

Solomon Islands Water Authority

Financial Statements

For the year ended

31 December 2011

Solomon Islands Water Authority
For the year ended 31 December 2011

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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 2011 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)

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 2011 and the statement of comprehensive income, statement of changes in equity and statement of cash flows gives 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 loss amounted to SBD 22,914,306 (2010: SBD13,138,030).

Going concern and financial support

The Authority had a working capital deficiency of SBD31,011,859 and deficit of shareholders fund of SBD17,163,931 as at 31 December 2011 and incurred a net loss of SBD22,914,306 for the year ended on that date. The Authority's continuation as a going concern is dependent upon its ability to maintain appropriate financing, the support of the Solomon Islands Government and/or to generate sufficient cash flows from operations in order to meet its obligations and to return to profitable operations.

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 during the year

In October 2011, approximately SBD14.92m was obtained from AusAID for the funding of the Authority's recovery and action plan. Additionally, approximately SBD170m was obtained from JICA (Japanese International Co-operation Agency) for the funding of the Authority's medium term water supply improvement project.

Subsequent 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 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.

Apart from this event, 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 26th day of July 2012.

Signed in accordance with a resolution of the directors.


Director


Director

D. T. LAURIE



INDEPENDENT AUDITOR'S REPORT

To the Board of the Solomon Islands Water Authority

I was engaged to audit the accompanying financial statements of the Solomon Islands Water Authority ("the Authority"), which comprise the statement of financial position as at 31 December 2011, 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 3 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.

Auditors' 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 my judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, I consider internal control relevant to the Authority'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.

Because of the matters described in the basis for disclaimer of opinion on the statement of comprehensive income, 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 statement of comprehensive income, statement of changes equity and statement of cash flows. However, I did obtain sufficient and appropriate audit evidence to provide a basis for an unmodified opinion on the statement of financial position.

Basis for Disclaimer of Opinion on the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows

I was unable to express an opinion on the financial statements of the Authority for the year ended 31 December 2010 due to the significant limitations on the scope of my work and therefore any potential adjustments that may have been necessary in the areas of property, plant and equipment, inventories, trade and other receivables, trade and other payables, revenue and expenses. As a consequence, I was unable to satisfy myself as to the appropriateness of the loss for the year ended 31 December 2010 and the accumulated losses

INDEPENDENT AUDITOR'S REPORT

To the Board of the Solomon Islands Water Authority

Basis for Disclaimer of Opinion on the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows (continued)

at 31 December 2010. The results and cash flows of the Authority for the year ended 31 December 2011 would be affected to the extent of any misstatement or omission within property, plant and equipment, inventories, trade and other receivables, trade and other payables, revenue and expenses and accumulated losses as at 31 December 2010.

Disclaimer of Opinion on the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows

In my opinion, because of the limitations on the scope of my work as described in the basis for disclaimer of opinion paragraph above, and the effect of such adjustments, if any, as might have been determined to be necessary had the limitations in the scope not existed, I am unable to, and do not, express an opinion of the results of the Authority's operations and its cash flows for the year ended 31 December 2011.

Unmodified Opinion on the Statement of Financial Position

In my opinion, the statement of financial position of the Solomon Islands Water Authority gives a true and fair view of the financial position of the Authority as at 31 December 2011 in accordance with International Financial Reporting Standards and the State Owned Enterprises Act.

Emphasis of Matter

Without further qualifying 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.

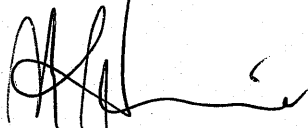
Report on Other Legal and Regulatory Requirements

Lack of compliance with Public Finance and Audit Act

The Authority has not complied with the requirements of the *Public Finance and Audit Act* which requires the audited financial statements to be placed before the Minister responsible before 31 March of the following year to which the financial statements relate.

