

Solomon Islands Water Authority

Financial Statements

For the year ended

31 December 2012

Solomon Islands Water Authority
For the year ended 31 December 2012

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Solomon Islands Water Authority

Directors' report

The directors present their report together with the financial statements of Solomon Islands Water Authority (the Authority) for the year ended 31 December 2012 and the auditors' report thereon.

Directors

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

Phil Bradford (Chairman) - (appointed 10 May 2010)

David Laurie - (appointed 20 July 2010)

Antoinette Wickam - (appointed 20 July 2010)

Ethel Francis - (appointed 20 July 2010)

Janet Marau - (appointed 31 July 2012)

Carson Korowa - (appointed 31 July 2012)

Trevor Palmer - (appointed 31 July 2012)

State of affairs

In the opinion of the directors, the accompanying statement of financial position gives a true and fair view of the state of affairs of the Authority as at 31 December 2012 and the statement of comprehensive income, statement of changes in equity and statement of cash flows give a true and fair view of the results and cash flows of the Authority for the year then ended.

Principal activity

The principal activity of the Authority during the year was the treatment and distribution of water in the Solomon Islands.

Results

The net profit for the year amounted to SBD 9,885,972 (2011 Net loss: SBD22,914,306).

Going concern and financial support

The Authority had a working capital deficiency of SBD7,903,786 as at 31 December 2012 and after balance date received SBD15,000,000 from the Solomon Islands Government to allow repayment of amounts owing to Solomon Islands Electricity Authority. The Authority's continuation as a going concern, therefore is dependent upon its ability to maintain appropriate financing, the support of the Solomon Islands Government and/or to generate sufficient profits and cash flows from operations in order to meet its obligations.

The financial statements do not include any adjustments relating to the recoverability or classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Authority be unable to continue as going concern.

The directors consider the application of the going concern principle to be appropriate in the preparation of these financial statements as the Authority is the single provider of water services in Solomon Islands and is a state owned enterprise.

Solomon Islands Water Authority

Directors' report (continued)

Significant events

On 31 May 2012 a debt settlement agreement was signed between Solomon Islands Government (SIG), Solomon Islands Electricity Authority (SIEA) and the Authority under which the parties agreed to settle the Authority's debts to SIEA as at 29 February 2012 by way of payments over a number of years and with a portion of the debt being forgiven by SIEA. The portion of the debt forgiven has been taken up as other income in the financial statements.

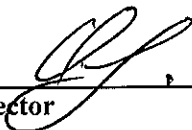
In addition, during the year additional capital contributions were made by SIG to the Authority.

Subsequent events

On 28 February 2013 the Authority received a capital contribution of SBD15,000,000 from SIG to allow it to comply with the terms of the settlement agreement with SIEA. Other than as set out above, there has not arisen in the interval between the end of the year and the date of this report any other item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect significantly the operations of the Authority, the results of those operations or the state of affairs of the Authority in subsequent financial years.

Dated at Honiara, Solomon Islands this 1st day of August 2013.

Signed in accordance with a resolution of the directors.



Director



Director



INDEPENDENT AUDITOR'S REPORT

To the Board of Solomon Islands Water Authority

I have audited the accompanying financial statements of Solomon Islands Water Authority, which comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 9 to 22.

Directors' and Management's Responsibility for the Financial Statements

Directors and Management are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and for such internal control as the directors and management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis of qualification

Revenue

I was unable to obtain sufficient appropriate audit evidence regarding the completeness and accuracy of revenue. Accordingly I am not able to ascertain what adjustments, if any, might be necessary to the amounts recorded in the financial statements.

Qualified opinion

In my opinion, except for the effect if any, of the matters referred to in the qualification paragraphs above, the financial statements give a true and fair view of the financial position of Solomon Islands Water Authority as at 31 December 2012 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.

Emphasis of Matter

Without modification to my opinion, I draw attention to note 2(b) to the financial statements and that the Authority's continuation as a going concern is dependent on its ability to obtain appropriate financing and on the ongoing support of the Solomon Islands Government in order to meet its obligations. The directors believe that the going concern basis is appropriate as the Authority is a state owned enterprise and the single provider of water services in the Solomon Islands.

