

**SOLOMON ISLANDS PORTS AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2018**

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**Solomon Islands Ports Authority
Directors' report
For the year ended 30 September 2018**

The Board of directors present their report together with the financial statements of the Solomon Islands Ports Authority ("the Authority") for the year ended 30 September 2018 and the auditors' report thereon.

Directors

The Board of directors in office during the financial year and at the date of this report were:

Name

Mr. Billy Titiulu (Chairman)
Mr. Henry Murray (Vice Chairman)
Mr. Michael Aihikau (Deceased 14/06/2018)
Mr. Humphrey Tura
Mr. Johnny Sy

State of affairs

In the opinion of the Directors:

- there were no significant changes in the state of affairs of the Authority during the financial year under review not otherwise disclosed in this report or the financial statements;
- the accompanying statement of financial position gives a true and fair view of the state of affairs of the Authority as at 30 September 2018 and the accompanying statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows give a true and fair view of the results, changes in equity and cash flow, of the Authority for the year then ended.

Principal activities

The principal activities of the Authority is providing and managing the port infrastructure and services in the declared ports.

Results

The net profit of the Authority for the year ended 30 September 2018 was \$88,092,780 (2017: \$77,304,529).

Going Concern

The directors believe that the authority will be able to continue to operate for atleast 12 months from the date of this report.

Reserves

There were no transfers of reserves in the statement of changes in equity during the year.

Dividends

No dividends have been paid or declared since the end of the previous financial year, and the Directors do not recommend the declaration of a dividend.

Assets

The Directors took reasonable steps before the Authority's financial statements were made out to ascertain that the assets of the Authority were shown in the accounting records at a value equal to or below the value that would be expected to be realised in the ordinary course of business.

At the date of this report, the Directors were not aware of any circumstances which would render the values attributable to the assets in the financial statements misleading.

**Solomon Islands Ports Authority
Directors' report (continued)
For the year ended 30 September 2018**

Bad and Doubtful debts

The Board members took reasonable steps before the Authority's financial statements were made out to ascertain that all known bad debts were written off and adequate provision was made for doubtful debts.

At the date of this report, the Board members are not aware of any circumstances which would render the amount written off for bad debts, or the amount of the provision for doubtful debts, inadequate to any substantial extent.

Directors' benefit

No director of the Authority has, since the last financial year, received or become entitled to receive any benefit (other than benefits included in the amount of emoluments or shown in the financial statements under related party note) by reason of a contract made with the Authority or a related corporation with the director or with a firm of which he is a member or with a company in which a director has a substantial financial interest.

Unusual transactions

The results of the Authority's operations during the financial period have not, in the opinion of the directors been substantially affected by any item, transaction or event of a material and unusual nature other than those disclosed in the financial statements.

Events subsequent to balance date

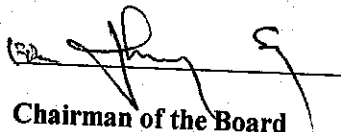
There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Authority, to affect significantly the operations of the Authority, the results of those operations, or the state of affairs of the Authority, in future financial years.

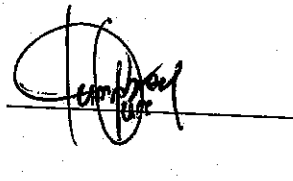
Other circumstances

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or financial statements which render amounts stated in the financial statements misleading.

Dated at Honiara this 13th of March 2019.

Signed in accordance with a resolution of the Board of Directors:


Chairman of the Board

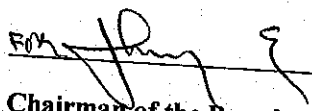

Director

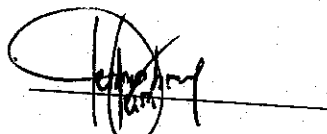
**Solomon Islands Ports Authority
Statement by Directors
For the year ended 30 September 2018**

In the opinion of the Directors:

- (a) the accompanying statement of profit or loss and other comprehensive income is drawn up so as to give a true and fair view of the results of the Authority for the year ended 30 September 2018;
- (b) the accompanying statement of financial position is drawn up so as to give a true and fair view of the state of affairs of the Authority as at 30 September 2018;
- (c) the accompanying statement of changes in equity is drawn up so as to give a true and fair view of the changes in equity of the Authority for the year ended 30 September 2018;
- (d) the accompanying statement of cash flows is drawn up so as to give a true and fair view of the cash flows of the Authority for the year ended 30 September 2018;
- (e) at the date of this statement there are reasonable grounds to believe the Authority will be able to pay its debts as and when they fall due;
- (f) all related party transactions have been adequately recorded in the books of the Authority, and
- (g) the financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRS").

For and on behalf of the Board of Directors by authority of a resolution of the Directors this13th..... of
..... March..... 2019.


