee benefits asset (continued)

(d) (Continued)

(ii) Plan assets consist of the following:

	<u>2018</u>	<u>2017</u>
International equity fund	86,724,000	70,969,000
Global markets fund	29,255,000	35,484,000
Equity fund	373,163,000	260,218,000
Fixed income fund	81,551,000	106,453,000
Mortgage and real estate fund	379,427,000	272,046,000
Money market fund	51,901,000	59,141,000
Foreign currency fund	246,598,000	236,562,000
Adjustments	3,666,000	(1,357,000)
Value of purchased annuities	158,077,000	132,042,000
CPI indexed fund	<u>147,003,000</u>	<u>141,937,000</u>
	<u>\$1,557,365,000</u>	<u>1,313,495,000</u>

(e) Expense recognised in profit or loss:

	<u>2018</u>	<u>2017</u>
Current service costs	27,103,000	30,337,000
Interest on obligation	89,276,000	86,706,000
Interest income on plan assets	(125,343,000)	(102,269,000)
Interest on effect of asset ceiling	<u>19,034,000</u>	<u>-</u>
Net pension expense included in staff costs (note 23)	<u>\$ 10,070,000</u>	<u>14,774,000</u>

(f) Amounts recognised in other comprehensive income:

	<u>2018</u>	<u>2017</u>
Experience adjustments	(366,122,000)	63,862,000
Change in financial assumptions	<u>335,571,000</u>	<u>(64,721,000)</u>
	<u>\$(30,551,000)</u>	<u>(859,000)</u>

(g) As mortality continues to improve, estimates of life expectancy are expected to increase. The effect on the projected employee benefit asset of an increase of one year in the life expectancy is approximately \$16.31 million.

(h) Sensitivity analysis on projected employee benefits asset:

The calculation of the projected benefits asset is sensitive to the assumptions used. The table below summarizes how the projected employee benefit obligation 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 others 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 some reduction in the medical trend rate.

NATIONAL IRRIGATION COMMISSION LIMITED

Notes to the Financial Statements (Continued)
Year ended March 31, 2018

8. Employee benefits asset (continued)

(h) Sensitivity analysis on projected employee benefits asset (continued):

	<u>2018</u>		<u>2017</u>	
	<u>1%</u>	<u>1%</u>	<u>1%</u>	<u>1%</u>
	<u>Decrease</u>	<u>Increase</u>	<u>Decrease</u>	<u>Increase</u>
	\$	\$	\$	\$
Discount rate	175,454,000	(140,693,000)	137,914,000	(108,096,000)
Future salary increases	(44,638,000)	49,788,000	(52,202,000)	59,643
Future pension increases	<u>(108,980,000)</u>	<u>126,531,000</u>	<u>(72,261,000)</u>	<u>83,476,000</u>

(i) Liability duration:

	<u>2018</u>	<u>2017</u>
Active members and all participants	<u>32 years</u>	<u>32 years</u>

(j) The principal actuarial assumptions (expressed as weighted averages) used were as follows:

	<u>2018</u>	<u>2017</u>
Discount rate	7.5%	9.5%
Inflation rate	4.5%	6.5%
Future salary increases	4.5%	6.5%
Future pension increases	<u>2.5%</u>	<u>3.5%</u>

(k) The company expects to pay \$43,129,000 in contributions to the plan in 2018/2019 (2017/2018: \$31,755,000).

9. Intangible asset

	<u>Computer software</u>	
	<u>2018</u>	<u>2017</u>
Cost	<u>13,049,961</u>	<u>13,049,961</u>
Amortisation		
At beginning of year	7,829,829	6,524,864
Charge for the year	<u>1,304,966</u>	<u>1,304,965</u>
At end of year	<u>9,134,795</u>	<u>7,829,829</u>
Net book value	<u>\$ 3,915,166</u>	<u>5,220,132</u>

