

**SOLOMON ISLANDS WATER AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

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**SOLOMON ISLANDS WATER AUTHORITY
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018**

Directors' Report

In accordance with a resolution of the Board of Directors, the Directors herewith submit the statement of financial position of the Solomon Islands Water Authority ('the Authority') at 31 December 2018, the related statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended on that date and report as follows:

Directors

The names of the Directors in office at the date of this report are:

- Mr Phil Bradford (Chairman) (re-appointed 2/2/2018 and retired 11/10/2018)
- Mr Carson Korowa (Chairman) (appointed 18/10/2018)
- Mr David Laurie (resigned 14/5/2018)
- Ms Ethel Frances (resigned 31/07/2018)
- Mr Trevor Palmer (appointed 31/07/2012)
- Ms Cynthia Wickham (appointed 12/03/2018)
- Mr Donald Marahare (appointed 12/03/2018)
- Mr John Belande (appointed 12/03/2018)
- Mr David Patternot (appointed 17/12/2018)
- Ms Gloria Hong (appointed 17/12/2018)

State of Affairs

In complying with the Solomon Islands Water Authority Act and the State Owned Enterprises Act of 2007, the Directors hereby submit the financial statements of the Authority consisting of the statement of financial position as at 31 December 2018, statement of comprehensive income, statement of changes in equity and statement of cash flows of the Authority for the year then ended.

Principal Activities

The principal activity of the Authority during the year was the treatment and distribution of water in the Solomon Islands. There was no significant change in the nature of this activity during the financial year.

Results

Operating profit for the year was SBD 5,403,263 (2017: SBD 7,336,197)

Dividends

The Directors recommend that no dividends be declared for the financial year (2017: nil)

Reserves

The Directors acknowledge that no transfer be made to or from reserves.

Bad and Doubtful Debts

Prior to the completion of the Authority's financial statements, the Directors took reasonable steps to ascertain that action had been taken in relation to writing off of bad debts and provisioning for doubtful debts. In the opinion of the Directors, adequate provision has been made for doubtful debts.

As at the date of this report, the Directors are not aware of any circumstances, which would render the amount written off for bad debts, or the provision for doubtful debts in the Authority, inadequate to any substantial extent.

SOLOMON ISLANDS WATER AUTHORITY
DIRECTORS' REPORT (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

Non-Current Assets

Prior to the completion of the financial statements of the Authority, the Directors took reasonable steps to ascertain whether any non-current assets were unlikely to be realised in the ordinary course of business compared to their values as shown in the accounting records of the Authority. Where necessary these assets have been written down or adequate provision has been made to bring the values of such assets to an amount that they might be expected to realise.

As at the date of this report, the Directors are not aware of any circumstances which would render the values attributed to non-current assets in the Authority's financial statements misleading.

Basis of Accounting

The Directors believe the basis of the preparation of the financial statements is appropriate and the Authority will be able to continue in operation for at least twelve months from the date of this statement. Accordingly, the Directors believe the classification and carrying amounts of assets and liabilities as stated in these financial statements to be appropriate.

Unusual Transactions

Apart from these matters and other matters specifically referred to in the financial statements, in the opinion of the Directors, the results of the operations of the Authority during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect substantially the results of the operations of the Authority in the current financial year, other than those reflected in the financial statements.

Events Subsequent to Balance Date

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Authority, the results of those operations, or the state of affairs of the Authority in future financial years.

Other Circumstances

As at the date of this report:

- a) No charge on the assets of the Authority has been given since the end of the financial year to secure the liabilities of any other person;
- b) No contingent liabilities have arisen since the end of the financial year for which the Authority could become liable; and
- c) No contingent liabilities or other liabilities of the Authority have become or are likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Authority to meet its obligations as and when they fall due.

As at the date of this report, the Directors are not aware of any circumstances that have arisen, not otherwise dealt with in this report or the Authority's financial statements, which would make adherence to the existing method of valuation of assets or liabilities of the Authority misleading or inappropriate.


Directors' Benefits

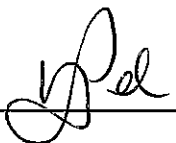
Since the beginning of this financial year, no Director has received or become entitled to receive a benefit (other than those included in the aggregate amount of emoluments received or due and receivable by Directors shown in the financial statements or received as the fixed salary of a full-time employee of the Authority) by reason of a contract made by the Authority with the Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

SOLOMON ISLANDS WATER AUTHORITY
DIRECTORS' REPORT (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

For and on behalf of the Board and in accordance with a resolution of the Directors.