Chairman of the Board


Director



**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE SOLOMON ISLANDS
PORTS AUTHORITY.**

Opinion

I have in joint consultation with the Board of the Solomon Islands Ports Authority ("the Authority") pursuant to Section 23(3) of the Ports Act (Cap. 161) contracted KPMG Fiji which is part of the KPMG International network to assist me to audit the accompanying financial statements of Solomon Islands Ports Authority, which comprise the statements of financial position as at 30 September 2018, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes 1 to 24 comprising of a summary of significant accounting policies and information.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Authority as at 30 September 2018, and of its financial performance, its changes in equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

I conducted the audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Authority in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to my audit of the financial statements and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of Management and Directors for the Financial Statement

Management are responsible for the preparation and fair presentation of the financial statements in accordance with IFRS 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 Authority'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 Authority or to cease operations, or has no realistic alternative but to do so.

The Directors of the Authority are responsible for overseeing the Authority's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

My 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 my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (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, I exercise professional judgment and maintain professional skepticism throughout the audit. I 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 my 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.
- 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 Authority'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 Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusion is based on the audit evidence obtained up to the date of my auditor's report; and
- 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.


I communicate with the Directors of the Authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identified during my audit.

Report on Other Legal and Regulatory Requirements

I have obtained all the information and explanations which, to the best of my knowledge and belief, are necessary for the purposes of my audit.

In my opinion:

- i.) proper books of account have been kept by the Authority, sufficient to enable financial statements to be prepared, so far as it appears from my examination of those books; and
- ii) to the best of my knowledge and according to the information and explanations given to us the financial statements give the information required by the Section 23(3) of the Ports Act (Cap 161), in the manner so required.
- iii) the Authority has not complied with the requirements of the *Public Finance and Audit Act [Cap 120]* and the *State Owned Enterprises Act 2007* which requires the audited financial statements to be submitted to the Minister before 31 December of the same year to which the financial statements relate. The signed statements were not presented to me until 22 March 2019.


Peter Lokay

Auditor-General

Date: 29 March 2019

Office of the Auditor-General
Honiara, Solomon Islands

Solomon Islands Ports Authority
Statement of profit or loss and other comprehensive income
For the year ended 30 September 2018

	Note	2018 \$	2017 \$ (Restated) ¹
Revenue			
Other income	5	205,932,973	195,275,908
Change in fair value of investment properties	6	20,968,817	15,263,032
Release of deferred revenue	14	1,583,407	-
Operational expenses	18	3,510,258	3,510,258
Administrative and other operating expenses	7	(63,821,715)	(65,527,067)
Profit from operations	8	<u>(81,363,047)</u>	<u>(72,129,808)</u>
		<u>86,810,693</u>	<u>76,392,323</u>
Finance income			
Finance cost		1,379,479	973,879
Net finance cost		<u>(97,392)</u>	<u>(61,673)</u>
		1,282,087	912,206
Net profit before tax		<u>88,092,780</u>	<u>77,304,529</u>
Income tax			
Net profit for the year	3 (g)	<u>-</u>	<u>-</u>
Other comprehensive income		<u>88,092,780</u>	<u>77,304,529</u>
		<u>-</u>	<u>-</u>
Total comprehensive income for the year		<u>88,092,780</u>	<u>77,304,529</u>


The abovestatement of profit or loss and other comprehensive incomes should be read in conjunction with the accompanying notes set out on pages 11-26.

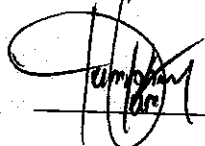
¹Refer to note 23

Solomon Islands Ports Authority
Statement of financial position
As at 30 September 2018

		2018 \$	2017 \$ (Restated) ¹	2016 \$ (Restated) ¹
ASSETS				
Current assets				
Cash and cash equivalents	Note 10	180,255,739	180,350,948	138,902,849
Trade and other receivables	11	60,311,905	51,108,952	37,777,951
Inventories	12	715,987	1,026,721	2,338,135
Investments	13	50,984,115	20,984,115	984,115
Total current assets		<u>292,267,746</u>	<u>253,470,736</u>	<u>180,003,050</u>
Non-current assets				
Investment property	14	35,054,383	31,668,476	31,668,476
Property, plant and equipment	15	508,118,215	479,179,347	473,361,709
Total non-current assets		<u>543,172,598</u>	<u>510,847,823</u>	<u>505,030,185</u>
Total assets		<u>835,440,344</u>	<u>764,318,559</u>	<u>685,033,235</u>
LIABILITIES				
Current liabilities				
Trade and other payables	16	14,056,354	28,992,888	26,215,302
Employee benefits	17	9,189,699	8,100,278	6,200,512
Deferred revenue	18	3,510,258	3,510,258	3,510,258
Total current liabilities		<u>26,756,311</u>	<u>40,603,424</u>	<u>35,926,072</u>
Non-current liabilities				
Employee benefits	17	1,316,814	930,438	116,736
Deferred revenue	18	164,689,586	168,199,844	171,710,102
Total non-current liabilities		<u>166,006,400</u>	<u>169,130,282</u>	<u>171,826,838</u>
Total liabilities		<u>192,762,711</u>	<u>209,733,706</u>	<u>207,752,910</u>
Net assets		<u>642,677,633</u>	<u>554,584,853</u>	<u>477,280,325</u>
EQUITY				
SIG equity contribution		402,824	402,824	402,824
Retained earnings		393,451,594	305,358,814	228,054,286
Asset revaluation reserves		248,823,215	248,823,215	248,823,215
Total equity		<u>642,677,633</u>	<u>554,584,853</u>	<u>477,280,325</u>

Signed in accordance with the resolution of the Board of Directors:


 Chairman of the Board


 Director

The above statement of financial position should be read in conjunction with the accompanying notes set out on pages 11-26.