NATIONAL IRRIGATION COMMISSION LIMITED

Notes to the Financial Statements (Continued) Year ended March 31, 2018

10. Property, plant and equipment

	Building & leasehold improvements	Utility plant	Furniture, fixtures & equipment	Motor vehicles	Machinery and equipment	Capital work-in- progress	Total
Cost							
March 31, 2016	104,106,303	1,721,088,957	116,432,412	27,762,421	21,096,677	89,200,641	2,079,687,411
Additions	1,733,765	9,801,077	11,780,507	5,169,379	-	3,068,064	31,552,792
March 31, 2017	105,840,068	1,730,890,034	128,212,919	32,931,800	21,096,677	92,268,705	2,111,240,203
Additions	1,315,092	6,581,135	23,070,740	12,102,651	2,634,437	-	45,704,055
Reclassification	-	31,569,350	-	-	-	(31,569,350)	-
Write-off	-	-	-	-	-	(15,890,556)	(15,890,556)
March 31, 2018	107,155,160	1,769,040,519	151,283,659	45,034,451	23,731,114	44,808,799	2,141,053,702
Depreciation							
March 31, 2016	24,485,298	1,195,514,890	89,614,266	23,824,940	5,216,741	-	1,338,656,135
Charge for the year	2,493,261	28,149,054	6,769,670	3,879,009	527,068	-	41,818,062
March 31, 2017	26,978,559	1,223,663,944	96,383,936	27,703,949	5,743,809	-	1,380,474,197
Charge for the year	2,515,180	29,282,946	9,392,473	3,675,208	592,928	-	45,458,735
March 31, 2018	29,493,739	1,252,946,890	105,776,409	31,379,157	6,336,737	-	1,425,932,932
Net book values							
March 31, 2018	\$ 77,661,421	516,093,629	45,507,250	13,655,294	17,394,377	44,808,799	715,120,770
March 31, 2017	\$ 78,861,509	507,226,090	31,828,983	5,227,851	15,352,868	92,268,705	730,766,006
March 31, 2016	\$ 79,621,005	525,574,067	26,818,146	3,937,481	15,879,936	89,200,641	741,031,276

- (i) Included in building and leasehold improvements are leasehold improvements with net book value of \$44,275,456 (2017: \$50,112,827).
- (ii) Capital work-in-progress represents internal projects, relating to lining of canals, construction of building and other construction works, funded by the Government of Jamaica, which are undertaken and managed by the company. The cost to complete the projects has not been quantified to date. There are currently no contractual commitments related to completion of these projects, as they are being carried out by the company as, and when, funds become available.

11. Accounts payable and accrued charges

	2018	2017
Customer deposits	17,300,737	17,440,093
Trade payables	45,295,640	51,245,304
Accrued vacation leave	42,293,226	35,330,195
Provision for litigation settlement (i)	7,380,272	9,815,810
Education tax payable including interest (ii)	118,594,724	106,681,230
Other accruals (iii)	78,154,230	38,320,876
Other payables (iv)	26,422,254	17,489,456
General Consumption Tax (GCT) payable	5,972,914	35,425,758
	<u>\$341,414,000</u>	<u>311,748,722</u>

NATIONAL IRRIGATION COMMISSION LIMITEDNotes to the Financial Statements (Continued)
Year ended March 31, 201811. Accounts payable and accrued charges (continued)

- (i) The movement in the provision for litigation settlement during the year was as follows:

	<u>2018</u>	<u>2017</u>
Balance as at April 1	9,815,810	3,811,228
Amounts paid	(2,435,538)	(181,972)
Provision recognised	<u>-</u>	<u>6,186,554</u>
Balance as at March 31	<u>\$7,380,272</u>	<u>9,815,810</u>

- (ii) Education tax payable including interest represents amounts owing to the Tax Administration of Jamaica for the periods 2011 to 2016. During the year, the company accrued additional interest of \$11,913,494.
- (iii) Other accruals includes amounts related to unpaid electricity cost and other operating costs.
- (iv) Other payables include \$1,816,408 (2017: \$12,937,741) received from Sagicor Life Jamaica Limited on behalf of former employees who died intestate; these restricted funds are held in investments [note 5(i)].

12. Government of Jamaica project advances

This balance represents the net unspent portion of funds received from the Government of Jamaica (GOJ) and its agencies for the following projects:

	<u>2018</u>	<u>2017</u>
National Irrigation Development Plan (NIDP)		
- Implementation	42,705,255	42,705,225
Canal lining and other projects	(46,273,006)	28,427,531
Rain Water Harvesting Project	(11,000)	(11,000)
Government of Jamaica (GOJ) Agricultural		
Productivity Projects	26,148,173	38,164,064
Fishing Beach Projects	<u>4,258,785</u>	<u>4,258,785</u>
	<u>\$26,828,207</u>	<u>113,544,605</u>