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
Honiara, Solomon Islands

16th August 2012

Solomon Islands Water Authority
Statement of comprehensive income
For the year ended 31 December 2011

	Note	2011 SBD	2010 SBD
Revenue	5	24,980,082	25,400,474
Other income	6	<u>1,083,937</u>	<u>535,877</u>
		26,064,019	25,936,351
Less expenses			
Corporate expenses	7	(3,050,342)	(1,631,439)
Depreciation	11	(3,432,504)	(3,529,547)
Employee costs	8	(10,243,026)	(9,043,262)
Allowance for uncollectability		(9,233,890)	-
Bad debts written off		-	51,044
Repairs and maintenance		(3,077,425)	(1,398,868)
Tools and uniforms		(160,871)	(91,334)
Utilities	9	(18,258,164)	(15,107,641)
Water treatment		(475,751)	(472,137)
Other expenses	10	(1,047,647)	(7,851,197)
Loss from operations		<u>(22,915,600)</u>	<u>(13,138,030)</u>
Finance income		1,294	-
Net loss for the year		<u>(22,914,306)</u>	<u>(13,138,030)</u>
Other comprehensive income		-	-
Total comprehensive loss for the year		<u><u>(22,914,306)</u></u>	<u><u>(13,138,030)</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 2011

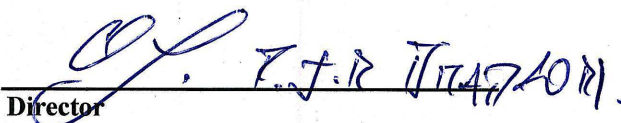
	Contributed capital SBD	Accumulated losses SBD	Total SBD
Balance at 1 January 2010	39,625,874	(20,737,469)	18,888,405
<i>Total comprehensive income for the year</i>			
Net loss for the year	-	(13,138,030)	(13,138,030)
Other comprehensive income	-	-	-
	<u>-</u>	<u>(13,138,030)</u>	<u>(13,138,030)</u>
Balance at 31 December 2010	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	-	-	-
	<u>-</u>	<u>(22,914,306)</u>	<u>(22,914,306)</u>
Balance at 31 December 2011	<u>39,625,874</u>	<u>(56,789,805)</u>	<u>(17,163,931)</u>


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 2011

Assets	Note	2011 SBD	2010 SBD
Non-current asset			
Property, plant and equipment	11	<u>13,847,928</u>	<u>16,354,679</u>
Total non-current asset		<u>13,847,928</u>	<u>16,354,679</u>
Current assets			
Cash and cash equivalents	12	2,946,024	1,793,840
Inventories	13	763,686	815,039
Trade and other receivables	14	<u>9,128,235</u>	<u>19,322,662</u>
Total current assets		<u>12,837,945</u>	<u>21,931,541</u>
Total assets		<u>26,685,873</u>	<u>38,286,220</u>
Equity			
Contributed capital	15	39,625,874	39,625,874
Accumulated losses		<u>(56,789,805)</u>	<u>(33,875,499)</u>
Deficiency in equity		<u>(17,163,931)</u>	<u>5,750,375</u>
Current liabilities			
Employee benefits	16	1,731,180	2,704,010
Trade and other payables	17	<u>42,118,624</u>	<u>29,831,835</u>
Total current liabilities		<u>43,849,804</u>	<u>32,535,845</u>
Total liabilities		<u>43,849,804</u>	<u>32,535,845</u>
Total equity and liabilities		<u>26,685,873</u>	<u>38,286,220</u>

Signed for and on behalf of the Board of Directors


 Director


 Director
 D.T. LAURIE

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 2011

	Note	2011 SBD	2010 SBD
Cash flows from operating activities			
Cash received from customers		26,713,936	21,296,087
Cash paid to suppliers and employees		<u>(24,947,914)</u>	<u>(20,230,880)</u>
Cash generated from operations		<u>1,766,022</u>	<u>1,065,207</u>
Interest received		1,294	-
Net cash provided by operating activities		<u>1,767,316</u>	<u>1,065,207</u>
Cash flows from investing activity			
Proceeds from sale of property, plant and equipment		686,290	-
Payments for property, plant and equipment		<u>(1,301,422)</u>	<u>(924,752)</u>
Net cash used in investing activity		<u>(615,132)</u>	<u>(924,752)</u>
Net increase in cash and cash equivalents		1,152,184	140,455
Cash and cash equivalents at the beginning of the year		1,793,840	1,653,385
Cash and cash equivalents at 31 December	12	<u><u>2,946,024</u></u>	<u><u>1,793,840</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 2011

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 26/7/12.

(b) Going concern and financial support

The Authority had a working capital deficiency of SBD31,011,859 and deficit of shareholders fund of SBD17,163,931 as at 31 December 2011 and incurred a net loss of SBD22,914,306 for the year ended on that date. The Authority's continuation as a going concern is dependent upon its ability to maintain appropriate financing, the support of the Solomon Islands Government and/or to generate sufficient cash flows from operations in order to meet its obligations and to return to profitable operations.