¹Refer to note 23

Solomon Islands Ports Authority
Statement of changes in equity
For the year ended 30 September 2018

	Solomon Island Government contribution \$	Asset revaluation reserve \$	Retained earnings \$	Total \$
Balance as at 1 October 2016 (as previously reported)	402,824	248,823,215	259,899,902	509,125,941
Adjustment (refer note 23)	-	-	(31,845,616)	(31,845,616)
Restated balance as at 1 October 2016	402,824	248,823,215	228,054,286	477,280,325
Total comprehensive income for the year				
Net profit for the year (restated)	-	-	77,304,529	77,304,529
Other comprehensive income	-	-	-	-
Restated balance as at 30 September 2017	402,824	248,823,215	305,358,815	554,584,854
Restated balance as at 1 October 2017	402,824	248,823,215	305,358,815	554,584,854
Total comprehensive income for the year				
Net profit for the year	-	-	88,092,779	88,092,779
Other comprehensive income	-	-	-	-
Balance as at 30 September 2018	402,824	248,823,215	393,451,594	642,677,633

The above statement of changes in equity should be read in conjunction with the accompanying notes set out on pages 11-26.

Solomon Islands Ports Authoritys
Statement of cash flows
For the year ended 30 September 2018

	Note	2018 \$	2017 \$
Cash flow from operating activities			
Receipts from customers		210,594,098	197,063,682
Payments to suppliers and employees		(130,089,084)	(95,614,237)
Bank fees paid		(97,392)	(61,673)
Interest received		1,044,124	209,436
Net cash flows from operating activities		<u>81,451,746</u>	<u>101,597,208</u>
Cash flow used in investing activities			
Acquisition of investment securities		(30,000,000)	(20,000,000)
Acquisition of property, plant and equipment		(51,561,887)	(40,149,109)
Proceeds from disposal of property, plant and equipment		14,932	-
Net cash flows (used in) investing activities		<u>(81,546,955)</u>	<u>(60,149,109)</u>
Cash flow from financing activities			
Dividend paid		-	-
Borrowings repayment		-	-
Cash flows from financing activities		<u>-</u>	<u>-</u>
Net (decrease) / increase in cash and cash equivalents		<u>(95,209)</u>	<u>41,448,099</u>
Cash and cash equivalents at the beginning of the year		180,350,948	138,902,849
Cash and cash equivalents at the end of the financial year		<u>180,255,739</u>	<u>180,350,948</u>

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The above statement of cash flows should be read in conjunction with the accompanying notes set out on pages 11-26.

Solomon Islands Ports Authority
Notes to and forming part of the financial statements
For the year ended 30 September 2018

1. General information

The Solomon Islands Ports Authority ("the Authority") is domiciled in the Solomon Islands.

The principal activities of the Authority is providing and managing the port infrastructure and services in the declared ports. The Authority's principal place of operations is located at Dowling Drive, Honiara, Solomon Islands.

The financial statements were authorised for issue by the Board of Directors on
...13th March.....2019.

2. Basis of preparation

(a) Statement of compliance

The financial statements of the Authority have been prepared in accordance with International Financial Reporting Standards ('IFRS') and the provisions of the Ports Act (CAP.161).

(b) Basis of measurement

The financial statements have been prepared under the historical cost basis and do not take into account changes on money values except for investment property and land & buildings in property, plant and equipment which is matured at fair value. Non-current assets are stated at the lower of carrying amount and fair value less costs to sell.

(c) New standards and interpretations not yet adopted

The following standards, amendments and interpretations to existing standards have been published which are relevant to the Authority and are mandatory for accounting periods beginning on and after 1 October 2018, but the Authority does not plan to early adopt them. The impact of these standards and interpretations on the financial statements of the Authority has not yet been fully determined.

IFRS 16 'Leases', removes the classification of leases as either operating leases or finance leases – for the lessee – effectively treating all leases as finance leases. Short-term leases (less than 12 months) and leases of low-value assets (such as personal computers) are exempt from the lease accounting requirements. There are also changes in accounting over the life of the lease. In particular, companies will now recognise a front-loaded pattern of expense for most leases, even when they pay constant annual rentals. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. The standard is effective for annual reporting periods beginning on or after 1 January 2019, with early adoption permitted.