Dated this 23rd day of May 2019

Director 

Director 

**SOLOMON ISLANDS WATER AUTHORITY
STATEMENT BY DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2018**

In the opinion of the Directors:

- a) the accompanying income statement of the Authority is drawn up so as to give a true and fair view of the results of the Authority for the year ended 31 December 2018;
- b) the accompanying statement of changes in equity is drawn up so as to give a true and fair view of the changes in equity for the year ended 31 December 2018;
- c) the accompanying statement of financial position of the Authority is drawn up so as to give a true and fair view of the state of affairs of the Authority as at 31 December 2018;
- d) the accompanying statements of cash flows of the Authority is drawn up so to give a true and fair view of the cash flows of the Authority for the year ended 31 December 2018;
- e) at the date of this statement there are reasonable grounds to believe the Authority will be able to pay its debts as and when they fall due; and
- f) All related party transactions have been adequately recorded in the books of the Authority.

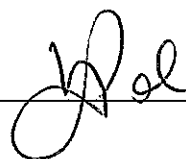
For and on behalf of the Board and in accordance with a resolution of the Directors.

Dated this 23rd day of May 2019

Director



Director





**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOLOMON ISLANDS
WATER AUTHORITY TRADING AS SOLOMON WATER**

Report on the Audit of the Financial Statements

Opinion

I have in joint consultation with the Board of the Authority pursuant to Solomon Islands Water Authority Act 1992 contracted Ernst & Young Fiji which is part of the EY International network to assist me to audit the accompanying financial statements of the Solomon Islands Water Authority ("the Authority"), which comprise the statement of financial position as at 31st December 2018, and the statements of comprehensive income, statement of changes in equity and cash flow statements for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Authority as at 31st December 2018, and of its financial performance, its changes in equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Responsibilities of Management and Directors for the Financial Statement

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

In preparing the financial statements, the Management and Directors are responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management and Directors either intend to liquidate the Authority or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditors' report. However, future events or conditions may cause the Authority to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

I also provide management and directors with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguard.

Report on Other Legal and Regulatory Requirements

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

In my opinion:

i) proper books of account have been kept by the Authority, sufficient to enable financial statements to be prepared, so far as it appears from my examination of those books; and

ii) to the best of my knowledge and according to the information and explanations given to us the financial statements give the information required by Solomon Islands Water Authority Act (Cap. 130), in the manner so required

iii) The Authority has not complied with the requirement of the Public Finance and Audit Act [Cap 120] and the State Owned Enterprises Act 2007 which requires the audited financial statements to be submitted to the Minister within three months after the end of the financial year. The signed statements were not presented to me until 23rd May 2019.



Peter Lokay
Auditor-General
24th May 2019

Office of the Auditor-General
Honiara, Solomon Islands

SOLOMON ISLANDS WATER AUTHORITY
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

		2018	2017
	Note	SBD	SBD
Continuing operations			
Revenue from contracts with customers	2.1	93,072,965	88,815,469
Other income	2.2	18,132,907	11,739,611
		<u>111,205,872</u>	<u>100,555,080</u>
Expenses			
Corporate expenses	2.3	(13,625,327)	(16,187,158)
Depreciation and amortisation		(16,610,996)	(10,987,832)
Salaries and employee benefits	2.4	(26,389,113)	(23,046,333)
Impairment of financial assets		(812,038)	(2,941,664)
Repairs and maintenance		(14,438,634)	(9,471,123)
Tools and uniforms		(1,272,362)	(761,896)
Utilities		(31,215,534)	(27,525,352)
Water treatment		(1,414,623)	(1,163,264)
Other expenses	2.5	(26,821)	(932,050)
		<u>(105,805,447)</u>	<u>(93,016,672)</u>
Finance costs	2.6	2,838	(202,211)
Net profit for the year		<u>5,403,263</u>	<u>7,336,197</u>
Other comprehensive income			
Other comprehensive income		-	-
Total comprehensive income for the year		<u>5,403,263</u>	<u>7,336,197</u>

The accompanying notes form an integral part of the statement of comprehensive income.

**SOLOMON ISLANDS WATER AUTHORITY
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018**

		2018	2017
	Note	SBD	SBD
Contributed capital			
Balance at the beginning of the year		59,625,874	59,625,874
Additional capital contribution		-	-
Balance at the end of the year	12.0	<u>59,625,874</u>	<u>59,625,874</u>
Asset revaluation reserve			
Balance at the beginning of the year		142,169,998	142,169,998
Movement during the year		-	-
Balance at the end of the year		<u>142,169,998</u>	<u>142,169,998</u>
Retained earnings			
Balance at the beginning of the year		13,827,885	6,491,688
Net comprehensive income for the year		5,403,263	7,336,197
Balance at the end of the year		<u>19,231,148</u>	<u>13,827,885</u>
Total Equity		<u>221,027,021</u>	<u>215,623,757</u>

The accompanying notes form an integral part of the statement of changes in equity.

