

**SOLOMON ISLANDS PORTS AUTHORITY**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 SEPTEMBER 2010**

**Solomon Islands Ports Authority**  
**Financial Statements for the year ended 30 September 2010**

**Index**

|   | <b>Page No.</b> |
|---|-----------------|
| State Owned Enterprise Information                    | 3               |
| Director's Report                                     | 4 & 5           |
| Auditor's Report                                      | 6 & 7           |
| Profit and Loss Statement                             | 8               |
| Statement of Changes in Equity                        | 9               |
| Balance Sheet   | 10              |
| Cash Flow Statement                                   | 11              |
| Notes to and forming part of the Financial Statements | 12 - 25         |

**Solomon Islands Ports Authority**  
**Financial Statements for the year ended 30 September 2010**

**State Owned Enterprise Information**

The Solomon Islands Ports Authority (SIPA) is a State Owned Enterprise domiciled in the Solomon Islands

***Registered Office***

PO Box 307, Honiara

***Principal Place of Business***

Honiara

***Directors***

The directors at any time during or since the year are listed in the directors' report.

# Solomon Islands Ports Authority

## Financial Statements for the year ended 30 September 2010

### Directors' Report

The Directors present their report together with the financial report of Solomon Islands Ports Authority ("SIPA") for the year ended 30 September 2010 and the auditor's report thereon.

#### Directors

The directors at any time during or since the end of the year:

| Name                 | Date of Appointment | Resigned or Revoked | Date of Resignation or Revocation |
|----------------------|---------------------|---------------------|-----------------------------------|
| Mr Ronald Fugui      | 23 May 2010         | Revoked             | 21 February 2011                  |
| Mr Justice Deni      | 16 January 2009     | Revoked             | February 2012                     |
| Mr Basil Kiriau      | 16 January 2009     | Revoked             | September 2010                    |
| Mr Reuben Moli       | 23 May 2010         | Revoked             | 21 February 2011                  |
| Mr Mamu Paza         | 22 June 2009        | Revoked             | February 2012                     |
| Mr John Ta'aru       | 23 May 2010         | Revoked             | 21 February 2011                  |
| Mr Nolan Leni        | 4 May 2010          | Revoked             | 21 February 2011                  |
| Mr Andrew Maomaiasi  | 1 February 2009     | Revoked             | February 2012                     |
| Mr Edmond Gagahe     | 22 June 2009        | Revoked             | February 2012                     |
| Mr Nolan Leni        | 13 February 2012    |                     |                                   |
| Mrs Jane Waetara     | 13 February 2012    |                     |                                   |
| Mr Kenneth Grossmith | 13 February 2012    |                     |                                   |
| Mr Pascal Oho'au     | 13 February 2012    |                     |                                   |
| Mr Moses Virivolomo  | 13 February 2012    |                     |                                   |

#### Principal activities

The principal activity of SIPA during the course of the financial year ended 30 September 2010 was the operation and maintenance of ports at Honiara and Noro.

#### Operating and financial review

The operating loss of SIPA amounted to \$945,755 (2009: profit of \$2,900,425).

#### 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.

#### Significant changes in the state of affairs

There have been no significant changes in the state of affairs of SIPA during the year.

#### Legal matters

No person has applied for leave of Court to bring proceedings on behalf of SIPA or intervene in any proceedings.

SIPA was not a party to any such proceedings during the year.

**Solomon Islands Ports Authority**  
**Financial Statements for the year ended 30 September 2010**

**Directors' Report (continued)**

**Events subsequent to reporting 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 or unusual nature likely to affect significantly the operations of SIPA, the results of its operations, or the state of affairs of SIPA in future financial years.

Signed in accordance with a resolution of the Directors.

Nelson Loni [Signature]

[Name]

[Signature]

Chairman

Dated at Honiara this

11<sup>th</sup>

day of

July

2012



## INDEPENDENT AUDITOR'S REPORT

To the Board of the Solomon Islands Ports Authority

I was engaged to audit the accompanying financial statements of the Solomon Islands Ports Authority ("SIPA"), which comprise the balance sheet as at 30 September 2010, and the profit and loss statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting policies set out in note 1 and with the requirements of the Companies Act (Cap. 175), 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.

### *Auditor's Responsibility*

My responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with International Standards on Auditing. Because of the matters described in the Basis for Disclaimer of Opinion on the Profit and Loss Statement, Statement of Changes in Equity and Statement of Cash Flows paragraph, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Profit and Loss Statement, Statement of Changes Equity and Statement of Cash Flows. However due to the continued improvements in the accounting records and supporting documentation during the year, I did obtain sufficient and appropriate audit evidence to provide a basis for a qualified opinion on the Balance Sheet.