NATIONAL IRRIGATION COMMISSION LIMITED

Notes to the Financial Statements (Continued)
Year ended March 31, 2018

13. Deferred credit

	Balance at March 31, 2016	Movement during the year	Balance at March 31, 2017	Movement during the year	Balance at March 31, 2018
Grant for acquisition of property, plant and equipment (net of disposals)	294,498,893	-	294,498,893	-	294,498,893
Property, plant and equipment gifted by Agro 21 Corp., net, in 1991	1,198,152	-	1,198,152	-	1,198,152
Property, plant and equipment gifted by Ministry of Agriculture	1,203,061	-	1,203,061	-	1,203,061
Property, plant and equipment transferred from NIDP Project	1,896,725	-	1,896,725	-	1,896,725
Property, plant and equipment, other than utility plant, gifted by district irrigation authorities	3,520,295	-	3,520,295	-	3,520,295
Utility plant acquired under CDB/IDB project and utility plant of previously unrecorded irrigation authorities capitalised during 1991	141,941,917	-	141,941,917	-	141,941,917
Utility plant acquired out of project funds	591,096,098	-	591,096,098	54,518,580	645,614,678
Revaluation surplus on inventories	1,233,211	-	1,233,211	-	1,233,211
Irrigation pipes gifted by Chinese Government	41,993,367	-	41,993,367	-	41,993,367
Computers funded by the NIDP Project	14,546,237	-	14,546,237	-	14,546,237
Global Positioning System (GPS) units funded by the NIDP Project	854,367	-	854,367	-	854,367
Motor vehicle acquired out of NIDP project funds	2,945,000	-	2,945,000	-	2,945,000
Motor vehicle gifted by the Ministry of Agriculture and Fisheries	950,000	-	950,000	-	950,000
Customer Relationship Management System (CRMS) funded by the NIDP	13,049,961	-	13,049,961	-	13,049,961
Expenditure on contracts-in-progress (net of amounts expensed out of GOJ project advances)	33,100,318	-	33,100,318	-	33,100,318
	1,144,027,602	-	1,144,027,602	54,518,580	1,198,546,182
Amortisation transferred to profit or loss	(838,745,668)	(33,899,714)	(872,645,382)	(33,633,383)	(906,278,765)
	<u>\$ 305,281,934</u>	<u>(33,899,714)</u>	<u>271,382,220</u>	<u>20,885,197</u>	<u>292,267,417</u>

The net book value of property, plant and equipment, with the cost of which the deferred credit account was increased at the date of acquisition, is eliminated from the deferred credit account on the disposal of the assets.

14. Share capital

	2018	2017
Authorised, issued and fully-paid:		
100 ordinary shares at no par value	<u>\$100</u>	<u>100</u>

15. Capital reserve

This represents previously determined revaluation surplus on property, plant and equipment which, on first-time adoption of IFRS, was deemed part of the cost of the utility plant.

NATIONAL IRRIGATION COMMISSION LIMITED

Notes to the Financial Statements (Continued)
Year ended March 31, 2018

16. Investment revaluation reserve

This represents the increase in the fair value of investments classified as available-for-sale.

17. Government of Jamaica subsidy on behalf of farmers

The purpose of this subsidy is to significantly reduce the portion of the cost of providing irrigation water to farmers which would normally be recovered from them as rates. By this means, Government subsidises irrigated agriculture.

In light of the last review conducted by the Office of Utilities Regulation, the management estimated that the subsidy would need to be \$1.048 billion (2017: \$846.5 million) in order for the Company to deliver irrigation water as required by farmers, in the context of the schemes mentioned in note 1(a). An amount of \$1.041 billion (2017: \$830.156 million) was approved by Parliament and paid to the Company.

18. Other income

	<u>2018</u>	<u>2017</u>
Amortisation of interest on concessionary loans	1,807,292	1,403,669
Foreign exchange gains on bank balances	3,470	34,085
Insurance claim settlement	4,619,093	196,040
Service fees	1,362,583	2,027,097
Miscellaneous	<u>2,045,901</u>	<u>1,553,114</u>
	<u>\$9,838,339</u>	<u>5,214,005</u>

19. Expenses by nature

	<u>2018</u>	<u>2017</u>
Amortisation of intangible asset (note 9)	1,304,966	1,304,965
Advertising and public relations	6,464,476	3,414,199
Advisory committee fees and related expenses	4,075,635	761,450
Bad debts, net of recoveries	12,150,059	18,372,757
Bank charges	1,006,582	1,015,993
Computer expenses	16,513,420	17,752,741
Depreciation (note 10)	45,458,735	41,818,062
Directors' expenses	4,561,762	4,930,115
Electricity	413,597,550	392,264,305
Equipment hireage	2,976,750	5,705,599
Fuel and lubricants	5,041,082	4,549,424
General Consumption Tax (GCT)	(211,139)	34,381,956
General expenses	5,263,483	3,838,434
Haulage	<u>2,873,462</u>	<u>2,331,250</u>
Balance carried forward	<u>521,076,823</u>	<u>532,441,250</u>