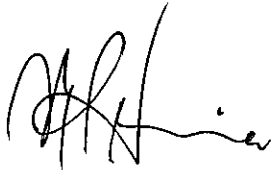
Report on Other Legal and Regulatory Requirements

Lack of compliance with Public Finance and Audit Act

The Authority has not complied with the requirements of the *Public Finance and Audit Act [CAP 120]* which requires the audited financial statements to be submitted to the Minister responsible before 31 March of the following year to which the financial statements relate. Whilst the majority of the audit fieldwork was completed prior the statutory deadline, the final corrected and signed financial statements were only submitted to me for my audit opinion on 1 August 2013.

Lack of compliance with the State Owned Enterprises Act

The Authority has not complied with Sections 13 to Section 17 of the *State Owned Enterprises Act* which requires the Authority to provide a number of documents to the responsible Minister.



Edward Ronia
Auditor-General

Office of the Auditor-General
Solomon Islands

8 August 2013

**Solomon Islands Water Authority
Statement of comprehensive income
For the year ended 31 December 2012**

	Note	2012 SBD	2011 SBD
Revenue	5	46,035,868	24,980,083
Other income	6	<u>13,734,905</u>	<u>1,083,937</u>
		59,770,773	26,064,020
Less expenses			
Corporate expenses	8	(2,843,207)	(2,919,921)
Depreciation	12	(2,946,792)	(3,432,499)
Employee costs	9	(9,588,272)	(10,304,282)
Allowance for uncollectability	15	(6,878,244)	(9,233,890)
Repairs and maintenance		(5,272,994)	(3,667,585)
Tools and uniforms		(357,660)	(157,779)
Utilities	10	(22,159,925)	(18,786,394)
Water treatment		(502,505)	(477,270)
Other expenses	11	(1,105,691)	-
Profit /(loss) from operations		<u>8,115,483</u>	<u>(22,915,600)</u>
Finance income	7	1,770,489	1,294
Net Profit/(loss) for the year		<u>9,885,972</u>	<u>(22,914,306)</u>
Other comprehensive income			
Revaluation increment	12	<u>10,048,261</u>	<u>-</u>
Total comprehensive income/(loss) for the year		<u><u>19,934,233</u></u>	<u><u>(22,914,306)</u></u>

The above statement of comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 9 to 22.

Solomon Islands Water Authority
Statement of changes in equity
For the year ended 31 December 2012

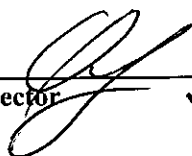
	Contributed capital SBD	Asset revaluation reserve SBD	Accumulated losses SBD	Total SBD
Balance at 1 January 2011	39,625,874	-	(33,875,499)	5,750,375
<i>Total comprehensive income for the year</i>				
Net loss for the year	-	-	(22,914,306)	(22,914,306)
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	(22,914,306)	(22,914,306)
Balance at 31 December 2011	39,625,874	-	(56,789,805)	(17,163,931)
<i>Total comprehensive income for the year</i>				
Net Profit for the year	-	-	9,885,972	9,885,972
Other comprehensive income	-	10,048,261	-	10,048,261
Total comprehensive income	-	10,048,261	9,885,972	19,934,233
<i>Transaction with owners of the Authority directly recognised in equity</i>				
Grant income received	14,881,694	-	-	14,881,694
	14,881,694	10,048,261	9,885,972	34,815,927
Balance at 31 December 2012	54,507,568	10,048,261	(46,903,833)	17,651,996

The above statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 9 to 22.