### *Basis for Disclaimer of Opinion on the Profit and Loss Statement, Statement of Changes in Equity and Statement of Cash Flows*

The disclaimer of opinion on the Profit and Loss Statement, Statement of Changes in Equity and Statement of Cash Flows is attributed to the following:

- A disclaimer of opinion was made on the financial statements for 2009. I therefore could not determine the accuracy of the opening balances as at 1 October 2010, and the effect of any misstatements therein on the Profit and Loss Statement, Statement of Changes in Equity and Statement of Cash Flows for the year ended 30 September 2010.

As a result of these matters, I was unable to determine whether any adjustments might have been necessary in respect to the profit for the year reported in the Profit and Loss Statement and Statement of Changes in Equity and the net cash flows from operating activities reported in the Statement of Cash Flows.

### *Basis for Qualified Opinion on the Balance Sheet*

The qualified opinion on the Balance Sheet is attributed to the following:

- The ADB loan is denominated in SDR currency and payable to the Solomon Islands Government (SIG) under a subsidiary loan agreement. As the SIG lacked details of the loan and rely on the information provided by the Authority, we are unable to obtain independent third party confirmation of the balance outstanding as at the end of the neither year nor have we been able to perform other alternative procedures to satisfy ourselves on the accuracy of the loan balance.

**Solomon Islands Ports Authority**  
**Financial Statements for the year ended 30 September 2010**

*Disclaimer of Opinion on the Profit and Loss Statement, Statement of Changes in Equity and Statement of Cash Flows*

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Profit and Loss Statement, Statement of Changes in Equity and Statement of Cash Flows. Accordingly, I do not express an opinion on the Statement of Profit and Loss Statement, Statement of Changes in Equity and Statement of Cash Flows.

*Qualified Opinion on the Balance Sheet*

In my opinion, except for the possible effects of the matters described in the basis for Qualified Opinion paragraph, the Balance Sheet presents fairly in all material respects as at 30 September 2010 in accordance with International Financial Reporting Standards.



Edward Ronia  
Auditor-General

Office of the Auditor-General  
Solomon Islands

14 August 2012

# Solomon Islands Ports Authority

## Financial Statements for the year ended 30 September 2010

### Profit and Loss Statement

|   | Note | 2010<br>\$              | 2009<br>\$              |
|---|------|-------------------------|-------------------------|
| <b>Revenue and Expenses</b>                   |      |                         |                         |
| Ship's dues and rates                         |      | 42,418,375              | 40,557,487              |
| Cost of sales                                 |      | <u>17,253,390</u>       | <u>16,002,802</u>       |
| Gross profit                                  |      | 25,164,985              | 24,554,685              |
| Other income                                  |      | 6,234,149               | 5,839,646               |
| Change in fair value of investment properties | 8    | 75,665                  | 359,368                 |
| Distribution costs                            |      | (5,297,742)             | (4,120,578)             |
| Administrative expenses                       |      | (20,885,180)            | (17,178,488)            |
| Depreciation expense                          | 9    | <u>(4,794,255)</u>      | <u>(4,162,997)</u>      |
| Profit from operations                        |      | 497,622                 | 5,291,636               |
| Financial income                              | 3    | 21,732                  | 8,824                   |
| Financial costs                               | 3    | <u>(1,465,109)</u>      | <u>(2,400,035)</u>      |
| <b>Profit / (loss) before tax</b>             |      | (945,755)               | 2,900,425               |
| Income tax expense                            |      | <u>-</u>                | <u>-</u>                |
| <b>Net profit / (loss) for the year</b>       |      | <u><u>(945,755)</u></u> | <u><u>2,900,425</u></u> |

The profit and loss statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 12 to 25.



# Solomon Islands Ports Authority

## Financial Statements for the year ended 30 September 2010

### Statement of Changes in Equity

|  | Contributed<br>by SIG<br>\$ | Retained Earnings<br>\$ | Total<br>\$  |
|--|-----------------------------|-------------------------|--------------|
| Balance at 1 October 2008                  | 402,824                     | 58,906,426              | 59,309,250   |
| Net profit for the year                    | -                           | 2,900,425               | 2,900,425    |
| Restate retained earnings being overstated | -                           | (15,813,992)            | (15,813,992) |
| <b>Balance at 30 September 2009</b>        | 402,824                     | 45,992,859              | 46,395,683   |
| Net profit / (loss) for the year           | -                           | (945,755)               | (945,755)    |
| <b>Balance at 30 September 2010</b>        | 402,824                     | 45,047,104              | 45,449,928   |