**SOLOMON ISLANDS WATER AUTHORITY
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018**

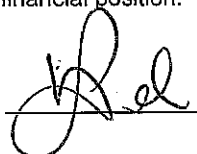
		2018	2017
	Note	SBD	SBD
Assets			
Current assets			
Cash and cash equivalents	3.0	47,705,278	63,816,465
Trade and other receivables	4.0	16,494,837	16,013,022
Inventories	5.0	12,885,223	8,392,851
Prepayments and other assets	6.0	1,174,230	1,889,708
Receivable from related parties	14.0(f)	433,287	2,794,598
		<u>78,692,855</u>	<u>92,906,644</u>
Non-current assets			
Property, plant and equipment	9.0	303,390,812	291,197,262
Intangibles	10.0	85,559	207,307
		<u>303,476,371</u>	<u>291,404,569</u>
Total assets		<u>382,169,227</u>	<u>384,311,213</u>
Liabilities			
Current liabilities			
Trade and other payables	7.0	15,337,631	15,427,198
Employee benefits liability	8.0	1,648,099	1,887,723
Deferred revenue	11.0	11,589,335	18,297,041
Payable to related parties	14.0(e)	5,010,345	2,974,651
		<u>33,585,408</u>	<u>38,586,613</u>
Non-current liabilities			
Trade and other payables		-	-
Payable to related parties	14.0(e)	425,302	1,145,765
Deferred revenue	11.0	127,131,495	128,955,078
		<u>127,556,797</u>	<u>130,100,843</u>
Total liabilities		<u>161,142,207</u>	<u>168,687,456</u>
Total net assets		<u>221,027,020</u>	<u>215,623,757</u>
Equity			
Capital contribution	12.0	59,625,874	59,625,874
Asset revaluation reserve		142,169,998	142,169,998
Retained earnings		19,231,148	13,827,885
Total equity		<u>221,027,021</u>	<u>215,623,757</u>
Total equity and liabilities		<u>382,169,227</u>	<u>384,311,213</u>

The accompanying notes form an integral part of the statement of financial position.

Director



Director



SOLOMON ISLANDS WATER AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

		2018	2017
	Note	SBD	SBD
Operating activities			
Net profit		5,403,263	7,336,197
Adjustment to reconcile profit to net cash flows			
Non-cash:			
Depreciation and amortisation of assets		16,610,996	10,987,832
Amortisation of deferred revenue		(11,589,335)	(8,102,873)
Gain on disposal of property, plant and equipment		-	(21,321)
Amortisation of discount on interest free loan		217,037	217,037
Interest income		(21,401)	(14,826)
Movements in employee benefit liabilities		(239,624)	(411,358)
Working capital adjustments:			
Non-cash:			
Decrease/(increase) in trade receivables		1,879,496	(1,788,304)
Decrease in other receivables		715,478	1,198,292
(Increase)/decrease in inventory		(4,492,372)	2,140,746
(Decrease)/increase in trade and other creditors		(89,568)	3,159,006
Net cash flows from Operating Activities		<u>8,393,970</u>	<u>14,700,428</u>
Investing activities			
Proceeds from sale of plant and equipment		-	125,000
Acquisition of plant and equipment		(25,624,752)	(20,755,317)
Purchase of intangible assets		-	(265,228)
Net cash flows (used in) Investing Activities		<u>(25,624,752)</u>	<u>(20,895,545)</u>
Financing activities			
Proceeds/(repayment) of related party borrowings		<u>1,119,595</u>	<u>(950,246)</u>
Net cash flows from/(used in) Financing Activities		<u>1,119,595</u>	<u>(950,246)</u>
Net decrease in cash held		(16,111,187)	(7,145,363)
Cash at the beginning of the year		63,816,465	70,961,828
Cash at end of year	3.0	<u><u>47,705,278</u></u>	<u><u>63,816,465</u></u>

The accompanying notes form an integral part of the statement of cash flows.

**SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1.0 Corporate Information

The financial statements of Solomon Islands Water Authority ('the Authority') for the year ended 31 December 2018 were authorised for issue with a resolution of the Directors on the _____ day of May 2019. The Authority is a state owned enterprise established under the Solomon Islands Water Authority Act 1993. The registered office and principal place of business is Mendana Avenue, Honiara, Solomon Islands. The principal activities of the Authority are described in Note 18. Information on other related party relationships of the Authority is provided in Note 14.

1.1 Basis of preparation

The financial statements have been prepared on a historical cost basis, except for investment properties, land and buildings classified as property, plant and equipment, contingent consideration and non-cash distribution liability that have been measured at fair value. The financial statements are presented in Solomon Island Dollars and all values are rounded to the nearest dollar.

The financial statements provide comparative information in respect of the previous period.

Statement of compliance

The financial statements of the Water Authority have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

1.2 Summary of significant accounting policies

i) Revenue recognition

The effect of initially applying IFRS 15 on the Authority's revenue from contracts with customers is described in Note 1.3(a). Due to the transition method chosen in applying IFRS 15, comparative information has not been restated to reflect the new requirement.