NATIONAL IRRIGATION COMMISSION LIMITED

Notes to the Financial Statements (Continued)
Year ended March 31, 2018

19. Expenses by nature (continued)

	<u>2018</u>	<u>2017</u>
Balance brought forward from page 31	521,076,823	532,441,250
Insurance	11,846,493	10,394,444
Interest and penalties	11,913,494	827,287
Interest on concessionary loans	4,669,314	1,134,231
Maintenance of conveyance system (labour)	111,154,992	103,109,475
Motor vehicle fuel, repairs and maintenance	20,723,114	18,997,459
Office maintenance, rental and property taxes	9,289,631	8,731,745
Office refreshments	4,632,229	4,152,039
Office utilities	14,107,098	11,254,954
Other expenses	183,812	265,516
Professional fees	19,623,257	23,517,822
Regulatory fees	480,000	345,000
Repairs to buildings, distribution canals, pipelines and pumps	85,381,709	63,667,491
Salaries, wages and related costs (note 23)	665,337,121	640,810,214
Security	22,284,784	18,111,906
Special projects expenses	20,343,756	1,591,491
Stationery	5,944,344	4,384,835
Subscriptions and donations	862,070	302,037
Telephone, postage, data, etc.	13,865,484	11,233,496
	<u>\$1,543,719,525</u>	<u>1,455,272,692</u>

Presented as follows:

Cost of producing water distributing it to farms	1,159,134,589	1,077,282,182
Administrative expenses	<u>384,584,936</u>	<u>377,990,510</u>
	<u>\$1,543,719,525</u>	<u>1,455,272,692</u>

20. Net finance income

	<u>2018</u>	<u>2017</u>
Finance income:		
Investments and cash and cash equivalents	204,953	356,764
Other	356,400	365,863
Interest on bank overdraft	(3,200)	-
	<u>\$558,153</u>	<u>722,627</u>

21. Taxation

- (a) The provision for income tax is computed at 33 $\frac{1}{3}$ % of the results for the year, as adjusted for tax purposes, and is made up as follows:

	<u>2018</u>	<u>2017</u>
(i) Current tax charge:		
Provision for charge on current year's profits, being actual tax charge recognised	<u>\$13,993,929</u>	<u>-</u>

NATIONAL IRRIGATION COMMISSION LIMITEDNotes to the Financial Statements (Continued)
Year ended March 31, 201821. Taxation (continued)

- (b) The actual taxation charge differs from the theoretical tax charge for the year as follows:

The effective tax rate for 2018 was 20.41% (2017: Nil%) of pre-tax surplus compared to the statutory rate of 33⅓% (2017: 33⅓%).

	<u>2018</u>	<u>2017</u>
Surplus before taxation	<u>\$68,559,698</u>	<u>2,365,609</u>
Computed "expected" tax charge	22,853,233	788,536
Tax effect of treating items differently for financial statements and tax reporting purposes -		
Depreciation, amortisation and capital allowances	8,418,211	9,090,818
Foreign exchange gain, capital	(1,157)	(11,362)
Amortisation of deferred credits	(11,211,128)	(11,299,905)
Expenses not allowed for tax purposes	3,762,181	417,702
Interest on concessionary loans	954,007	(89,813)
Tax losses	(13,993,929)	3,155,172
Other	<u>3,212,511</u>	<u>(2,051,148)</u>
Actual tax charge recognised	<u>\$13,993,929</u>	<u>-</u>

- (c) At March 31, 2018, taxation losses amounting to approximately \$213,937,000 (2017: \$257,000,000) are available for set-off against future taxable profits, subject to agreement by the Commissioner General, Tax Administration Jamaica. As at January 1, 2014, tax losses may be carried forward indefinitely; however, the amount that can be utilised in any one year is restricted to 50% of the taxable profits for that year.
- (d) Deferred tax asset of approximately \$47,950,000 (2017: \$57,740,000) in respect of taxation losses and temporary differences has not been recognised in the financial statements, due to the uncertainty that future profits will be generated within the foreseeable future against which the asset can be realised.