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 12 to 25

# Solomon Islands Ports Authority

## Financial Statements for the year ended 30 September 2010

### Balance Sheet

|                                       | Note   | 2010<br>\$        | 2009<br>\$        |
|---------------------------------------|--------|-------------------|-------------------|
| <b>ASSETS</b>                         |        |                   |                   |
| Cash and cash equivalents             | 15 (a) | 2,016,048         | 2,591,987         |
| Trade and other receivables           | 4      | 10,639,198        | 12,870,598        |
| Deposit on machinery                  |        | 1,189,898         | -                 |
| Inventories                           | 5      | 476,620           | 805,451           |
| Investments                           | 6      | 896,689           | 881,774           |
| <b>Total current assets</b>           |        | <u>15,218,453</u> | <u>17,149,810</u> |
| Investment property                   | 8      | 6,954,209         | 6,878,544         |
| Property, plant and equipment         | 9      | 48,529,607        | 48,085,580        |
| <b>Total non-current assets</b>       |        | <u>55,483,816</u> | <u>54,964,124</u> |
| <b>Total assets</b>                   |        | <u>70,702,269</u> | <u>72,113,934</u> |
| <b>LIABILITIES</b>                    |        |                   |                   |
| Trade and other payables              | 10     | 3,528,699         | 2,053,211         |
| Interest bearing loans and borrowings | 11     | 1,565,686         | 1,852,119         |
| Employee benefits                     | 12     | 286,919           | 375,294           |
| <b>Total current liabilities</b>      |        | <u>5,381,304</u>  | <u>4,280,624</u>  |
| Interest bearing loans and borrowings | 11     | 14,872,114        | 16,999,343        |
| Employee benefits                     | 12     | 4,998,923         | 4,438,284         |
| <b>Total non-current liabilities</b>  |        | <u>19,871,037</u> | <u>21,437,627</u> |
| <b>Total liabilities</b>              |        | <u>25,252,341</u> | <u>25,718,251</u> |
| <b>Net assets</b>                     |        | <u>45,449,928</u> | <u>46,395,683</u> |
| <b>SHAREHOLDERS' EQUITY</b>           |        |                   |                   |
| Grants by Solomon Islands Government  |        | 402,824           | 402,824           |
| Retained earnings                     |        | 45,047,104        | 45,992,859        |
| <b>Total shareholders' equity</b>     |        | <u>45,449,928</u> | <u>46,395,683</u> |

The balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 12 to 25

# Solomon Islands Ports Authority

## Financial Statements for the year ended 30 September 2010

### Cash flow statement

|   | Note   | 2010<br>\$              | 2009<br>\$              |
|---|--------|-------------------------|-------------------------|
| <b>OPERATING ACTIVITIES</b>                                   |        |                         |                         |
| Cash receipts from customers                                  |        | 46,026,071              | 42,128,517              |
| Cash paid to suppliers and employees                          |        | (38,115,291)            | (42,095,105)            |
| Cash generated from operations                                |        | 7,910,780               | 33,412                  |
| Interest paid   |        | (1,421,043)             | (1,469,876)             |
| Tax paid  |        | -                       | (385,873)               |
| <b>Cash flows from / (used in) operating activities</b>       | 15 (b) | <u>6,489,737</u>        | <u>(1,822,337)</u>      |
| <b>INVESTING ACTIVITIES</b>                                   |        |                         |                         |
| Interest received   |        | 21,732                  | 8,824                   |
| Proceeds from sale of plant and equipment                     |        | 51,681                  | 5,916,806               |
| Acquisition of property, plant and equipment                  |        | (5,558,489)             | (6,311,855)             |
| <b>Cash flows from / (used in) investing activities</b>       |        | <u>(5,485,076)</u>      | <u>(386,255)</u>        |
| <b>FINANCING ACTIVITIES</b>                                   |        |                         |                         |
| Repayment of borrowings                                       |        | (1,565,685)             | (1,013,373)             |
| <b>Cash flows from / (used in) financing activities</b>       |        | <u>(1,565,685)</u>      | <u>(1,013,373)</u>      |
| <b>Net increase / (decrease) in cash and cash equivalents</b> |        | (561,024)               | (3,221,935)             |
| Cash and cash equivalents at beginning of the year            |        | 3,473,761               | 6,695,696               |
| <b>Cash and cash equivalents at end of the year</b>           | 15 (a) | <u><u>2,912,737</u></u> | <u><u>3,473,761</u></u> |

The cash flow statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 12 to 25.

# Solomon Islands Ports Authority

## Financial Statements for the year ended 30 September 2010

### Notes to the Financial Statements

#### 1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been authorised for issue by the Board of Directors on \_\_\_\_\_

##### (a) Statement of compliance

The financial statements of Solomon Islands Ports Authority ('SIPA') have been prepared in accordance with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board.

##### (b) Basis of preparation

The financial statements have been prepared primarily on the historical cost basis, except that investment property and employee liabilities are stated at their fair value.

Non-current assets are stated at the lower of carrying amount and fair value less costs to sell.

The preparation of a financial report in conformity with International Financial Reporting Standards (IFRS) requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

The accounting policies have been consistently applied by SIPA and they are consistent with those of the previous year.