Policy applicable from 1 January 2018

Revenue is measured based on the consideration specified in a contract with a customer. The Authority recognises revenue when its transfers control over a good or service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers.

Products and services	Nature, timing of satisfaction of performance obligations and significant payment terms
Water sales	Customers obtain control of water when the goods are delivered to and have been accepted by using the water at their premises. Invoices are generated on a monthly basis and are usually payable within 30 days. No discounts are provided to the customers.

SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

1.2 Summary of significant accounting policies (continued)

Products and services	Nature, timing of satisfaction of performance obligations and significant payment terms
Installation	<p>The Authority charges for service and waste water installation in order to provide water to customers'. This is an up-front fee that customer pays in order to receive water at their premises.</p> <p>The fees does not transfer a distinct good or service to the customer and therefore is not a separate performance obligation.</p> <p>The fee is included in the transaction price and allocated to the performance obligation identified in the contract, being provision of water to the customer.</p>
Survey	<p>The Authority charges survey fee when a customer applies for a new connection and which relates to the Authority performing a survey to determine whether it will be able to provide water services to the customer based on water pressure and/or land issues in the area where the customer is located. This are charged to customers in order to provide water to their premises. This is an up-front fee that customer pays in order for the customer to receive water at their premises.</p> <p>The fees do not transfer a distinct good or service to the customer and therefore is not a separate performance obligation.</p> <p>The fee is included in the transaction price and allocated to the performance obligation identified in the contract, being provision of water to the customer.</p>
Plumbing and investigation	<p>The Authority charges plumbing and investigation fee when a customer requests for plumbing works to be carried out after the water meter to their homes.</p> <p>The fees do not transfer a distinct good or service to the customer and therefore is not a separate performance obligation.</p> <p>The fee is included in the transaction price and allocated to the performance obligation identified in the contract, being provision of water to the customer.</p>

SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

1.2 Summary of significant accounting policies (continued)

Products and services	Nature, timing of satisfaction of performance obligations and significant payment terms
Standing and unmetered	<p>The Authority charges standing fees on a monthly basis which relates to account maintenance and administration. Additionally, the Authority also charges unmetered fees to all domestic and commercial customers on a monthly basis regardless of the usage. The charges are for cases where meters are faulty, connections are connected without a meter due to meter shortages in the stores, meters buried because of landslides or deposits or meters are faulty. These charges continue until the meter is replaced with a functional meter.</p> <p>The fees do not transfer a distinct good or service to the customer and therefore is not a separate performance obligation.</p> <p>The fee is included in the transaction price and allocated to the performance obligation identified in the contract, being provision of water to the customer.</p>
Reconnection, disconnection, meter testing, service amplification and water and sewer main extension	<p>The Authority charges reconnection fee to reconnect a disconnected customer. Disconnection fee is charged to disconnect services on customer request or due to unpaid balances. The Authority charges meter testing fee when customers request for their meters to be tested to determine if it is working properly. Service amplification fees are charged when customers request for the current smaller sized pipes to be replaced with larger sized pipes due to increase demand. The Authority also charges water and sewer main extension fees when customers request to extend the current waste water service line or to divert the line from its current location.</p> <p>The Authority recognises revenue when the related service is provided to the customer i.e. point-in time.</p>

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Authority and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Authority has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude, and is also exposed to credit risks. The specific recognition criteria described below must also be met before revenue is recognised.

Revenue earned from the provision of water services is measured at fair value of the consideration received or receivable. 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 (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

1.2 Summary of significant accounting policies (continued)
Revenue recognition (continued)

Policy applicable from 1 January 2018 (continued)

ii) Interest income

For all financial instruments measured at amortised cost and interest-bearing financial assets classified as available-for-sale, interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income on the statement of profit or loss.

a) Government Grants

When the Authority receives grants of non-monetary assets, the asset and the grant are recorded as nominal amounts and released to profit and loss over the expected useful life in a pattern of consumption of the benefit of the underlying asset.

b) Taxes

The Income and Revenue of the Authority is not subject to taxation under the Solomon Islands Water Authority Act 1993.

c) Property, plant and equipment

Construction in progress, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, the Authority depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

The impairment accounting policy for goodwill and intangible assets with indefinite lives similarly applies to other non-financial assets, including property, plant and equipment. Property, plant and equipment transferred from customers are initially measured at fair value at the date on which control is obtained.

A revaluation surplus is recorded in OCI and credited to the asset revaluation surplus in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in the statement of profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation surplus.

An annual transfer from the asset revaluation surplus to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation surplus relating to the particular asset being sold is transferred to retained earnings.

SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

1.2 Summary of significant accounting policies (continued)
Revenue recognition (continued)

d) Property, plant and equipment (continued)

Depreciation is calculated using diminishing value or straight line method subject to the particular asset using rates as follows:

Buildings	5%
Water systems	3% - 40%
Plant and equipment	3% - 50%
Furniture & fittings	25%
Motor vehicles	25%

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Water systems and plant and equipment were revalued by Deloitte (Australia) in 2015. Due to the specialised nature of the assets, the depreciated replacement cost approach was used to assess the fair value of the majority of the water infrastructure assets and the market approach was used to value a small number of mobile plant assets.

e) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

1.2 Summary of significant accounting policies (continued)
Revenue recognition (continued)

d) Intangible assets (continued)

Gains or losses arising from de recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

e) Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset (or assets), even if that asset (or those assets) is not explicitly specified in an arrangement.

Authority as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Authority is classified as a finance lease. Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Authority will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

Authority as a lessor

Leases in which the Authority does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

f) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

1.2 Summary of significant accounting policies (continued)
Revenue recognition (continued)

g) Financial instruments

(i) Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Authority becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets - Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Authority changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Authority may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets: Business model assessment - Policy applicable from 1 January 2018

The Authority makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Authority's management;

SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

1.2 Summary of significant accounting policies (continued)
Revenue recognition (continued)

h) Financial instruments (continued)

(iii) Classification and subsequent measurement (continued)

Financial assets: Business model assessment - Policy applicable from 1 January 2018 (continued)

- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for de recognition are not considered sales for this purpose, consistent with the Authority's continuing recognition of the assets. Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets: Assessment whether contractual cash flows are solely payments of principal and interest - Policy applicable from 1 January 2018

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Authority considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Authority considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- Terms that limit the Authority's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

1.2 Summary of significant accounting policies (continued)
Revenue recognition (continued)

h) Financial instruments (continued)

(iii) Classification and subsequent measurement (continued)

Financial assets: Subsequent measurement and gains and losses – Policy applicable from 1 January 2018

Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on de recognition is recognised in profit or loss.

Financial assets – Policy applicable before 1 January 2018

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, AFS financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Authority commits to purchase or sell the asset.

The Authority's financial assets include cash and trade and other receivables.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Held-to-maturity investments
- Available-for-sale (AFS) financial assets

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39. The Authority has not designated any financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statement of profit or loss.

SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

1.2 Summary of significant accounting policies (continued)
Revenue recognition (continued)

h) Financial instruments (continued)

ii) Classification and subsequent measurement (continued)

Financial assets – Policy applicable before 1 January 2018 (continued)

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

This category is the most relevant to the Authority. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the EIR method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables. This category generally applies to trade and other receivables. For more information on receivables, refer to Note 4.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Authority has the positive intention and ability to hold them to maturity. After initial measurement, held to maturity investments are measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss as finance costs.

The Authority did not have any held-to-maturity investments during the years ended 31 December 2018 and 2017.

AFS financial assets include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in market conditions.

Available-for-sale financial assets

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealised gains or losses recognised in OCI and credited to the AFS reserve until the investment is derecognised, at which time, the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the statement of profit or loss in finance costs. Interest earned whilst holding AFS financial assets is reported as interest income using the EIR method.

SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

1.2 Summary of significant accounting policies (continued)
Revenue recognition (continued)

h) Financial instruments (continued)

ii) Classification and subsequent measurement (continued)

Financial assets – Policy applicable before 1 January 2018 (continued)

The Authority evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Authority is unable to trade these financial assets due to inactive markets, the Authority may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

iii) Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Authority's statement of financial position) when:

- o The rights to receive cash flows from the asset have expired: or
- o The Authority has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Authority has transferred substantially all the risks and rewards of the asset, or (b) the Authority has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Authority has transferred its rights to receive cash flows from an asset or has entered into a pass through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Authority continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Authority also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Authority has retained.

iv) Modifications of financial assets

If the terms of a financial asset are modified, the Authority evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in de recognition of the financial asset. In this case, the Authority recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

v) Offsetting

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

SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

1.2 Summary of significant accounting policies (continued)
Revenue recognition (continued)

h) Financial instruments (continued)

vi) Impairment

Policy applicable from 1 January 2018

Financial instruments

The Authority recognises loss allowances for ECLs on financial assets measured at amortised cost.

The Authority measures loss allowances at an amount equal to lifetime ECL, except for the following, which are measured as 12-month ECL:

- Other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Authority considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Authority's historical experience and informed credit assessment and including forward-looking information.

The Authority assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

Financial instruments

The Authority considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Authority in full, without recourse by the Authority to actions such as realising security (if any is held); or
- The financial asset is more than 90 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Authority is exposed to credit risk.

SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

1.2 Summary of significant accounting policies (continued)
Revenue recognition (continued)

h) Financial instruments (continued)

vi) Impairment (continued)
Policy applicable from 1 January 2018 (continued)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Authority expects to receive); and
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Authority assesses whether financial assets carried at amortised cost are credit impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Authority on terms that the Authority would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Authority determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Authority's procedures for recovery of amounts due.

SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

1.2 Summary of significant accounting policies (continued)
Revenue recognition (continued)

h) Financial instruments (continued)

vi) Impairment (continued)

Policy applicable before 1 January 2018

The Authority assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Authority could be required to repay.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Authority first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Authority determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income (recorded as finance income in the statement of profit or loss) continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans, together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Authority. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of profit or loss.

i) Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for, as follows:

- o Raw materials: purchase cost on a first-in/first-out basis;

SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

1.2 Summary of significant accounting policies (continued)
Revenue recognition (continued)

h) Financial instruments (continued)

i) Inventories (continued)

- o Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs.

Initial cost of inventories includes the transfer of gains and losses on qualifying cash flow hedges, recognised in OCI, in respect of the purchases of raw materials.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

j) Impairment of non-financial assets

Further disclosures relating to impairment of non-financial assets are also provided in the following notes:

Changes in accounting policy and disclosures	Note 1.3
Property, plant and equipment	Note 9

The Authority assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Authority estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Authorities of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Authority bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Authority's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Authority estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised.

SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

1.2 Summary of significant accounting policies (continued)
Revenue recognition (continued)

j) Impairment of non-financial assets (continued)

The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

k) Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

l) Provisions

Provisions are recognised when the Authority has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Authority expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

m) Employee entitlements

Provisions are made for wages and salaries, incentive payments and annual leave estimated to be payable to employees at balance date on the basis of statutory and contractual requirements.

i) Defined contribution plans

A defined contribution plan is a post-employment 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 per cent of the employees' gross salaries and contributes 7.5 per cent of employee's gross salaries to the Solomon Islands National Provident Fund. Obligations for contributions are recognised as employee benefit expense in profit or loss in the period during which services are rendered by employees.

ii) Short term benefits

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

SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

1.2 Summary of significant accounting policies (continued)
Revenue recognition (continued)

h) Financial instruments (continued)

n) Trade and other payables

Liabilities for trade creditors and other amounts are carried at cost (inclusive of Consumption Tax where applicable) which is the fair value of the consideration to be paid in the future for goods and services received whether or not billed to the Authority. Amounts payable that have been denominated in foreign currencies have been translated to local currency using the rates of exchange ruling at the end of the financial period.

o) Comparative figures

Comparative figures have been amended where necessary, for changes in presentation in the current period.

p) Segment information

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products and services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environment.

a) Industry segment

The Authority operates in the water services industry.

b) Geographical segment

The Authority operates only in the Solomon Islands and is therefore one geographical area for reporting purposes.

q) Foreign currencies

The Authority's financial statements are presented in Solomon dollars, which is also the Authority's functional currency. The Authority determines the functional currency and items included in the financial statements are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Authority at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

1.2 Summary of significant accounting policies (continued)
Revenue recognition (continued)

r) Grants

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

Other 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.

1.3 Changes in accounting policy and disclosures

The Authority initially applied IFRS 15 (see 1.3(a)) and IFRS 9 (see 1.3(b)) from 1 January 2018. A number of other new standards are also effective 1 January 2018 but they do not have a material effect on the Authority's financial statements.

a) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – a point in time or over point in time – requires judgement. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – a point in time or over point in time – requires judgement.

The Authority has adopted IFRS 15 using the cumulative effective method with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018) and applying the requirements to only contracts that are not completed contracts at the date of initial application. Accordingly the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18 and related interpretations. Additionally the disclosure requirements of IFRS 15 have not generally been applied to comparative information.

Installation, survey and plumbing and investigation services

Previously, revenue from these services was recognised upon the completion of the service. Under IFRS 15, the payments are treated as up-front fees which are included in the transaction price and allocated to the performance obligation, being the provision of water to the customer as they do not transfer a distinct service to the customer.

IFRS 15 did not have a significant impact on the Authority's accounting policies with respect to other revenue streams (see Note 1.2 h. (i)).

b) IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets and financial liabilities. The standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

1.3 Changes in accounting policy and disclosures (continued)

b) IFRS 9 Financial Instruments (continued)

As a result of the adoption of IFRS 9 Financial Instruments, the Authority adopted consequential amendments to IAS 1 Presentation of Financial Statements, which require impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI. Previously, the Authority's approach was to include the impairment of trade receivables in other expenses.

Additionally, the Authority adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018 but generally have not been applied to comparative information.

The following table summarises the impact, net of tax, of transition to IFRS 9 on retained earnings at 1 January 2018.

	SBD
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	13,827,885
Recognition of expected credit losses under IFRS 9	1,767,041
Related tax	-
Opening balance under IFRS 9 (1 January 2018)	<u><u>15,594,926</u></u>

i) Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI (fair value through other comprehensive income) and FVTPL (fair value through profit or loss). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of "held to maturity" and "loans and receivables".