IFRS 15 'Revenue from contracts with customers', replaces existing revenue recognition guidance, including IAS 18 'Revenue', IAS 11 'Construction Contracts' and IFRIC 13 'Customer Loyalty Programmes' and establishes a comprehensive framework for determining whether, how much and when revenue is recognised. The standard is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

IFRS 9, published in July 2014 replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carried forward the guidance on recognition and derecognition of financial instruments from IAS 39. The standard is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

Solomon Islands Ports Authority
Notes to and forming part of the financial statements
For the year ended 30 September 2018

2. Basis of preparation (continued)

(d) Use of estimates and judgment

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 3 (h) – Investment properties revaluation
- Note 3 (e) – Trade and other receivables
- Note 3 (l) – Employee benefits

(e) Changes in accounting policy and disclosures

During the financial year, the directors and management resolved to change the accounting policy adopted for long-term benefit such as long-service and early retirement leave.

Prior to May 2018, liabilities for these long-term employees entitlements were accrued in respect of all employees at the present value of the future amounts expected to be paid but these were not expected to be settled or paid until an employee had served 25 years of continuous employment service. In May 2018, the Directors and management resolved that employees can utilize their long-service leave that have been accrued once the employee has served at least 5 years of employment.

The effects of the changes in accounting policy is noted in 23.

3. Statement of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in the financial statements.

(a) Foreign currency translation

(i) Functional and presentation currency

The functional currency adopted in the preparation of the financial statements is the Solomon Islands currency, the Solomon Islands dollar which is also the Authority's presentation currency. All amounts have been rounded to the nearest dollar, unless otherwise indicated.

(ii) Foreign Currency Translation

Transactions in foreign currencies are translated to Solomon Islands dollar at the exchange rates prevailing at the date of the transaction. Foreign exchange differences arising on translation are recognised in profit or loss. Foreign currency monetary assets and liabilities are translated at the exchange rate prevailing at balance date. Resulting exchange differences are recognised in profit or loss for the year. Non-monetary assets and liabilities denominated in foreign currency are recorded at the exchange rate prevailing at the date of the transaction.

Solomon Islands Ports Authority
Notes to and forming part of the financial statements
For the year ended 30 September 2018

3. Statement of significant accounting policies (continued)

(b) Property plant and equipment

Items of property, plant and equipment are initially measured at cost less accumulated depreciation and any accumulated impairment losses. Land and buildings are initially recognised at cost less accumulated depreciation and subsequently revalued to fair value.

Costs includes expenditures that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Any gain or loss on disposal of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the asset at the time of disposal) is recognised in profit or loss.

Subsequent expenditure

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Authority. Routine ongoing repairs and maintenance are expensed as incurred.

Depreciation

Items of property, plant and equipment are depreciated from the date they are available for use. Depreciation is charged on a straight line basis over the estimated useful lives of the assets.

The rates of depreciation used are based on the following estimated useful lives:

Leasehold land and properties	Over the period of lease
Land and buildings	10 to 50 years
Wharves and jetties	5 to 50 years
Vehicles	5 to 15 years
Plant and equipment	5 to 15 years

Deferred income

Property, plant and equipment acquired with the aid of specific grants are capitalised and depreciated in accordance with the above policy, with the related grant being credited to the deferred income as a liability and released to profit or loss over the expected useful economic life of the related property, plant and equipment.

(c) Impairment

The carrying amounts of all assets are reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists, then the assets recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of profit or loss, unless an asset has previously been devalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss.

(d) Inventory

Inventory are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventory is based on the first-in-first-out basis.

Solomon Islands Ports Authority
Notes to and forming part of the financial statements
For the year ended 30 September 2018

3. Statement of significant accounting policies (continued)

(e) Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables. When a receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited to other income in profit or loss.

(f) Revenue recognition

i. Rendering of port services

Revenue from providing all port services and managing port infrastructure is recognised on an accrual basis as services were rendered. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the entity and revenue can be reliability measured.

(g) Tax expense

The Authority is exempt from income tax pursuant to Schedule 3 of the Solomon Islands Income Tax Act, which states that the Authority is exempt from tax on the condition that income is not derived from haulage, sea transport or from the provision of warehousing in a warehouse appointed as a private warehouse under Section 2 of the Customs and Excise Act.

(h) Investment properties revaluation

Investment property is initially recorded at cost and subsequently at fair value with any change therein recognised in profit and loss. When investment property previously was classified as property, plant and equipment is sold any related amount included in the asset revaluation reserve is transferred to retained earnings.

Any gain or loss on disposal of investment property (calculated as the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

Investment property rental income

Rental income from investment property is recognised as other income on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

(i) Trade and other payables

Liabilities for trade payable and other amounts are credited at the fair value of the consideration to be paid in the future for goods and services received whether or not billed to the Authority. A provision is recognized in the statement of financial position when the Authority has legal or constructive obligation as a result of past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(j) Investments

Investments are non derivate assets with a fixed or determinable payments fixed maturity that the Authority has a positive intent and ability to hold to maturity. Investments are carried at amortised cost using the effective interest method. Investments comprise of term deposits and since they are not quoted in an active market they are classified as loans and receivables.