The financial statements are presented in the Solomon Islands currency, the Solomon Islands dollar (\$).

##### (c) Going concern

The accounts have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

SIPA has total assets of \$70,702,269 (2009: \$72,113,934) and total liabilities of \$25,252,341 (2009: \$25,718,251). Accordingly, the Directors consider the going concern basis of preparation to be appropriate.

# Solomon Islands Ports Authority

## Financial Statements for the year ended 30 September 2010

### Notes to the Financial Statements (continued)

#### 1. Significant accounting policies (continued)

##### (d) Foreign currency

The functional currency adopted in the preparation of the financial statements is the Solomon Islands currency, the Solomon Islands dollar (\$). Transactions in foreign currencies are recorded at the exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognised in the profit and loss statement. Foreign currency monetary assets and liabilities are translated at the exchange rate at the balance sheet date. Resulting exchange differences are recognised in the profit and loss statement for the year. Non-monetary assets and liabilities denominated in foreign currency are recorded at the exchange rate at the date of the transaction.

##### (e) Property, plant and equipment

Items of property, plant and equipment are stated at original cost or deemed cost or at valuation less accumulated depreciation and impairment losses (see accounting policy f). Construction cost for self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified as investment property. When the construction or development of a self-constructed investment property is completed and will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit and loss.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

SIPA recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to SIPA and the cost of the item can be measured reliably. All other costs are recognised in the profit and loss statement as an expense as incurred.

Depreciation is charged to the profit and loss statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Fixed assets are first depreciated in the year of acquisition, or, in the case of construction, in the year of substantial completion of the asset. Land is not depreciated. The estimated useful lives in the current and comparative periods are as follows:

|                         |          |       |
|-------------------------|----------|-------|
| ■ Land and improvements | 25 to 50 | years |
| ■ Buildings             | 20       | years |
| ■ Wharves and jetties   | 30 to 35 | years |
| ■ Vehicles              | 7 to 10  | years |
| ■ Plant and equipment   | 5 to 15  | years |

**Financial Statements for the year ended 30 September 2010**

**Notes to the Financial Statements (continued)**

**1. Significant accounting policies (continued)**

**(f) Impairment**

The carrying amounts of all assets are reviewed at each balance sheet date to determine whether there is any indication of impairment.

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 profit and loss statement, 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.

**(g) Inventories**

Inventory are valued at the lower of purchase cost, which is based on invoice prices and includes expenditure incurred in acquiring the goods and bring them to their existing condition and location, 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.

**(h) Trade and other receivables**

Trade and other receivables are stated at their cost less impairment losses (see accounting policy f).

**(i) Interest bearing loans and borrowings**

Interest bearing loans and borrowings are initially recorded at the net proceeds received. Any discount, premium or other difference between the net proceeds and the redemption value is amortised and included in finance costs over the term of the loan.

If debt is repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognised immediately in the profit and loss statement.

**(j) Revenue (rates and dues, interest, rental)**

Revenue from the sale of goods is recognised in the profit and loss statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in the profit and loss statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably, there is a risk of return of goods or there is continuing management involvement with the goods.

Interest income is recognised in the profit and loss statement as it accrues, using the effective interest method. Dividend income is recognised in the profit and loss statement on the date the entity's right to receive payments is established which in the case of quoted securities is ex-dividend date.

**(k) Trade and other payables**

Trade and other payables are stated cost.

# **Solomon Islands Ports Authority**

## **Financial Statements for the year ended 30 September 2010**

### **Notes to the Financial Statements (continued)**

#### **1. Significant accounting policies (continued)**

##### **(l) Taxation**

Pursuant to Schedule 3 of the Income tax Act, the income of the Solomon Islands Ports Authority is exempt from tax, in so far, as such 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.

##### **(m) Investment property**

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are stated at fair value. Fair value has been determined as the lower of the latest available independent valuations, indexed during intervening years by the official CPI index of the Solomon Islands, and the present value of future cash flows from the investment properties, as described below.

The valuations are prepared by considering the aggregate of the net annual rents receivable from the properties and where relevant, associated costs. A yield which reflects the specific risks inherent in the net cash flows is then applied to the net annual rentals to arrive at the property valuation. Valuations reflect, where appropriate; the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting of vacant accommodation and the market's general perception of their credit-worthiness; the allocation of maintenance and insurance responsibilities between lessor and lessee; and the remaining economic life of the property. It has been assumed that whenever rent reviews or lease renewals are pending with anticipated reversionary increases, all notices and where appropriate counter notices have been served validly and within the appropriate time.

Any gain or loss arising from a change in fair value is recognised in the profit and loss statement. Rental income from investment property is recognised in the profit and loss statement on a straight line basis over the term of the lease.