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The adoption of IFRS 9 has not had a significant effect on the Authority's accounting policies for financial liabilities.

For an explanation of how the Authority classifies and measures financial assets and accounts for related gains and losses under IFRS 9, see Note 1.2 (h).

The following table and accompanying notes explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Authority's financial assets and financial liabilities as at 1 January 2018.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements.

SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

1.3 Changes in accounting policy and disclosures (continued)

b) IFRS 9 Financial Instruments (continued)

i) Classification and measurement of financial assets and financial liabilities (continued)

	<i>Original classification under IAS 39</i>	<i>New classification under IFRS 9</i>	<i>Original carrying amount under IAS 39</i>	<i>New carrying amount under IFRS 9</i>
	SBD	SBD	SBD	SBD
<u>Financial assets</u>				
Cash and cash equivalents	Loans and receivables	Amortised cost	63,816,465	63,816,465
Trade and other receivables	Loans and receivables	Amortised cost	16,013,022	16,013,022
Receivable from related parties	Loans and receivables	Amortised cost	2,794,598	2,794,598
			<u>82,624,085</u>	<u>82,624,085</u>
<u>Financial liabilities</u>				
Trade and other payables	Other financial liabilities	Other financial liabilities	15,427,198	15,427,198
Payable to related parties	Other financial liabilities	Other financial liabilities	4,120,416	4,120,416
			<u>19,547,614</u>	<u>19,547,614</u>

a) Cash on hand and cash at bank that were classified as loans and receivables under IAS 39 are now classified at amortised cost.

b) Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortised cost. A decrease of SBD 1,767,041 in the allowance for impairment over these receivables was recognised in opening retained earnings at 1 January 2018 on transition to IFRS 9.

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

		<i>IAS 39 carrying amount at 31 December 2017</i>	<i>Re- classification</i>	<i>Re- measurement</i>	<i>IFRS 9 carrying amount at 1 January 2018</i>
		SBD	SBD	SBD	SBD
Financial assets					
Amortised cost					
Cash and cash equivalents	Brought forward: Loans and receivables	63,816,465			
	Re-measurement		-	(151,871)	
	Carried forward: Amortised cost				63,664,594
Trade and other receivables	Brought forward: Loans and receivables	16,013,022			
	Re-measurement		-	1,939,666	
	Carried forward: Amortised cost				17,952,688

SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

1.3 Changes in accounting policy and disclosures (continued)

b) IFRS 9 Financial Instruments (continued)

i) Classification and measurement of financial assets and financial liabilities (continued)

		<i>IAS 39 carrying amount at 31 December 2017</i>	<i>Re- classification</i>	<i>Re- measurement</i>	<i>IFRS 9 carrying amount at 1 January 2018</i>
		SBD	SBD	SBD	SBD
Financial assets					
Amortised cost					
Receivable from related party	Brought forward: Loans and receivables	2,794,598			
	Re-measurement		-	(20,754)	
	Carried forward: Amortised cost				2,773,844
Total amortised cost		82,624,085	-	1,767,041	84,391,126

ii) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets, debt investments at FVOCI and loan commitments issued, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. However, the Authority has determined that the application of IFRS 9's impairment requirements at 1 January 2018 results in a lower allowance for impairment as follows.

	SBD
Loss allowance at 31 December 2017 under IAS 39	18,901,510
Additional impairment / (reversal of impairment) recognised at 1 January 2018 on:	
Cash and cash equivalents	151,871
Trade and other receivables	(1,939,666)
Receivable from related parties	20,754
Loss allowance at 1 January 2018 under IFRS 9	17,134,469

Additional information how the Authority measures the allowance for impairment is described in Note 1.2 (h).

SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

1.3 Changes in accounting policy and disclosures (continued)

b) IFRS 9 Financial Instruments (continued)

iii) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 (2014) have been applied retrospectively, except as described below:

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.
- If an investment in a debt security had low credit risk at the date of initial application of IFRS 9, then the Authority assumed that the credit risk on the asset had not increased significantly since its initial recognition.

1.4 Standard issued but not yet effective

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g. personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

1.5 Standard issued but not yet effective (continued)

IFRS 16 Leases (continued)

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

2.0 Operating revenue and expenses

Included in revenue are:

2.1 Revenue from contracts with customers

The effect of initially applying IFRS 15 on the Authority's revenue from contracts with customers is described in Note 1.3 (a). Due to the transition method chosen in applying IFRS 15, comparative information has not been restated to reflect the new requirements.

The Authority generates revenue primarily from water sales and its related services to its customers.