Solomon Islands Ports Authority
Notes to and forming part of the financial statements
For the year ended 30 September 2018

3. Statement of significant accounting policies (continued)

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and term deposits with the original maturity of less than three months. Bank overdrafts that are repayable on demand and form an integral part of SIPA's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(l) Employee benefit

Short-term employee benefits

Short-term employee benefits comprising of accrued wages and salaries, bonus, annual leave and entitlement to Solomon Islands National Provident Fund are measured on an undiscounted basis and are expensed as the related service is provided.

Liabilities recognised in respect of short-term employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Long-term employee benefits

Long-term employee benefits comprises of long service leave and early retirement benefit.

The Authority's net obligation in respect of long-term employee benefits is the amount of future benefits that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value.

Solomon Islands Ports Authority
Notes to and forming part of the financial statements
For the year ended 30 September 2018

3. Statement of significant accounting policies (continued)

(m) Operating leases

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense and spread over the lease term

(n) Net financial costs

Finance income comprises of interest earned on investments and operating bank accounts. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Financial costs comprise of bank charges and interest paid on overdraft accounts.

(o) Goods and sales tax

Revenue, expenses and assets are recognised net of the amount of goods and sales tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable or payable is included as a current asset or liability in the statement of financial position.

(p) Comparative figures

Where necessary, comparative figures have been changed to conform to changes in presentation in the current year.

4. Financial risk management

Overview

The Authority has exposure to the following risks:

- (i) credit risk;
- (ii) liquidity risk; and
- (iii) market risk.

This note presents information about the Authority's exposure to each of the above risks, the Authority's objectives, policies and processes for measuring and managing risk, and the Authority's management of capital. Further quantitative disclosures are included throughout these financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Authority's risk management framework. The Authority's risk management policies are established to identify and analyse the risks faced by the Authority, 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 Authority's activities.

(i) Credit risk

Credit risk is the risk of financial loss to the Authority if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Authority's cash at bank and receivables.

The carrying amount of financial assets represents the maximum credit exposure.

The Authority's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Authority's customer base, including the default risk of the industry as these factors may have an influence on credit risk.

Solomon Islands Ports Authority
Notes to and forming part of the financial statements
For the year ended 30 September 2018

4. Financial Risk Management (continued)

(i) Credit risk (continued)

Trade and other receivables

In monitoring customer credit risk, customers are grouped according to their credit characteristics, aging profile, maturity and existence of previous financial difficulties. Trade and other receivables relate mainly to the Authority's corporate customers. The Authority establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures. The Authority does not require collateral in respect of financial assets. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The Authority has credit risk arising from credit exposure to customers, including outstanding receivables. The level of credit granted is regularly monitored.

	Note	2018 \$	2017 \$
Cash and cash equivalents		180,248,645	180,350,730
Trade and other receivables	11	60,311,905	51,108,952
Investments	13	50,984,115	20,984,115
		<u>291,544,665</u>	<u>252,443,797</u>

As at 30 September 2018, the aging of gross trade receivables was as follows:

	2018 \$	2017 \$
Neither past due nor impaired	571,928	1,018,925
Past due 1-30 days	13,587,661	8,307,412
Past due 31-60 days	13,166,012	7,699,375
Past due 61-90 days	3,788,492	2,353,222
Past due greater than 90 days	19,375,288	14,533,343
	<u>50,489,381</u>	<u>33,912,277</u>

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

	2018 \$	2017 \$
Balance at 1 October	7,107,899	5,928,723
Allowance for doubtful debt recognised	2,521,649	1,179,176
Balance as 30 September	<u>9,629,548</u>	<u>7,107,899</u>

(ii) Liquidity risk

Liquidity risk is the risk that the Authority will not be able to meet its financial obligations as they fall due. The Authority'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 Authority's reputation. Liquidity risk is considered minimal as all liabilities of the Authority are payable within 12 months.

(iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Authority'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. Market risk is considered minimal for the Authority.

Solomon Islands Ports Authority
Notes to and forming part of the financial statements
For the year ended 30 September 2018

4. Financial Risk Management (continued)

(iii) Market risk (continued)

Currency risk

The Authority is exposed to currency risk to the extent that there is a mismatch between the currencies in which purchases, and borrowings are denominated and the respective functional currencies. The Authority does not have significant exposure to currency risk.

(iv) Capital management

The Authority's capital includes Solomon Islands Government contribution, asset revaluation reserves and retained earnings.

The Authority's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of the business. The Authority is not subject to any externally imposed capital requirements. There have been no material changes in the Authority's management of capital during the year.