# **Solomon Islands Ports Authority**

## **Financial Statements for the year ended 30 September 2010**

### **Notes to the Financial Statements (continued)**

#### **1. Significant accounting policies (continued)**

##### **(m) Investment property (continued)**

When an item of property, plant and equipment is transferred to investment property following a change in its use, any differences arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised directly in equity if it is a gain. Upon disposal of the item the gain is transferred to retained earnings. Any loss arising in this manner is recognised immediately in the profit and loss statement.

If an investment property becomes owner-occupied, it is reclassified as property, fixtures and fittings and its fair value at the date of reclassification becomes its cost for accounting purposes of subsequent recording. When SIPA begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property, which is measured based on a fair value model, and is not reclassified as property, plant and equipment during the redevelopment.

A property interest under an operating lease is classified and accounted for as an investment property on a property-by-property basis when SIPA holds it to earn rentals or for capital appreciation or both. Any such property interest under an operating lease classified as an investment property is carried at fair value. Lease payments are accounted for as described in accounting policy (v).

##### **(n) Investments**

Investments comprise deposits of cash in other than at call deposit accounts.

##### **(o) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits. 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.

##### **(p) Employee benefits**

SIPA's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods.

Liabilities for employee benefits for wages, salaries, annual leave that are expected to be settled within 12 months or greater than 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date, are calculated at amounts based on remuneration wage and salary rates that SIPA expects to pay as at reporting date including related on-costs.



# **Solomon Islands Ports Authority**

## **Financial Statements for the year ended 30 September 2010**

### **Notes to the Financial Statements (continued)**

#### **1. Significant accounting policies (continued)**

##### **(q) Segment reporting**

A segment is a distinguishable component of SIPA that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

##### **(r) Expenses**

###### ***Operating lease payments***

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

###### ***Financial costs***

Financial costs comprise interest payable on borrowings calculated using the effective interest method, foreign exchange losses and impairments of financial assets.

##### **(s) 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.

##### **(t) Reclassification**

Prior year balances have been reclassified to correspond to current year presentation where considered necessary.

# Solomon Islands Ports Authority

## Financial Statements for the year ended 30 September 2010

### Notes to the Financial Statements (continued)

|          |                  |                   |                   |
|----------|------------------|-------------------|-------------------|
| <b>2</b> | <b>EMPLOYEES</b> | <b>2010</b>       | <b>2009</b>       |
|          |                  | <b>\$</b>         | <b>\$</b>         |
|          | Staff costs      | <u>22,481,994</u> | <u>19,997,928</u> |

The number of permanent employees at the end of the year were 197 (2009: 195).

|          |                         |                    |                    |
|----------|-------------------------|--------------------|--------------------|
| <b>3</b> | <b>NET FINANCE COST</b> | <b>2010</b>        | <b>2009</b>        |
|          |                         | <b>\$</b>          | <b>\$</b>          |
|          | <b>Finance income</b>   |                    |                    |
|          | Interest income         | 21,731             | 8,824              |
|          | <b>Finance expense</b>  |                    |                    |
|          | Interest expense        | (1,421,047)        | (1,469,876)        |
|          | Exchange losses         | -                  | (902,595)          |
|          | Other                   | (44,062)           | (27,564)           |
|          |                         | <u>(1,465,109)</u> | <u>(2,400,035)</u> |
|          | Net finance costs       | <u>(1,443,378)</u> | <u>(2,391,211)</u> |

# Solomon Islands Ports Authority

## Financial Statements for the year ended 30 September 2010

### Notes to the Financial Statements (continued)

|           |  |                   |                   |
|-----------|--|-------------------|-------------------|
| <b>4</b>  | <b>TRADE AND OTHER RECEIVABLES</b>   | 2010              | 2009              |
|           |  | \$                | \$                |
|           | Trade debtors  | 14,396,949        | 13,211,220        |
|           | Less : Provision for doubtful debts  | (6,956,247)       | (3,022,013)       |
|           | Other debtors and prepayments  | 3,198,496         | 2,681,391         |
|           |  | <u>10,639,198</u> | <u>12,870,598</u> |
| <b>5</b>  | <b>INVENTORIES</b>   |                   |                   |
|           | Gasoline   | 2,511             | 914               |
|           | Diesoline  | 1,666             | 15,697            |
|           | Oil  | 63,871            | 63,165            |
|           | Grease   | 32,846            | -                 |
|           | Tyres & Tubes  | 375,726           | 725,675           |
|           |  | <u>476,620</u>    | <u>805,451</u>    |
| <b>6</b>  | <b>INVESTMENTS</b>   |                   |                   |
|           | Term deposits  | 896,689           | 881,774           |
|           |  | <u>896,689</u>    | <u>881,774</u>    |
| <b>7.</b> | <b>COMMITMENTS</b>   |                   |                   |
|           | The Authority has contractual commitment of \$1,990,049 (2009: \$nil) in respect of capital expenditure. |                   |                   |
| <b>8</b>  | <b>INVESTMENT PROPERTY</b>   | 2010              | 2009              |
|           |  | \$                | \$                |
|           | Opening balance  | 6,878,544         | 6,519,177         |
|           | Fair value adjustments   | 75,665            | 359,367           |
|           | Closing balance  | <u>6,954,209</u>  | <u>6,878,544</u>  |

The carrying amount of investment property is the fair value of the property as determined by the directors.