22. Surplus for the year

The following are among the items charged in arriving at surplus for the year:

	<u>2018</u>	<u>2017</u>
	\$	\$
Directors' emoluments		
Fees	1,725,447	1,529,850
Travelling	1,301,733	1,638,404
Other expenses	1,534,582	1,761,861
Auditors' remuneration	<u>5,950,000</u>	<u>5,700,000</u>

NATIONAL IRRIGATION COMMISSION LIMITED

Notes to the Financial Statements (Continued)
Year ended March 31, 2018

23. Employee numbers and costs

The average number of persons employed by the company during the year was as follows:

	<u>2018</u>	<u>2017</u>
Full-time	146	153
Part-time	12	31
Other	<u>46</u>	<u>18</u>
	<u>221</u>	<u>202</u>

The aggregate payroll costs for these persons were as follows:

	<u>2018</u>	<u>2017</u>
Salaries	424,731,399	419,396,632
Statutory payroll contributions	32,855,773	37,494,634
Pension benefit cost [note 8(e)]	10,070,000	14,774,000
Travel and subsistence	134,495,118	129,310,921
Gratuities	6,813,348	2,233,956
Training	6,496,310	3,582,683
Accrued vacation leave	6,963,032	(620,854)
Insurance scheme	35,691,220	31,496,473
Staff welfare	<u>7,220,921</u>	<u>3,141,769</u>
	<u>\$665,337,121</u>	<u>640,810,214</u>

24. Related party balances and transactions

Identity of related parties:

- (a) The company has a related party relationship with its associates and key management personnel, comprising directors and certain senior executives.
- (b) The statement of financial position includes balances, arising in the ordinary course of business, with related parties as follows:

	<u>2018</u>	<u>2017</u>
	\$	\$
Accounts receivable:		
Directors	1,376,271	1,275,321
Long-term receivables:		
Employee loans - key management personnel	<u>667,236</u>	<u>756,250</u>

NATIONAL IRRIGATION COMMISSION LIMITED

Notes to the Financial Statements (Continued)
Year ended March 31, 2018

24. Related party balances and transactions (continued)

- (c) The statement of profit or loss and other comprehensive income includes transactions with key management personnel in the ordinary course of business, as follows:

	<u>2018</u>	<u>2017</u>
	\$	\$
Compensation paid to other key management personnel:		
Salaries to other key management personnel	27,923,887	29,922,002
Post-employment benefits	<u>434,000</u>	<u>683,000</u>
	<u>28,357,887</u>	<u>30,605,002</u>
Interest income from key management personnel	<u>65,273</u>	<u>62,427</u>

25. Financial risk management

- (a) Overview:

The company has exposure to the following risks from its use of financial instruments and its operations:

- Credit risk
- Liquidity risk
- Market risk
- Operational 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. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the company's risk management framework. The Board has established the Audit and Risk Management Committee, which is responsible for developing and monitoring the company's risk management policies. The committee reports bi-monthly to the Board of Directors on its activities.

The company's risk management policies are established to identify and analyse the risks faced by the company, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the company's activities. The company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit and Risk Management Committee oversees management's monitoring of compliance with the company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the company. The Audit and Risk Management Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and *ad hoc* reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Management Committee.

NATIONAL IRRIGATION COMMISSION LIMITED

Notes to the Financial Statements (Continued)
Year ended March 31, 2018

25. Financial risk management (continued)

(b) Credit risk:

Credit risk is the risk of financial loss to the company, if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from cash and cash equivalents, resale agreements, trade receivables and long-term motor vehicle loans to employees.

(i) Cash and cash equivalents and investments

Cash and cash equivalents and investments are held with financial institutions which the company regards as strong.

The company limits its exposure to credit risk by investing only in liquid securities that are backed by the Government of Jamaica through established counterparties that are licensed under the Financial Institutions Act and registered with the Financial Services Commission. Consequently, management does not expect any counterparties to fail to meet their obligations. Collateral is held for resale agreements.

(ii) Trade receivables

The company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The company has a policy under which each customer is analysed before being contracted for the supply of services. Contracted customers are required to make a refundable security deposit that is based on three months projected consumption with regard to the customer's holdings. Customers that fail to meet the company's benchmark for the supply of services may transact with the company on a prepayment basis.

Credit risk is concentrated in the ten largest customers who hold more than 50 percent of the company's trade receivables.

The Director of Commercial Operations has overall responsibility for ensuring the timely collection of outstanding receivables. The Commercial Department reports on the status of collections and receivables to the Finance and Performance Management Committee monthly.

Allowances for impairment

The company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables based on pre-determined criteria. The main component of this allowance is a specific loss component that relates to individual exposures.

The allowance account in respect of trade receivables is used to record impairment losses, unless the company is satisfied that no recovery of the amount owing is possible; at that point, management obtains permission from the Minister of Agriculture and Fisheries to write off the amounts against the receivable balance directly.