The Authority's adjusted net debt to equity ratio as at 30 September was as follows:

	Note	2018 \$	2017 \$ (Restated)
Total liabilities		192,359,512	209,733,706
Less: cash and cash equivalents ¹⁰		(180,255,739)	(180,350,948)
Adjusted net debt		<u>12,103,773</u>	<u>29,382,758</u>
Total equity		660,220,290	569,016,630
Adjusted net debt to equity ratio		<u>1.8%</u>	<u>5.1%</u>

Solomon Islands Ports Authority
Notes to and forming part of the financial statements
For the year ended 30 September 2018

	2018 \$	2017 \$ (Restated)
5. Revenue		
Anchorage	361,698	390,198
Berthage - overseas ship	13,653,182	13,567,541
Container cleaning	3,533,317	3,931,602
Handling	15,307,976	12,441,203
Port machinery hire	12,333,833	11,971,065
Pilotage and mooring line fees	22,317,484	23,846,985
Port dues	1,037,377	1,208,988
Stevedoring	55,783,436	51,866,794
Storage	21,593,475	19,803,290
Tonnage dues	42,062,836	39,991,513
Wharfage	11,500,971	10,113,269
Port utilisation	6,447,388	6,143,460
	<u>205,932,973</u>	<u>195,275,908</u>
6. Other income		
Environment fee – overseas ships	337,262	239,199
Investment property rental income	6,110,495	6,382,468
Overtime recovery and rations	8,169,519	2,686,739
Power and water sales	1,933,378	1,152,370
Wharf entry fees	4,286,079	4,802,256
Other income	132,084	-
	<u>20,968,817</u>	<u>15,263,032</u>
7. Operational expenses		
Depreciation	21,044,394	19,705,735
Electricity and water	3,113,270	2,979,687
Employees amenities	94,378	877,396
Fuel	3,427,929	3,760,422
Insurance	1,036,200	1,862,563
Personnel expenses	33,462,984	29,253,648
Repair and maintenance	472,878	188,708
Uniforms	5,040	3,579,640
Other costs of sales	1,164,642	3,319,268
	<u>63,821,715</u>	<u>65,527,067</u>

Solomon Islands Ports Authority
Notes to and forming part of the financial statements
For the year ended 30 September 2018

	Note	2018 \$	Restated 2017 \$
8. Administrative and other operating expenses			
Auditors remuneration		300,000	850,164
Bad and doubtful debts		3,131,919	1,179,176
Computer consumables		1,962,450	278,893
Consultancy services		374,492	7,285,912
Depreciation		2,338,266	2,323,577
Board of director's expenses	20	2,735,732	2,127,959
Electricity and water		3,367,980	4,225,166
Land rents and rates		3,022,548	3,089,904
Legal expenses		127,759	(1,529,032)
Personnel expenses		45,883,399	33,183,673
Postage, telephone and fax		1,691,941	1,751,341
Printing and stationeries		946,753	1,090,837
Repairs and maintenance		4,671,457	3,691,226
Travel allowances		5,046,982	4,669,672
Entertainment		613,677	587,152
Donation		825,507	538,332
Write-off of work in progress		-	4,958,978
Write-off deposit on asset		2,535,996	-
Other operating expenses		1,786,189	1,826,878
		<u>81,363,047</u>	<u>72,129,808</u>
9. Personnel expenses			
Salaries and wages		39,621,910	32,129,947
National Provident Fund		4,053,554	2,527,316
Other staff benefits and costs		35,670,919	27,780,058
		<u>79,346,383</u>	<u>62,437,321</u>
The average total number of employees during the year ended 30 September 2018 was 471 (2017: 498).			
10. Cash and cash equivalents			
For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:			
Cash at bank		169,882,078	170,150,472
Short term deposit with original maturity less than 3 months		10,366,567	10,200,258
Cash on hand		7,094	218
		<u>180,255,739</u>	<u>180,350,948</u>
Short term deposits are held with Pacific Oceanic Bank at an interest rate of 2% maturing in October 2018.			
11. Trade and other receivables			
Trade receivables		50,489,381	33,912,277
Less allowance for doubtful debts	4 (i)	(9,629,548)	(7,107,899)
		<u>40,859,833</u>	<u>26,804,378</u>
Prepayments		9,139,321	14,057,766
Other receivables		8,729,656	8,663,713
Over-payment ADB loan		1,583,095	1,583,095
		<u>60,311,905</u>	<u>51,108,952</u>
12. Inventories		<u>715,987</u>	<u>1,026,721</u>

Solomon Islands Ports Authority
Notes to and forming part of the financial statements
For the year ended 30 September 2018

	2018	2017
	\$	\$
13. Investments		
Short term deposit	<u>50,984,115</u>	<u>20,984,115</u>

The Authority has term deposits with Bank of South Pacific and Pan Oceanic Bank at an interest rate ranging from 0.75% to 4% per annum maturing in December 2018.

14. Investment properties		
Balance at the beginning of the financial year – at fair value	31,668,476	31,668,476
Changes in fair value	1,583,407	-
Reclass from Property, plant and equipment	1,802,500	-
Balance at the ending of the financial year – at fair value	<u>35,054,383</u>	<u>31,668,476</u>

Investment property comprises of commercial and residential property that are leased to third parties. Each lease contains a lease period of 3 and 50 years respectively with annual rental subject to increase upon renewal indexed to the Honiara retail price index. Subsequent renewals are negotiated with the lessee.

Rental income from investment properties of \$6,110,495 (2017: \$6,382,468) has been recognised in other income (Note 6).