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 2011

2. Basis of preparation (continued)

Use of estimates and judgments (continued)

- Note 13 - Inventories
- Note 14 - Trade and other receivables
- Note 20 - 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 2011, 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 and IFRS 13 Fair Value Measurement, which become mandatory for the Authority's 2013 financial statements and could change the classification and measurement of financial assets.

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 on historical cost are translated using the exchange rate at the end of the year. The foreign currency gain or loss on translation are recognised in the profit or loss.

(b) Financial instruments

(i) Non derivative financial asset

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 2011

3. Significant accounting policies (continued)

(b) Financial instruments (continued)

(i) Non derivative financial asset (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 funds contributed by the Government to establish the Authority as a statutory entity.

Solomon Islands Water Authority
Notes to the financial statements
For the year ended 31 December 2011

3. Significant accounting policies (continued)

(c) Property, plant and equipment

(i) Recognition and measurement

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

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 2011

3. Significant accounting policies (continued)

(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.

Net realisable value is the estimated selling price in the ordinary course of the business, less the estimated costs of completion.

(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.

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.

Solomon Islands Water Authority
Notes to the financial statements
For the year ended 31 December 2011

3. Significant accounting policies (continued)

(e) Impairment (continued)

(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.

(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.

Solomon Islands Water Authority
Notes to the financial statements
For the year ended 31 December 2011

3. Significant accounting policies (continued)

(j) Government grants

An unconditional government grant related to an asset is recognised in profit or loss as other income when the grant becomes receivable.

Other 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
- iv) Interest rate risk

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

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.

Solomon Islands Water Authority
Notes to the financial statements
For the year ended 31 December 2011

4. Financial risk management (continued)

(i) Credit risk (continued)

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:

	2011	2010
	SBD	SBD
Cash and cash equivalents	2,946,024	1,793,840
Trade receivables	8,808,175	19,068,545
Other receivables excluding prepayments	229,143	222,280
	<u>11,983,342</u>	<u>21,084,665</u>

Trade and other receivables are determined impaired as follows:

Trade and other receivables

Gross receivables	28,691,078	29,717,558
Provision for impairment	<u>(19,882,903)</u>	<u>(10,649,013)</u>
	<u>8,808,175</u>	<u>19,068,545</u>

(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.

Solomon Islands Water Authority
Notes to the financial statements
For the year ended 31 December 2011

4. Financial risk management (continued)

(ii) Liquidity risk (continued)

The following are the contractual maturities of financial liabilities:

31 December 2011

	Carrying amount SBD	6 months or less SBD	6-12 months SBD	1- 2years SBD
<u>Financial liabilities</u>				
Trade and other payables	42,118,624	42,118,624	-	-

31 December 2010

	Carrying amount SBD	6 months or less SBD	6-12 months SBD	1- 2years SBD
<u>Financial liabilities</u>				
Trade and other payables	29,831,835	29,831,835	-	-

(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 risk faced by the Authority are not material.

(iv) 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 minimal.

5. Revenue

	2011 SBD	2010 SBD
Water fees and charges	23,381,944	24,298,590
Standing charges	1,221,298	947,772
Disconnections / reconnection charges	376,840	154,112
	<u>24,980,082</u>	<u>25,400,474</u>

Solomon Islands Water Authority
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	2011	2010
	SBD	SBD
6. Other income		
Profit on sale of assets	686,290	-
Miscellaneous income	397,647	535,877
	<u>1,083,937</u>	<u>535,877</u>
7. Corporate expenses		
Included in corporate expenses are the following items:		
Advertising	88,231	107,601
Audit fees	227,810	29,360
Board allowances	37,699	78,839
Travel and transport	75,114	442,424
Printing and stationery	171,963	194,650
Insurance	133,764	116,301
Software training and computer consumables	297,999	79,972
Telephone	296,179	267,012
	<u>2,039,558</u>	<u>1,215,159</u>
8. Employee costs		
Wages and salaries	7,580,482	5,608,035
Key management personnel (refer note 18 (e))	-	316,319
National Provident Fund Contributions	419,686	113,229
House rentals and allowances	1,800,922	2,337,493
Other staff related costs	441,936	668,186
	<u>10,243,026</u>	<u>9,043,262</u>
9. Utilities		
Electricity	18,136,223	15,050,102
Fuel	121,941	57,539
	<u>18,258,164</u>	<u>15,107,641</u>
10. Other expenses		
General expenses	145,418	3,411,956
Motor vehicle running expenses	902,229	982,925
Other unreconciled expenses	-	3,456,316
	<u>1,047,647</u>	<u>7,851,197</u>