NATIONAL IRRIGATION COMMISSION LIMITED

Notes to the Financial Statements (Continued)
Year ended March 31, 2018

25. Financial risk management (continued)

(b) Credit risk (continued):

(ii) Trade receivables (continued)

Exposure to credit risk

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	<u>Carrying amount</u>	
	<u>2018</u>	<u>2017</u>
St. Thomas	2,886,428	3,007,437
St. Catherine	77,999,942	79,138,096
Clarendon	25,826,855	23,323,787
St. Elizabeth	28,576,690	32,404,226
Trelawny	2,915,726	2,871,256
St. James	<u>650,884</u>	<u>525,233</u>
	<u>\$138,856,525</u>	<u>141,270,035</u>

(iii) Long-term receivable

The company grants loans to its employees to facilitate the purchase of motor vehicles. Loans are repayable over a period of 4-8 years; however, the repayment period may not exceed the expected remaining years to retirement of individual employees. Management does not expect any counterparty to fail to meet his/her obligations.

Collateral held against financial assets

Loans granted are secured by the registration of a lien on the motor vehicles acquired as well as a bill of sale. Estimates of the fair values are based on the sum insured of the collateral, at each reporting date. The fair value of these collateral as at March 31, 2018 was \$156,649,202 (2017: \$161,609,000).

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

(c) Liquidity risk:

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the company's reputation.

Typically, the company ensures that it has sufficient cash on demand to meet expected operational expenses.

NATIONAL IRRIGATION COMMISSION LIMITED

Notes to the Financial Statements (Continued)
Year ended March 31, 2018

25. Financial risk management (continued)

(c) Liquidity risk (continued):

The contractual outflow for accounts payable and accrued charges is represented by its carrying amount and may require settlement within 12 months of the reporting date. Government of Jamaica project advances represents the amounts remaining from Government grants and multilateral financing received to finance the company's capital budget as well as to undertake specific NIDP projects. Funds are received from the Government and multilateral agencies based on an approved budget.

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

(d) Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

(i) Currency risk

The company is exposed to currency risk on purchases and borrowings that are denominated in a currency other than the functional currency of the company, primarily, the United States Dollar (US\$). The company's net exposure at reporting date was:

	<u>2018</u>	<u>2017</u>
	US\$	US\$
Cash and cash equivalents	<u>5,459</u>	<u>5,301</u>

The average exchange rate for the US dollar in terms of Jamaica dollars, at March 31, 2018 was: US\$1.00 = J\$125.19 (2017: J\$128.22).

Sensitivity analysis

A 4% (2017: 6%) strengthening of the US\$ against the Jamaica dollar would have increased profit by \$27,336 (2017: \$40,782). A 2% (2017: 1%) weakening would have decreased profit by \$13,668 (2017: \$6,797). This analysis assumes that all other variables, in particular, interest rates, remain constant. The analysis is performed on the same basis as for 2017.

(ii) Interest rate risk

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

NATIONAL IRRIGATION COMMISSION LIMITED

Notes to the Financial Statements (Continued)
Year ended March 31, 2018

25. Financial risk management (continued)

(d) Market risk (continued):

(ii) Interest rate risk (continued)

Profile

At the reporting date, the interest rate profile of the company's interest-bearing financial instruments were at fixed rate and are carried at cost as follows:

	<u>Carrying amount</u>	
	<u>2018</u>	<u>2017</u>
Resale agreements	10,318,478	21,289,226
Employee loans	<u>11,915,919</u>	<u>10,224,734</u>
	<u>\$22,234,397</u>	<u>31,513,960</u>

All the company's interest-bearing financial instruments are carried at fixed rates and are not fair valued; therefore a change in interest rate will not affect the carrying value if the financial instruments or the company's cashflows.

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

(e) Operational risk:

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the company's operations.

The company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. This responsibility is supported by the development of overall company standards for the management of operational risk, including the following:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

NATIONAL IRRIGATION COMMISSION LIMITED

Notes to the Financial Statements (Continued)
Year ended March 31, 2018

25. Financial risk management (continued)

(e) Operational risk (continued):

Compliance with the company's standards is supported by a programme of periodic reviews undertaken by the internal audit unit. The results of internal audit reviews are discussed with management, with summaries submitted to the Board of Directors, the Audit Committee and senior management of the company, and action is taken to deal with the matters reported.

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

(f) Capital management:

The company is not subject to any externally imposed capital requirements.