Fair value hierarchy

The fair value of investment property was determined by an external, independent property valuer, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuer provide the fair value of the Authority's investment property portfolio every 12 months.

Valuation techniques and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of investment properties, as well as significant unobservable inputs used.

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Replacement cost method: where the improvements are valued using current replacement cost and an allowance for depreciation and obsolescence plus the freehold value of the land (notable sales of comparable vacant sites within Honiara are noted).	<ul style="list-style-type: none"> • Depreciation rate applied. • Locality of the property • Proximity to civic amenities • Topography/geographical feature of the land • Demand for the land 	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> • depreciation rate were lower (higher); • the property located in urban locality; • closer to civic amenities; • the higher the demand for the land.

Solomon Islands Ports Authority

Notes to and forming part of the financial statements

For the year ended 30 September 2018

15. Property, plant and equipment

	Land and buildings	Wharves and jetties	Plant and equipment	Vehicles	Work in Progress	Total
	\$	\$	\$	\$	\$	\$
<i>Cost</i>						
Balance at 1 October 2016	168,469,829	288,050,098	77,219,451	6,669,359	10,917,032	551,325,769
Acquisitions	-	-	12,947,072	4,472,634	15,697,532	33,117,238
Disposals	-	(202,918)	(1,600,295)	-	(4,958,978)	(6,762,191)
Transfers (In/(Out))	6,175,183	-	-	-	(6,175,183)	-
Balance at 30 September 2017	174,645,012	287,847,180	88,566,228	11,141,993	15,480,403	577,680,816
Acquisitions	150,839	-	21,539,621	12,007,402	20,522,574	54,220,436
Disposals	-	-	(1,860,207)	(432,000)	(52,137)	(2,344,344)
Transfer to investment properties	(1,802,500)	-	-	-	-	(1,802,500)
Transfers (In/(Out))	16,250,650	-	-	-	(16,250,650)	-
Balance at 30 September 2018	189,244,001	287,847,180	108,245,642	22,717,395	19,700,190	627,754,408
<i>Accumulated depreciation</i>						
Balance at 1 October 2016 - restated	22,878,329	20,890,761	32,195,417	1,999,553	-	77,964,060
Depreciation charge for the year - restated	5,665,501	8,559,402	6,913,695	890,713	-	22,029,311
Disposals	-	-	(1,491,902)	-	-	(1,491,902)
Balance at 30 September 2017	28,543,830	29,450,163	37,617,210	2,890,266	-	98,501,469
Depreciation charge for the year	5,859,644	8,381,143	7,582,973	1,558,901	-	23,382,661
Disposals	-	-	(1,815,937)	(432,000)	-	(2,247,937)
Balance at 30 September 2018	34,403,474	37,831,306	43,384,246	4,017,167	-	119,636,193
<i>Carrying amount</i>						
At 30 September 2016	145,591,500	267,159,337	45,024,034	4,669,806	10,917,032	473,361,709
At 30 September 2017	146,101,182	258,397,017	50,949,018	8,251,727	15,480,403	479,179,347
At 30 September 2018	154,840,527	250,015,874	64,861,396	18,700,228	19,700,190	508,118,215

Solomon Islands Ports Authority
Notes to and forming part of the financial statements
For the year ended 30 September 2018

	2018	Restated 2017	Restated 2016
	\$	\$	\$
16. Trade and other payables			
Trade payables	4,442,670	4,800,970	1,736,115
Other payables and accrued expenses	9,613,684	24,191,918	24,479,187
	<u>14,056,354</u>	<u>28,992,888</u>	<u>26,215,302</u>
17. Employee entitlements			
Current	9,189,699	8,100,278	6,200,512
Non current	1,316,814	930,438	116,736
	<u>10,506,513</u>	<u>9,030,716</u>	<u>6,317,248</u>
Movement is made up of the following:			
Opening balance	9,030,716	6,317,248	5,782,725
Provisions made during the year	8,300,725	9,587,400	3,845,082
Provisions utilised during the year	(6,824,928)	(6,873,932)	(3,310,559)
Closing balance	<u>10,506,513</u>	<u>9,030,716</u>	<u>6,317,248</u>
18. Deferred revenue			
Current	3,510,258	3,510,258	
Non-current	164,689,586	168,199,844	
	<u>168,199,844</u>	<u>171,710,102</u>	
Opening balance	171,710,102	175,220,360	
Less: Depreciation charge for the year	(3,510,258)	(3,510,258)	
Closing balance	<u>168,199,844</u>	<u>171,710,102</u>	

The deferred revenue relates to the international wharf which was funded by the Government of Japan. The grant was initially recognised as deferred revenue and subsequently amortized to profit or loss as income on a straight-line basis over the useful life of the acquired asset.

There were no unfulfilled conditions and other contingencies.

19. Equity

Equity comprises of Solomon Island Government contribution, retained earnings and asset revaluation reserves.

Solomon Islands Government equity contribution comprises of initial contribution by the Solomon Islands Government at the inception of the Authority.