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11. Property, plant and equipment

	Water systems SBD	Land and buildings SBD	Machinery and equipment SBD	Motor vehicles SBD	Furniture, fittings and fittings SBD	Total SBD
Cost						
Balance at 1 January 2010	49,253,221	4,654,378	5,311,402	5,008,309	1,383,184	65,610,494
Additions	515,016	149,834	-	-	259,902	924,752
Balance at 31 December 2010	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 as 31 December 2011	49,781,697	4,301,412	5,614,432	3,582,284	1,746,272	65,026,097
Depreciation						
Balance at 1 January 2010	34,898,106	2,256,834	4,403,867	3,969,210	1,123,003	46,651,020
Depreciation charge for the year	2,406,178	236,320	235,957	471,394	179,698	3,529,547
Balance at 31 December 2010	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 as 31 December 2011	39,530,160	2,474,227	4,673,258	3,052,950	1,447,574	51,178,169
Carrying amounts						
At 1 January 2010	14,355,115	2,397,544	907,535	1,039,099	260,181	18,959,474
At 31 December 2010	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

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	2011	2010
	SBD	SBD
12. Cash and cash equivalents		
Cash at bank	940,524	1,792,540
Cash on hand	5,500	1,300
Term deposits	2,000,000	-
	<u>2,946,024</u>	<u>1,793,840</u>

13. Inventories		
Stores and consumables	<u>763,686</u>	<u>815,039</u>

14. Trade and other receivables		
Trade receivables	28,691,078	29,717,558
Allowance for uncollectability	<u>(19,882,903)</u>	<u>(10,649,013)</u>
	8,808,175	19,068,545
Staff advances	57,252	222,280
Other receivables and prepayments	<u>262,808</u>	<u>31,837</u>
	<u>9,128,235</u>	<u>19,322,662</u>

<u>Allowance for uncollectability</u>		
Balance at 1 January	(10,649,013)	(10,700,057)
Impairment recognised	(9,233,890)	-
Bad debts written off during the year	-	51,044
Balance at 31 December	<u>(19,882,903)</u>	<u>(10,649,013)</u>

15. Contributed capital		
Contributed capital	<u>39,625,874</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.

16. Employee benefits	2011	2010
	SBD	SBD
Balance at 1 January	2,704,010	2,415,636
Net movement during the year	<u>(972,830)</u>	<u>288,374</u>
Balance at 31 December	<u>1,731,180</u>	<u>2,704,010</u>

Represented by:

Current long service and annual leave	1,731,180	2,704,010
Non-current long service leave	-	-
	<u>1,731,180</u>	<u>2,704,010</u>

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	2011	2010
	SBD	SBD
17. Trade and other payables		
Trade creditors	58,435	239,791
Payable to Solomon Island Electricity Authority (refer Note 18 (c))	36,462,032	26,056,372
Other payables	5,598,157	3,535,672
	<u>42,118,624</u>	<u>29,831,835</u>

18. Related parties

(a) Directors

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

- David Laurie
- Antoinette Wickam
- Ethel Frances
- Phil Bradford

Directors fees and expenses are disclosed in Note 18 (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

	2011	2010
	SBD	SBD
Solomon Island Electricity Authority	(36,462,032)	(26,056,372)
	<u>(36,462,032)</u>	<u>(26,056,372)</u>

(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. The aggregate value of major transactions with related parties during the year is as follows:

	2011	2010
	SBD	SBD
<u>Solomon Island Government</u>		
Water sales	<u>4,248,976</u>	<u>4,696,938</u>
<u>Solomon Island Electricity Authority</u>		
Purchase of electricity	<u>(18,136,223)</u>	<u>(15,050,102)</u>
<u>Directors</u>		
Directors remuneration and expenses	<u>37,699</u>	<u>112,874</u>

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18. Related parties (continued)

(e) Transactions with key management personnel

Key management compensation to local executive management 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.

19. Capital commitments

Capital commitments in respect of capital projects apart from donor funded projects are estimated at SBD Nil (2010: SBD Nil) for the ensuing year.

20. 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.

21. 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.

22. Subsequent 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 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.

Apart from this event, 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.