#### Leases as lessor

The State Owned Enterprise leases out its investment property under operating leases. The leases are renegotiated on an annual basis.

During the year ended 30 September 2010, \$3,255,690 was recognized as rental income in the profit and loss statement (2009: \$2,734,148) and \$172,718 in respect of repairs and maintenance was recognized as an expense in the profit and loss statement relating to investment property (2009: \$1,476,549).

# Solomon Islands Ports Authority

## Financial Statements for the year ended 30 September 2010

### Notes to the Financial Statements (continued)

#### 9 PROPERTY, PLANT AND EQUIPMENT

|                                     | Property<br>under<br>construction<br>\$ | Land and<br>Buildings<br>\$ | Wharves<br>and Jetties<br>\$ | Vehicles<br>\$    | Plant and<br>equipment<br>\$ | Total<br>\$        |
|-------------------------------------|---|-----------------------------|------------------------------|-------------------|------------------------------|--------------------|
| <b>Cost</b>                         |   |                             |                              |                   |                              |                    |
| At 1 October<br>2009                | 3,814,812                               | 29,951,015                  | 39,441,269                   | 24,148,077        | 9,421,467                    | 106,776,640        |
| Additions                           | 3,721,614                               | 39,249                      | -                            | 513,462           | 1,284,164                    | 5,558,489          |
| Transfers                           | -                                       | -                           | -                            | -                 | -                            | -                  |
| Disposals                           | -                                       | -                           | -                            | (1,078,546)       | (946,398)                    | (2,024,944)        |
| At 30<br>September<br>2010          | <u>7,536,426</u>                        | <u>29,990,264</u>           | <u>39,441,269</u>            | <u>23,582,993</u> | <u>9,759,233</u>             | <u>110,310,185</u> |
| <b>Accumulated<br/>Depreciation</b> |   |                             |                              |                   |                              |                    |
| At 1 October<br>2009                | -                                       | 16,881,242                  | 25,745,210                   | 10,882,560        | 5,182,050                    | 58,691,062         |
| Charge for<br>the year              | -                                       | 839,508                     | 1,314,709                    | 1,703,968         | 936,070                      | 4,794,255          |
| Disposals                           | -                                       | -                           | -                            | (962,109)         | (742,630)                    | (1,704,739)        |
| At 30<br>September<br>2010          | <u>-</u>                                | <u>17,720,750</u>           | <u>27,059,919</u>            | <u>11,624,419</u> | <u>5,375,490</u>             | <u>61,780,578</u>  |
| <b>Book value</b>                   |   |                             |                              |                   |                              |                    |
| At 30<br>September<br>2009          | <u>3,814,812</u>                        | <u>13,069,773</u>           | <u>13,696,060</u>            | <u>13,265,518</u> | <u>4,239,417</u>             | <u>48,085,580</u>  |
| At 30<br>September<br>2010          | <u>7,536,426</u>                        | <u>12,269,514</u>           | <u>12,381,351</u>            | <u>11,958,575</u> | <u>4,383,743</u>             | <u>48,529,607</u>  |