It is the Board's policy to maintain a strong capital base so as to sustain the future operation of the company. The Board of Directors monitors the return on capital, which the company defines as total equity.

26. Fair values

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.

Determination of fair value and fair value hierarchy

IFRS specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. The different levels have been defined as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Discounted cash flow technique using a discount rate from observable market data, i.e. average of several brokers/dealers market indicative yields in active markets for identical assets or liabilities.

Level 3 – Valuation techniques using significant unobservable inputs.

The fair values of cash and cash equivalents, accounts receivable and accounts payable are assumed to approximate to their carrying values, due to their short-term nature.

The fair value of long-term receivable approximates to its carrying value as no discount is expected on settlement.

The fair values of resale agreements included in investments approximate their carrying values due to their short-term nature. The units held in NCB Capital Markets CAPFunds (note 5) are classified as Level 2 in the fair value hierarchy.

NATIONAL IRRIGATION COMMISSION LIMITEDNotes to the Financial Statements (Continued)
Year ended March 31, 201827. Contingent liabilities

- (a) There are a number of claims against the company by various third parties. The claims are at different stages and appropriate provision are made in these financial statements when management believes that the company will be unsuccessful in its defence.
- (b) A claim was made against the company by an ex-employee in which the court awarded cost to the ex-employee. An amount of \$3,784,256 (2017: \$3,784,256) is included in accounts payable (note 11) pending any claims.

28. Capital commitments

Commitments for capital expenditure were as follows:

	<u>2018</u>	<u>2017</u>
Capital commitments	<u>\$6,500,000</u>	<u>72,591,298</u>

29. Prior year adjustments

- (a) In the previous years, the company did not account for the employer's portion of education tax which became due and payable on the amendment of section 7(i) of the Education Tax Act (2003). The amounts due as of March 31, 2011 and subsequent years, including interest of \$93.35M have now been recognised.
- (b) In the previous years, the company accounted for its payment of input tax for General Consumption Tax purposes on the cash basis. On a monthly basis, the company would accumulate its charges for input tax and submit the information to its responsible Ministry, which would make the payments; these were accounted for as part of its subvention. During the prior financial year, the responsible Ministry redirected this responsibility to the company to pay its input tax. At the reporting date, the company applied the accruals basis in accounting for this liability. This resulted in an accrual of \$35.42M as at March 31, 2017, of which \$8.44M relates to prior years, and was appropriately recognised in the financial statements.



NATIONAL IRRIGATION COMMISSION LIMITED

SUPPLEMENTARY INFORMATION TO THE
FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2018

NATIONAL IRRIGATION COMMISSION LIMITED

Government of Jamaica Project Advances As at and for year ended March 31, 2018

PROJECTS	At beginning of year	Received during year	Total	Capital work	Expenditure capitalised	Non-capital expenditure	Capital 'B' expenditure	Capital funds utilised for deposits on property, plant and equipment	2018	2017
Non Such Agro Park, St. Mary (Account #454120-00-00)	1,670,635	-	1,670,635	(2,314,512)	-	-	-	-	(643,877)	(643,877)
Construction of Dam	14,143,538	-	14,143,538	(50,000)	(14,022,668)	(30,245)	-	-	40,625	40,625
Hounslow	2,198,189	-	2,198,189	-	-	(2,198,189)	-	-	-	-
Lining of Canals	413,175,055	150,000,000	563,175,055	(23,143,495)	(164,492,610)	(388,809,945)	-	(33,002,012)	(46,273,007)	40,296,153
National Irrigation	1,651,435,748	-	1,651,435,748	-	-	-	(1,608,245,522)	-	43,190,226	43,190,226
Development Plan										
National Irrigation										
Development Plan										
- Implementation	448,435,563	-	448,435,563	-	-	-	(448,920,563)	-	(485,000)	(485,000)
IDB Well sites	485,000	-	485,000	-	-	-	-	-	485,000	485,000
Other capital projects	254,444,544	-	254,444,544	-	(187,221,888)	(40,805,819)	-	-	26,416,837	26,416,837
Agro. Parks Projects	30,000,000	-	30,000,000	(39,567,158)	-	(4,111,350)	-	-	(13,678,488)	(13,678,488)
Joint Venture- New-										
Era rehab infrastructure	2,701,354	-	2,701,354	-	-	(528,773)	-	-	2,172,581	2,172,581
Ext. Block E Pipeline	2,639,774	-	2,639,774	-	(2,547,798)	-	-	-	91,976	91,976
Rain Water -										
Harvesting Project	12,896,074	-	12,896,074	-	-	(12,907,074)	-	-	(11,000)	(11,000)
Energy Saving Projects	6,042,125	-	6,042,125	-	-	(8,006,974)	-	-	(1,964,849)	(1,964,849)
Vernamfield Irrigation-										
System Project Phase 1	65,700,000	-	65,700,000	(13,065,725)	-	(44,284,849)	-	-	8,349,426	8,374,426
Fishing Beach Projects	70,000,000	-	70,000,000	-	-	(65,741,215)	-	-	4,258,785	4,258,785
Port Henderson re Lift Pump -										
Station-STU	6,500,000	-	6,500,000	(6,104,837)	-	-	-	-	395,163	448,826
PGR Pump House										
Construction-STU	2,090,000	-	2,090,000	(2,231,820)	-	-	-	-	(141,820)	(141,820)
Ebony Park filtration										
system-STU	3,403,532	-	3,403,532	(3,345,820)	-	-	-	-	57,712	126,288
Wind Monitoring Project	5,174,718	-	5,174,718	-	-	(5,213,557)	-	-	(38,839)	(38,839)
Vernam Irrigation System										
Phase 2	4,400,000	-	4,400,000	(560,000)	-	-	-	-	3,840,000	3,840,000
JBI Project Funds-										
Schwallenburgh Green										
House	2,431,128	-	2,431,128	(1,664,372)	-	-	-	-	766,756	766,755
	<u>\$2,999,966,977</u>	<u>150,000,000</u>	<u>3,149,966,977</u>	<u>(92,047,739)</u>	<u>(368,284,964)</u>	<u>(572,637,970)</u>	<u>(2,057,166,085)</u>	<u>(33,002,012)</u>	<u>26,828,207</u>	<u>113,544,605</u>