**Solomon Islands Water Authority
Statement of financial position
As at 31 December 2012**

Assets	Note	2012 SBD	2011 SBD
Non-current asset			
Property, plant and equipment	12	<u>30,381,987</u>	<u>13,847,928</u>
Total non-current asset		<u>30,381,987</u>	<u>13,847,928</u>
Current assets			
Cash and cash equivalents	13	6,119,097	2,946,024
Inventories	14	1,475,270	763,686
Trade and other receivables	15	<u>12,790,996</u>	<u>9,128,235</u>
Total current assets		<u>20,385,363</u>	<u>12,837,945</u>
Total assets		<u>50,767,350</u>	<u>26,685,873</u>
Equity			
Contributed capital	16	54,507,568	39,625,874
Asset Revaluation Reserve		10,048,261	-
Accumulated losses		<u>(46,903,833)</u>	<u>(56,789,805)</u>
Surplus in equity		<u>17,651,996</u>	<u>(17,163,931)</u>
Non-current liabilities			
Payable to related party	19(c)	<u>4,826,205</u>	<u>-</u>
Total non-current liability		<u>4,826,205</u>	<u>-</u>
Current liabilities			
Employee benefits	17	1,818,301	1,731,180
Trade and other payables	18	8,659,980	5,656,592
Payable to related party	19(c)	<u>17,810,868</u>	<u>36,462,032</u>
Total current liabilities		<u>28,289,149</u>	<u>43,849,804</u>
Total liabilities		<u>33,115,354</u>	<u>43,849,804</u>
Total equity and liabilities		<u>50,767,350</u>	<u>26,685,873</u>

Signed for and on behalf of the Board of Directors



Director



Director

The above statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 9 to 22

Solomon Islands Water Authority
Statement of cash flows
For the year ended 31 December 2012

	Note	2012 SBD	2011 SBD
Cash flows from operating activities			
Cash received from customers		46,664,633	26,713,936
Cash paid to suppliers and employees		<u>(42,878,389)</u>	<u>(24,947,914)</u>
Cash generated from operations		3,786,244	1,766,022
Interest received		34,194	1,294
Net cash provided by operating activities		<u>3,820,438</u>	<u>1,767,316</u>
Cash flows from investing activity			
Proceeds from sale of property, plant and equipment		-	686,290
Payments for property, plant and equipment		<u>(647,365)</u>	<u>(1,301,422)</u>
Net cash used in investing activity		<u>(647,365)</u>	<u>(615,132)</u>
Net increase in cash and cash equivalents		3,173,073	1,152,184
Cash and cash equivalents at the beginning of the year		2,946,024	1,793,840
Cash and cash equivalents at 31 December	13	<u><u>6,119,097</u></u>	<u><u>2,946,024</u></u>
Non cash items	20	<u><u>8,785,225</u></u>	<u><u>-</u></u>

The above statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 9 to 22.

Solomon Islands Water Authority
Notes to the financial statements
For the year ended 31 December 2012

1. Reporting entity

Solomon Islands Water Authority (the "Authority") is a state owned enterprise established under the Solomon Islands Water Authority Act 1993. The address of the Authority's registered office and principal place of business is Mendana Avenue, Honiara, Solomon Islands. The principal activity of the Authority during the year was the treatment and distribution of water in the Solomon Islands.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The financial statements were approved by the Board of Directors on 27/6/2012.

(b) Going concern and financial support

The Authority had a working capital deficiency of SBD7,903,786 as at 31 December 2012 and after balance date received SBD15,000,000 from the Solomon Islands Government to allow repayment of amounts owing to Solomon Islands Electricity Authority. The Authority's continuation as a going concern, therefore is dependent upon its ability to maintain appropriate financing, the support of the Solomon Islands Government and/or to generate sufficient profits and cash flows from operations in order to meet its obligations.

The financial statements do not include any adjustments relating to the recoverability or classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Authority be unable to continue as going concern.

The directors consider the application of the going concern principle to be appropriate in the preparation of these financial statements as the Authority is the single provider of water services in Solomon Islands and is a state owned enterprise.

(c) Basis of measurement

The financial statements have been prepared on the historical cost basis except where stated.

(d) Functional and presentation currency

The financial statements are presented in Solomon Island dollars ("SBD"), which is the Authority's functional and presentation currency.

(e) Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these results.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised and in any future years 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:

Solomon Islands Water Authority
Notes to the financial statements
For the year ended 31 December 2012

2. Basis of preparation (continued)

Use of estimates and judgments (continued)

- Note 14 - Inventories
- Note 15 - Trade and other receivables
- Note 22 - Contingent liabilities

(f) New standards and interpretations

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Authority except for IFRS 9 Financial Instruments, which becomes mandatory for the Authority's 2015 financial statements and could change the classification and measurement of financial assets.

(g) Comparative figures

Where possible and if considered appropriate some of the 2011 amounts have been amended to make them more comparable to the 2012 amounts.