# Solomon Islands Ports Authority

## Financial Statements for the year ended 30 September 2010

### Notes to the Financial Statements (continued)

|           |   |                          |                          |
|-----------|---|--------------------------|--------------------------|
| <b>10</b> | <b>TRADE AND OTHER PAYABLES</b>   | <b>2010</b>              | <b>2009</b>              |
|           |   | <b>\$</b>                | <b>\$</b>                |
|           | Trade creditors   | 1,734,362                | 215,376                  |
|           | Other creditors and accrued expenses                                    | <u>1,794,337</u>         | <u>1,837,835</u>         |
|           |   | <u><u>3,528,699</u></u>  | <u><u>2,053,211</u></u>  |
| <br>      |   |                          |                          |
| <b>11</b> | <b>INTEREST BEARING LOANS AND BORROWINGS</b>                            | <b>2010</b>              | <b>2009</b>              |
|           |   | <b>\$</b>                | <b>\$</b>                |
|           | <b>Current</b>  |                          |                          |
|           | Loan from Solomon Islands Government                                    | <u>1,565,686</u>         | <u>1,852,119</u>         |
|           |   | <u><u>1,565,686</u></u>  | <u><u>1,852,119</u></u>  |
|           | <b>Non-current</b>  |                          |                          |
|           | Loan from Solomon Islands Government                                    | <u>14,872,114</u>        | <u>16,999,343</u>        |
|           |   | <u><u>14,872,114</u></u> | <u><u>16,999,343</u></u> |
|           | <br>Repayments of non-current debt are scheduled as follows:            |                          |                          |
|           | More than one year, less than two years                                 | 4,500,000                | 4,000,000                |
|           | More than two years, less than three years                              | 4,505,000                | 4,500,000                |
|           | More than three years, less than four years                             | 4,280,311                | 4,505,000                |
|           | More than four years, less than five years                              | <u>1,586,338</u>         | <u>3,994,343</u>         |
|           |   | <u><u>14,872,114</u></u> | <u><u>16,999,343</u></u> |
|           | <br><b>Financing facilities</b>   |                          |                          |
|           | The State Owned Enterprise has access to the following lines of credit: |                          |                          |
|           | Bank overdraft  | <u>1,000,000</u>         | <u>1,000,000</u>         |
|           |   | <u><u>1,000,000</u></u>  | <u><u>1,000,000</u></u>  |
|           | <br><i>Facilities utilized at balance date</i>                          |                          |                          |
|           | Bank overdraft  | <u>-</u>                 | <u>-</u>                 |
|           |   | <u><u>-</u></u>          | <u><u>-</u></u>          |

# Solomon Islands Ports Authority

## Financial Statements for the year ended 30 September 2010

### Notes to the Financial Statements (continued)

#### 11 INTEREST BEARING LOANS AND BORROWINGS (continued)

##### Bank Facilities and Security

##### Bank overdraft

Interest on bank overdrafts is charged at prevailing market rates.

The total bank overdraft of SIPA is secured by a floating charge over SIPA's assets. The bank overdrafts are payable on demand and are subject to annual review.

##### Other loans

Loans from the Solomon Island Government are charged at contracted market rates of interest.

##### Finance leases

SIPA does not have any finance lease liabilities.

| 12 EMPLOYEE BENEFITS                | 2010<br>\$       | 2009<br>\$       |
|-------------------------------------|------------------|------------------|
| Current liability                   | 286,919          | 375,294          |
| Non-current liability               | 4,998,923        | 4,438,284        |
|                                     | <u>5,285,842</u> | <u>4,813,578</u> |
| Opening balance                     | 4,813,578        | 4,451,662        |
| Provisions made during the year     | 1,220,510        | 361,916          |
| Provisions utilized during the year | (748,246)        | -                |
| Provisions reversed during the year | -                | -                |
| Closing balance                     | <u>5,285,842</u> | <u>4,813,578</u> |

##### Post-employment benefits

SIPA contributes to a defined contribution superannuation plan. SIPA matches contributions to the fund made by employees up to 7.5% of the employee's base salary. Employee contributions are based on various percentages of their gross salaries. During 2010 SIPA has expensed \$1,296,405 in contributions payable (2009: \$1,424,599).

# Solomon Islands Ports Authority

## Financial Statements for the year ended 30 September 2010

### Notes to the Financial Statements (continued)

#### 13 RELATED PARTIES

|   | 2010             | 2009           |
|---|------------------|----------------|
|   | \$               | \$             |
| <b>Controlled entities</b>                |                  |                |
| SIPA does not control any other entities. |                  |                |
| <b>Outstanding balances</b>               |                  |                |
| The following balance were owing to SIPA: |                  |                |
| Commodity Export Marketing Authority      | 2,904            | 3,388          |
| Guadalcanal Province                      | 139,771          | -              |
| Marine Division, SIG                      | 59,420           | -              |
| Ministry of Lands and Housing             | -                | -              |
| Ministry of Finance                       | 175,253          | 175,253        |
| Makira Ulawa Province                     | 232,757          | -              |
| SI National Sustainable Agriculture       | 188,155          | -              |
| National Fisheries Dev                    | 226,563          | -              |
| Solomon Islands Water Authority           | 2,198            | -              |
| Solomon Islands Electricity Authority     | -                | -              |
|   | <u>1,027,021</u> | <u>178,641</u> |

The directors received total remuneration during the year of \$57,750 (2009: \$82,325)

#### 14 FINANCIAL INSTRUMENTS

Exposure to credit, interest rate and currency risks arises in the normal course of SIPA's business.

##### Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. SIPA does not require collateral in respect of financial assets.