NATIONAL IRRIGATION COMMISSION LIMITED

Expenses

Year ended March 31, 2018Cost of producing and distributing water to farm gates

	<u>2018</u>	<u>2017</u>
Depreciation	45,458,735	41,818,062
Electricity	413,597,550	392,264,305
Equipment hireage	2,976,750	5,708,599
Fuel and lubricants	5,041,082	4,549,424
General expenses	5,263,483	3,842,215
General insurance	6,294,835	8,432,689
Haulage	2,873,462	2,331,250
Maintenance of conveyance system (labour)	111,154,992	103,109,475
Motor vehicle fuel, repairs and maintenance	19,942,545	15,064,075
Telephone, postage, data, etc.	4,002,291	3,198,337
Office refreshments	2,964,023	2,474,862
Stationery	2,596,371	2,059,003
Computer expenses	1,021,448	1,670,856
Bank charges	121,720	131,438
Regulatory fees	480,000	345,000
Office rent and property taxes	1,463,000	1,483,000
Office utilities	8,286,814	6,916,909
Advisory committee fees and related expenses	4,075,635	761,450
Professional fees	2,499,527	1,314,583
Repairs to buildings, distribution canals, pipelines, pumps, etc. (material)	85,381,709	63,667,491
Salaries, wages and related costs (see below)	410,769,515	405,510,994
Security	<u>22,869,102</u>	<u>10,628,165</u>
Total cost of producing and distributing water	<u>\$1,159,134,589</u>	<u>1,077,282,182</u>
<u>Salaries, wages and related costs</u>		
Personnel emoluments	258,389,366	272,837,174
Insurance scheme	26,285,067	22,898,166
Statutory contributions	19,928,678	12,662,715
Staff welfare	4,488,115	2,045,424
Accrued vacation leave	4,331,978	1,252,279
Travel and subsistence	94,518,380	92,694,564
Training	<u>2,827,931</u>	<u>1,120,672</u>
	<u>\$ 410,769,515</u>	<u>405,510,994</u>

NATIONAL IRRIGATION COMMISSION LIMITED

Expenses (Continued)

Year ended March 31, 2018Salaries, wages and related costs included in administrative expenses

	<u>2018</u>	<u>2017</u>
Personnel emoluments	166,342,032	146,559,458
Pension benefit cost (net of contribution)	10,070,000	14,774,000
Insurance scheme	9,406,155	8,598,307
Statutory contributions	12,927,095	24,831,919
Vacation leave	2,631,054	(1,873,133)
Gratuities	4,581,764	2,233,956
Staff welfare	2,732,807	1,096,345
Training	3,668,379	2,462,011
Travel and subsistence	<u>39,976,738</u>	<u>36,616,357</u>
	<u>\$253,336,024</u>	<u>235,299,220</u>