3. Significant accounting policies

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

(a) Foreign currency transactions

Transactions in foreign currencies are translated to Solomon Island dollars at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Solomon Island dollars at the exchange rate at that date. Non-monetary items in a foreign currency that are measured at historical cost are translated using the exchange rate at the end of the year. The foreign currency gain or loss on translation is recognised in the profit or loss.

(b) Financial instruments

(i) Non derivative financial assets

The Authority initially recognises loans and receivables on the date that they are originated. All other financial assets are recognised initially on the trade date, which is the date that the Authority becomes a party to the contractual provisions of the instruments.

The Authority 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 on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Authority is recognised as a separate asset or liability.

Solomon Islands Water Authority
Notes to the financial statements
For the year ended 31 December 2012

3. Significant accounting policies (continued)

(b) Financial instruments (continued)

(i) Non derivative financial assets (continued)

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

The Authority classifies non-derivative financial assets into loans and receivables category.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents, and trade and other receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances.

Trade and other receivables

Trade receivables and other assets are measured at initial recognition at fair value. Subsequently, appropriate allowances for estimated irrecoverable amounts are recognised in the profit or loss when there is objective evidence that the asset is impaired.

(ii) Non derivative financial liabilities

Non derivative financial liabilities are recognised initially on the trade date, which is the date that the Authority becomes a party to the contractual provisions of the instrument. The Authority derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Authority classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprises trade and other payables.

(ii) Contributed capital

Contributed capital represents initial funds contributed by the Government to establish the Authority as a statutory entity and subsequent contributions.

Solomon Islands Water Authority
Notes to the financial statements
For the year ended 31 December 2012

3. Significant accounting policies (continued)

(c) Property, plant and equipment

(i) Recognition and measurement

Items of plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land and buildings are recognised at fair value (see c(iv)).

Cost includes expenditure 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. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within other income/other expenses in profit or loss.

(ii) Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Authority. Ongoing repairs and maintenance is expensed as incurred.

(iii) Depreciation

Items of property, plant and equipment are depreciated on a straight-line basis in profit or loss over the estimated useful lives of each component. Items of property, plant and equipment are depreciated from the date they are installed and are ready for use.

The estimated useful lives for the current and comparative year of significant items of property, plant and equipment are as follows:

Furniture, fixtures and fittings	4 years
Land and buildings	20 years
Motor vehicles	4 years
Plant and equipment	2 to 10 years
Water systems	2 to 20 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Solomon Islands Water Authority
Notes to the financial statements
For the year ended 31 December 2012

3. Significant accounting policies (continued)

(c) Property, plant and equipment (continued)

(iv) Revaluation

Land and buildings are shown at fair value, based on periodic, valuations by external independent valuers, less subsequent depreciation of assets. The fair values are recognised in the financial statements of the Authority, and are reviewed at the end of each reporting period to ensure that the carrying value of assets is not materially different to their fair values.

Any revaluation increase arising on the revaluation of assets is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in profit or loss, in which case the increase is credited to the statement of comprehensive income to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of assets is charged as an expense in profit or loss to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to profit or loss. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus remaining in the asset revaluation reserve, is transferred directly to retained earnings.

(d) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition.

(e) Impairment

(i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event has a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Authority on terms that the Authority will not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers to the Authority and economic conditions that correlate with defaults.

Solomon Islands Water Authority
Notes to the financial statements
For the year ended 31 December 2012

3. Significant accounting policies (continued)

(e) Impairment (continued)

Loans and receivables

The Authority considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

In assessing collective impairment the Authority uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic conditions and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Authority's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is an indication of impairment. If any such indication exists, then the assets recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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 or cash generating unit. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

(f) Income tax

The Authority is exempt from income tax under the Solomon Islands Water Authority Act 1993.

Solomon Islands Water Authority
Notes to the financial statements
For the year ended 31 December 2012

3. Significant accounting policies (continued)

(g) Employee benefits

i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. The Authority deducts and pays 5 percent of the employees' gross salaries and contributes 7.5 percent of employees gross salaries to the Solomon Islands National Provident Fund. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed in the profit or loss as the related service is provided.

(h) Trade payables and other payables

Trade and other payables are stated at cost.

(i) Revenue recognition

Revenue earned from the provision of water services is measured at the fair value of the consideration received or receivable, net of returns and allowance. Revenue is recognised when the service has been provided to the customer and consideration is probable.