Investments are allowed only in liquid securities and only with counterparties that have a credit rating equal to or better than SIPA.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

# Solomon Islands Ports Authority

## Financial Statements for the year ended 30 September 2010

### Notes to the Financial Statements (continued)

The effective interest rates applicable to financial assets and liabilities at the balance date, and the term to maturity are set out below:

|                           | Note | Effective<br>interest<br>rate % | Total               | less than<br>1 year | 1 to 2<br>years    | 2 to 5<br>years     |
|---------------------------|------|---------------------------------|---------------------|---------------------|--------------------|---------------------|
| <b>2010</b>               |      |                                 |                     |                     |                    |                     |
| Cash and cash equivalents | 16   | 0.6                             | 2,016,048           | 2,016,048           | -                  | -                   |
| Investments               | 7    | 1.5                             | 896,689             | 896,689             | -                  | -                   |
| Loans and borrowings      | 12   | 7.4                             | (16,437,800)        | (1,565,686)         | (4,500,000)        | (10,372,114)        |
|                           |      |                                 | <u>(13,525,063)</u> | <u>(1,347,051)</u>  | <u>(4,500,000)</u> | <u>(10,372,114)</u> |
| <b>2009</b>               |      |                                 |                     |                     |                    |                     |
| Cash and cash equivalents | 16   | 0.6                             | 2,591,987           | 2,591,987           | -                  | -                   |
| Investments               | 7    | 1.5                             | 881,774             | 881,774             | -                  | -                   |
| Loans and borrowings      | 12   | 7.4                             | (18,851,462)        | (1,852,119)         | (3,500,000)        | (13,499,343)        |
|                           |      |                                 | <u>(15,377,701)</u> | <u>1,621,642</u>    | <u>(3,500,000)</u> | <u>(13,499,343)</u> |

#### Foreign currency risk

SIPA is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the \$. The currencies giving rise to this risk are primarily Special Drawing Rights and Great British Pounds.

#### Sensitivity analysis

In managing interest rate and currency risks SIPA aims to reduce the impact of short-term fluctuations on SIPA's earnings. Over the longer-term, however, permanent changes in foreign exchange and interest rates would have an impact on State Owned Enterprise's earnings.

At 30 September 2010, it is estimated that a general increase of one percentage point in interest rates would decrease SIPA's profit by approximately \$14,188 (2009: \$188,515).

It is estimated that a general increase of one percentage point in the value of the \$ against other foreign currencies would have increased SIPA's profit before tax by approximately \$174,103 for the year ended 30 September 2010 (2009: \$63,401).

It is estimated that a general decrease of one percentage point in the value of the \$ against other foreign currencies would have decreased SIPA's profit before tax by approximately \$174,103 for the year ended 30 September 2010 (2009: \$63,401).

#### Fair values

The carrying amount of assets and liabilities shown in the balance sheet approximates their fair values.



# Solomon Islands Ports Authority

## Financial Statements for the year ended 30 September 2010

### 15 NOTES TO THE STATEMENT OF CASH FLOWS

#### (a) Reconciliation of cash

For the purpose of the Statement of Cash Flows, cash includes cash on hand and at bank and short-term deposits at call, net of outstanding bank overdrafts. Cash as at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the balance sheet as follows:

|                              | 2010<br>\$       | 2009<br>\$       |
|------------------------------|------------------|------------------|
| Cash and short term deposits | 2,015,898        | 2,289,366        |
| Cash on hand                 | 150              | 302,621          |
| Short term deposit           | 896,689          | 881,774          |
|                              | <u>2,912,737</u> | <u>3,473,761</u> |

#### (b) Reconciliation of operating profit after income tax to net cash provided by operating activities

|  | 2010<br>\$       | 2009<br>\$        |
|--|------------------|-------------------|
| Operating profit / (loss) after income tax   | (945,755)        | 2,900,425         |
| Add / (deduct) items classified as investing / financing activities:               |                  |                   |
| (Profit) / loss on sale of non-current assets                                      | 268,526          | (12,118)          |
| Interest income  | (21,732)         | (8,824)           |
| Add / (deduct) non-cash items:   |                  |                   |
| Revaluation of Investment Property   | (75,665)         | (359,368)         |
| Bad debts provision  | 3,934,234        | 893,707           |
| Exchange losses/(gain)   | (847,977)        | 902,595           |
| Depreciation   | 4,794,255        | 5,792,775         |
| Net cash provided by operating activities before changes in assets and liabilities | <u>7,105,886</u> | <u>10,109,192</u> |
| Changes in assets and liabilities  |                  |                   |
| (Increase) / decrease in inventories   | 328,831          | 12,889            |
| (Increase) / decrease in trade debtors   | (1,185,729)      | (2,824,597)       |
| (Increase) / decrease in prepayments   | (1,707,003)      | (1,444,019)       |
| Increase / (decrease) in trade creditors   | 1,518,986        | (1,026,937)       |
| Increase / (decrease) in trade accruals  | (43,498)         | (3,587,793)       |
| Increase / (decrease) in employee benefits   | 472,264          | 361,916           |
| Net cash provided by operating activities  | <u>6,489,737</u> | <u>1,600,650</u>  |