Solomon Islands Ports Authority
Notes to and forming part of the financial statements
For the year ended 30 September 2018

20. Related parties

(a) Identity of related parties

The following were Board of Directors of the Authority during the period:

Name
Mr. Billy Titulu - Chairman
Mr. Henry Murray - Deputy Chairman
Mr. Humphery Tura
Mr. Michael Ahikau (Deceased 14/06/2018)
Mr. Johnny Sy

Director's fees and related expenses amounting to \$2,735,732 were incurred and paid during the period (2017: \$2,127,959).

(b) Key management personnel

In addition to the Board of Directors, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly (whether executive or otherwise) of that entity.

During the period, the following persons were the executives identified as key management personnel, with the greatest authority and responsibility for planning, directing and controlling the activities of the Authority.

Name	Designation
Mr. Eranda Kotelawala	Chief Executive Officer
Mr. George Rausi	Director Finance
Mr. Glyn Joshua	Director Commercial
Mr. Judah Kulabule	Director Harbour Master
Mr. Ronald Ivupitu	Director Engineering
Mr. John Hugo Bugoro	Director Operations
Mr. Benny Legua	Director Corporate Services

The aggregate compensation of the key management personnel for the Authority comprises of short term benefits and is set out below:

	2018	2017
	\$	\$
Short term benefits	<u>4,344,307</u>	<u>3,086,283</u>

(c) Amounts receivable related parties

Overpayment of ADB loan by the Authority to SIG	<u>1,583,095</u>	<u>1,583,095</u>
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Solomon Islands Ports Authority
Notes to and forming part of the financial statements
For the year ended 30 September 2018

21. Capital commitments

Capital commitments as at 30 September 2018 was \$Nil (2017: \$0).

22. Contingent liabilities

The Authority is not aware of any contingent liabilities as at 30 September 2018(2017: \$Nil).

23. Correction of errors

During the financial year, the Authority was subject to a pay-as-you-earn (PAYE) tax audit by the Inland Revenue Division of Solomon Islands whereby it was discovered that PAYE taxes had been erroneously deducted which resulted in SDB \$17,188,255 reported to be under-deductions by the Authority from the employee's wages and salaries since 2012 of which SDB \$560,113 related to the current period under audit. The final settlement was approved by the Inland Revenue Division of Solomon Islands and agreed by the Authority. The Authority also discovered that the land rates on properties occupied by the Authority had not been accrued since 2014. The amount invoiced by the commission for the periods 2014 – 2017 was SDB \$4,997,500. Additionally, the leasehold land acquired by the Authority in prior years and included in the Authority's property, plant and equipment in note 15 had erroneously not been depreciated over the term of the lease.

The prior period errors highlighted above have been corrected by restating each of the affected financial statement line items for prior periods. The following tables summaries the impacts on the Authority's financial statements.

Statement of financial position

	As previously reported		Impact of restatement			
			Adjustments		Restated	
	2017	2016	2017	2016	2017	2016
Property, plant and equipment	493,611,124	484,908,711	(2,884,775)	(11,547,002)	479,179,347	473,361,709
Total non-current assets	525,279,600	516,577,187	(2,884,775)	(11,547,002)	510,847,823	505,030,185
Total assets	778,750,336	696,580,237	(2,884,775)	(11,547,002)	764,318,559	685,033,235
Trade and other payables	7,367,245	7,599,993	3,010,334	18,615,309	28,992,888	26,215,302
Employee benefits (current)	2,633,052	1,050,940	317,654	5,149,572	8,100,278	6,200,512
Employee benefit (non current)	3,172,716	3,583,003	1,223,989	(3,466,267)	930,438	116,736
Total current liabilities	13,510,555	12,161,191	3,327,988	23,764,881	40,603,424	35,926,072
Total non current liabilities	171,372,560	175,293,105	1,223,989	(3,466,267)	169,130,282	171,826,838
Total liabilities	184,883,115	187,454,296	4,551,977	20,298,614	209,733,706	207,752,910
Net assets	593,867,221	509,125,941	(7,436,752)	(31,845,616)	554,584,853	477,280,325
Retained earnings	344,641,182	259,899,902	(7,436,752)	(31,845,616)	305,358,814	228,054,286
Total equity	593,867,221	509,125,941	(7,436,752)	(31,845,616)	554,584,853	477,280,325

Statement of profit or loss and other comprehensive income

	As previously reported 2017	Impact of restatement	
		Adjustment	Restated 2017
Operational expenses	(61,501,521)	(4,025,546)	(65,527,067)
Administrative and other operating expenses	(68,718,602)	(3,411,206)	(72,129,808)
Profit from operations	83,829,075	(7,436,752)	76,392,323
Net profit before tax	84,741,281	(7,436,752)	77,304,529
Net profit for the year	84,741,281	(7,436,752)	77,304,529
Total comprehensive income for the year	84,741,281	(7,436,752)	77,304,529

Solomon Islands Ports Authority
Notes to and forming part of the financial statements
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24. Events subsequent to balance date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature, in the opinion of the directors, to affect significantly the operations of the Authority in subsequent financial years.