(j) Government grants

Government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and the Authority will comply with the conditions associated with the grant and are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset. Grants that compensate the Authority for expenses incurred are recognised in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognised.

4. Financial risk management

Overview

The Authority has exposure to the following risks from its use of financial instruments:

- i) Credit risk
- ii) Liquidity risk
- 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.

Solomon Islands Water Authority
Notes to the financial statements
For the year ended 31 December 2012

4. Financial risk management (continued)

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.

The Authority's Board oversees how management monitors compliance with the Authority's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Authority.

(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 receivables from customers.

Trade and other receivables

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.

The Authority establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component established for groups of similar assets in respect of losses that have been identified. The collective loss allowance is established on management's overall review of overdue accounts.

The Authority's maximum exposure to credit risk is as follows:

	2012	2011
	SBD	SBD
Cash and cash equivalents	6,119,097	2,946,024
Trade receivables	12,639,366	8,808,175
Other receivables excluding prepayments	47,166	229,143
	<u>18,805,629</u>	<u>11,983,342</u>

Trade and other receivables are determined impaired as follows:

Trade and other receivables

Gross receivables	32,522,269	28,691,078
Provision for impairment	<u>(19,882,903)</u>	<u>(19,882,903)</u>
	<u>12,639,366</u>	<u>8,808,175</u>

The ageing of net trade receivables at reporting date was:

Up to 30 days	4,241,752	2,191,710
31 - 60 days	3,315,014	2,751,569
61 -90 days	5,082,600	3,864,896
	<u>12,639,366</u>	<u>8,808,175</u>

Solomon Islands Water Authority
Notes to the financial statements
For the year ended 31 December 2012

4. Financial risk management (continued)

(ii) Liquidity risk

Liquidity risk is the risk that the Authority will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. 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.

Typically the Authority ensures that it has sufficient cash on hand to meet operational expenses including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The following are the contractual maturities of financial liabilities:

31 December 2012

	Carrying amount SBD	6 months or less SBD	6-12 months SBD	1- 2years SBD	> 2 years SBD
<u>Financial liabilities</u>					
Payable to related party	22,637,073	17,342,118	468,750	937,500	5,625,000
Trade and other payables	8,659,980	8,659,980	-	-	-

31 December 2011

	Carrying amount SBD	6 months or less SBD	6-12 months SBD	1- 2years SBD	> 2 years SBD
<u>Financial liabilities</u>					
Payable to related party	36,462,032	36,462,032	-	-	-
Trade and other payables	5,656,592	5,656,592	-	-	-

(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. The market risks faced by the Authority are not material.

Interest rate risk

Interest rate risk is the risk that a change in interest rates will impact net interest costs and borrowings. The Authority has no borrowings and therefore interest rate risk is not material.

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	2012 SBD	2011 SBD
5. Revenue		
Water fees and charges	42,060,517	23,381,944
Standing charges	2,618,701	1,221,299
Disconnections / reconnection charges	1,356,650	376,840
	<u>46,035,868</u>	<u>24,980,083</u>
6. Other income		
Profit on sale of assets	-	686,290
Miscellaneous income	1,291,526	397,647
Solomon Island Government - CSO grant	3,000,000	-
Debt forgiveness by SIEA	9,443,379	-
	<u>13,734,905</u>	<u>1,083,937</u>
7. Finance income		
Discounting of converted loan - SIEA	1,736,295	-
Interest received	34,194	1,294
	<u>1,770,489</u>	<u>1,294</u>
8. Corporate expenses		
Included in corporate expenses are the following items:		
Advertising	122,935	90,731
Audit fees	250,591	312,989
Board allowances	32,280	21,080
Travel and transport	302,312	210,111
Printing, freight and stationery	412,069	543,796
Insurance	169,464	61,492
Lease rentals	378,774	659,778
Software training and computer consumables	257,975	273,059
Telephone	480,988	324,019
	<u>480,988</u>	<u>324,019</u>
9. Employee costs		
Wages and salaries	6,010,880	4,609,931
Key management personnel (refer note 19 (e))	-	-
National Provident Fund Contributions	460,736	423,854
House rentals and allowances	3,116,656	2,607,197
Retirements and Terminations	-	2,663,300
	<u>9,588,272</u>	<u>10,304,282</u>
10. Utilities		
Electricity	21,161,565	18,136,223
Fuel	998,360	650,171
	<u>22,159,925</u>	<u>18,786,394</u>
11. Other expenses		
RAP Project expenses - Aus Aid	1,105,691	-
	<u>1,105,691</u>	<u>-</u>

Solomon Islands Water Authority
Notes to the financial statements
For the year ended 31 December 2012

12. Property, plant and equipment

	Water systems SBD	Leasehold land and buildings SBD	Machinery and equipment SBD	Motor vehicles SBD	Furniture, fittings and Computers SBD	Total SBD
Cost						
Balance at 1 January 2011	49,768,237	4,804,212	5,311,402	5,008,309	1,643,086	66,535,246
Additions	243,460	-	553,030	387,584	117,348	1,301,422
Disposals/Transfers	(230,000)	(502,800)	(250,000)	(1,813,609)	(14,162)	(2,810,571)
Balance at 31 December 2011	49,781,697	4,301,412	5,614,432	3,582,284	1,746,272	65,026,097
Additions	-	55,698	8,044,885	807,189	524,818	9,432,590
Offset of accumulated depreciation as a result of revaluation	-	(2,760,173)	-	-	-	(2,760,173)
Revaluation increment	-	10,048,261	-	-	-	10,048,261
Balance as 31 December 2012	49,781,697	11,645,198	13,659,317	4,389,473	2,271,090	81,746,775
Breakdown of cost/revaluation						
- 2012 Directors Valuation	-	11,589,500	-	-	-	11,589,500
- Cost	49,781,697	55,698	13,659,317	4,389,473	2,271,090	70,157,275
Balance at 31 December 2012	49,781,697	11,645,198	13,659,317	4,389,473	2,271,090	81,746,775
Depreciation						
Balance at 1 January 2011	37,304,284	2,493,154	4,639,824	4,440,604	1,302,701	50,180,567
Depreciation charge for the year	2,416,189	213,676	255,492	388,107	159,035	3,432,499
Disposals/Transfers	(190,313)	(232,603)	(222,058)	(1,775,761)	(14,162)	(2,434,897)
Balance at 31 December 2011	39,530,160	2,474,227	4,673,258	3,052,950	1,447,574	51,178,169
Depreciation charge for the year	1,782,604	285,946	394,834	370,901	112,507	2,946,792
Offset of accumulated depreciation as a result of revaluation	-	(2,760,173)	-	-	-	(2,760,173)
Balance as 31 December 2012	41,312,764	-	5,068,092	3,423,851	1,560,081	51,364,788
Carrying amounts						
At 1 January 2011	12,463,953	2,311,058	671,578	567,705	340,385	16,354,679
At 31 December 2011	10,251,537	1,827,185	941,174	529,334	298,698	13,847,928
At 31 December 2012	8,468,933	11,645,198	8,591,225	965,622	711,009	30,381,987

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12. Property, plant and equipment (continued)

During 2012 the Authority engaged JC Valuer to carry out an independent valuation of leasehold land and buildings and for those buildings where an independent valuation was not performed, a directors' valuation was carried out.

The valuation methodology utilised by JC Valuer was the Cost approach whereby the value of building is added to the basic land value. The value of building was determined using the Depreciated Replacement Cost and the value of land was determined using the Comparative Valuation.

The valuation was effective 23 November 2012 and was adopted in the financial statements as at 31 December 2012.

The result of this revaluation was an increase in the value of land and buildings and a increment to the asset revaluation reserve of \$10,048,261 as shown in the table above.

	2012	2011
	SBD	SBD
13. Cash and cash equivalents		
Cash at bank	4,073,672	940,524
Cash on hand	10,500	5,500
Term deposits	2,034,925	2,000,000
	<u>6,119,097</u>	<u>2,946,024</u>
14. Inventories		
Stores and consumables	<u>1,475,270</u>	<u>763,686</u>
15. Trade and other receivables		
Trade receivables	32,522,269	28,691,078
Allowance for uncollectability	<u>(19,882,903)</u>	<u>(19,882,903)</u>
	12,639,366	8,808,175
Prepayments	104,464	90,917
Other receivables and staff advances	47,166	229,143
	<u>12,790,996</u>	<u>9,128,235</u>
<u>Allowance for uncollectability</u>		
Balance at 1 January	(19,882,903)	(10,649,013)
Impairment recognised	(6,878,244)	(9,233,890)
Doubtful debts written off against the provision	6,878,244	-
Balance at 31 December	<u>(19,882,903)</u>	<u>(19,882,903)</u>
16. Contributed capital		
Contributed capital	<u>54,507,568</u>	<u>39,625,874</u>

Capital represents Government's contribution on the establishment of Solomon Islands Water Authority. This is not in the form of shares. During the year additional capital contributions amounting to SBD14,881,694 were made by the Solomon Islands Government.

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17. Employee benefits	2012	2011
	SBD	SBD
Balance at 1 January	1,731,180	2,704,010
Net movement during the year	<u>87,121</u>	<u>(972,830)</u>
Balance at 31 December	<u><u>1,818,301</u></u>	<u><u>1,731,180</u></u>
Represented by:		
Current long service and annual leave	<u>1,818,301</u>	<u>1,731,180</u>
	<u><u>1,818,301</u></u>	<u><u>1,731,180</u></u>
18. Trade and other payables		
Trade creditors	18,325	58,435
Water deposits	2,815,761	2,072,322
Other payables	<u>5,825,894</u>	<u>3,525,835</u>
	<u><u>8,659,980</u></u>	<u><u>5,656,592</u></u>

19. Related parties

(a) Directors

The directors in office during the financial year were as follows:

- David Laurie
- Antoinette Wickham
- Ethel Frances
- Phil Bradford
- Janet Marau
- Carson Korowa
- Trevor Palmer

Directors fees and expenses are disclosed in Note 19 (d).

The Company's transactions with directors were on normal terms and conditions.

(b) Identity of related parties

The ultimate parent of the Authority is the Solomon Island Government.

(c) Amounts payable to related party

	2012	2011
	SBD	SBD
Non-current		
Payable to Solomon Islands Electricity Authority	4,826,205	-
Current		
Payable to Solomon Islands Electricity Authority	17,810,868	36,462,032
	<u><u>22,637,073</u></u>	<u><u>36,462,032</u></u>

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19. Related parties (continued)

(d) Transactions with related parties

During the year, the Authority entered into various transactions with related parties which were on normal commercial terms and conditions.

About 50 percent of the Authority's sales and about 45 percent of its purchases are with State Owned Enterprises and Solomon Islands Government departments.

	2012	2011
	SBD	SBD
<u>Directors</u>		
Directors remuneration and expenses	<u>32,280</u>	<u>21,080</u>

(e) Transactions with key management personnel

Compensation to local executive management (key management personnel) excluding the General Manager and Financial and Administration Manager who are paid directly by another organisation, is disclosed in Note 8.

In addition to their salaries, the Authority also provides non-cash benefits to key management personnel.

Transactions with key management personnel are no more favourable than those available, or which might be reasonably be expected to be available on similar transactions to third parties at arms length.

	2012	2011
	SBD	SBD
20. Non cash items		
Fixed asset additions funded by AusAid	<u>8,785,225</u>	<u>-</u>

21. Capital commitments

Capital commitments in respect of capital projects apart from donor funded projects are estimated at SBD Nil (2011: SBD Nil) for the ensuing year.

22. Contingent liabilities

The Company is a plaintiff in several litigations brought by creditors and employees. The Directors believe these litigations will not have a material effect on the financial statements. The Directors do not expect the outcome of any action to have a material effect on the Authority's financial position.

23. Capital management

The Authority's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

In order to maintain or adjust the capital structure, the Authority may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Authority is not subject to any externally imposed capital requirements.

24. Subsequent event

As part of the debt settlement agreement of May 2012 between Solomon Island Electricity Authority (SIEA), Solomon Islands Government (SIG) and the Authority, on 28 February 2013 SIG contributed SBD15,000,000 to the Authority to allow it to repay part of its debt to SIEA.

Other than the above, there has not arisen in the interval between the end of the 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, to affect significantly the operations of the Authority, the results of those operations or the state of affairs of the Authority in subsequent financial years.