	2018 SBD	2017 SBD
Water Sales	86,739,828	81,931,909
Standing and unmetered Reconnection, disconnection, meter testing, service amplification, water & sewer main extension	5,158,712 1,174,425	5,595,179 1,288,381
	<u>93,072,965</u>	<u>88,815,469</u>

2.2 Other income

Other income

	SBD	SBD
Gains on sale of Property, Plant and Equipment		21,321
Miscellaneous Income		3,028,541
Bad debts recovered	101,747	586,876
Solomon Islands Government - CSO grant	3,000,000	-
Amortisation of deferred revenue	11,589,335	8,102,873
	<u>18,132,907</u>	<u>11,739,611</u>

SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

2.0 Operating revenue and expenses (continued)

Included in expenses are: 2018 2017

2.3 Corporate expenses

	SBD	SBD
Advertising	221,603	187,971
Auditors' remuneration	214,600	420,224
Board allowances	53,000	42,400
Travel and transport	1,018,437	748,496
Printing, freight and stationery	2,001,596	1,221,190
Insurance	701,548	711,250
Lease rentals	1,608,274	1,179,402
Software training and computer consumables	2,108,721	2,027,351
Telephone	1,244,786	1,093,011
Other expenses	<u>4,452,762</u>	<u>8,555,563</u>
	<u>13,625,327</u>	<u>16,187,158</u>

2.4 Salaries and employee benefits

	SBD	SBD
Wages and salaries	10,732,035	11,331,425
Key management personnel	5,547,140	2,240,713
Superannuation	1,600,668	1,353,474
House rentals and allowances	<u>8,509,270</u>	<u>8,120,721</u>
	<u>26,389,113</u>	<u>23,046,333</u>

2.5 Other expenses

	SBD	SBD
Other expenses	26,821	522,620
Australian Government Department of Foreign Affairs and Trade	<u>-</u>	<u>409,430</u>
	<u>26,821</u>	<u>932,050</u>

2.6 Finance (costs)/income

	SBD	SBD
Amortisation of discount - SIEA	(217,037)	(217,037)
Interest received	21,401	14,826
Gain/(Loss) on Foreign Exchange	<u>198,474</u>	<u>-</u>
	<u>2,838</u>	<u>(202,211)</u>

SOLOMON ISLANDS WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2018

3.0 Cash and cash equivalents

Cash and Cash equivalents consist of cash on hand, cash at bank and short term deposits.

Cash and cash equivalents included in the statement of cash flows comprise the following balance sheet amounts:

	2018 SBD	2017 SBD
Cash at bank	41,106,313	57,248,750
Cash on hand	24,500	11,487
Term deposits	6,574,465	6,556,228
Cash and cash equivalents as per statement as cash flows	<u>47,705,278</u>	<u>63,816,465</u>

4.0 Trade and other receivables

	SBD	SBD
Trade receivables	33,704,921	34,914,532
Provision for impairment of receivables	<u>(17,210,084)</u>	<u>(18,901,510)</u>
	<u>16,494,837</u>	<u>16,013,022</u>

Trade and other receivables are non-interest bearing and are generally on 30 - 90 day terms.

At 31 December, the ageing analysis of trade receivables for the Authority is as follows:

Total		Neither past due nor impaired	Past due but not impaired		
			30 - 60 days	60 - 90 days	> 90 days
	SBD	SBD	SBD	SBD	SBD
2018	16,494,837	5,049,793	7,459,959	3,757,487	227,598
2017	16,013,022	5,839,675	3,826,889	2,227,738	4,118,720

Movements in the provision for impairment of receivables were as follows:

	SBD	SBD
Opening balance	(18,901,510)	(21,791,395)
Charge for the year	(375,963)	(2,941,664)
Utilised	<u>2,067,389</u>	<u>5,831,549</u>
	<u>(17,210,084)</u>	<u>(18,901,510)</u>

SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

5.0 Inventories

	2018	2017
	SBD	SBD
Stores and consumables	12,874,588	7,043,874
Goods in transit	<u>10,635</u>	<u>1,348,976</u>
	<u>12,885,223</u>	<u>8,392,851</u>

6.0 Prepayments and other assets

	SBD	SBD
Other Debtors		697,624
Prepayments	<u>1,089,106</u>	<u>1,192,084</u>
	<u>1,174,230</u>	<u>1,889,708</u>

7.0 Trade and other payables

Current	SBD	SBD
Trade payables	1,670,118	4,205,955
Other payables	4,829,858	1,802,502
Water deposits	<u>8,837,653</u>	<u>9,418,741</u>
	<u>15,337,631</u>	<u>15,427,198</u>

Trade payables are non-interest bearing and are normally settled on 30 day terms.

8.0 Employee benefit liability

Employee entitlements	SBD	SBD
Balance at the beginning of year	1,887,723	2,299,081
Net movement during the year	<u>(239,624)</u>	<u>(411,358)</u>
Balance at the end of year	<u>1,648,099</u>	<u>1,887,723</u>
Represented by:		
Annual leave	727,066	915,064
Long service benefit	629,442	786,357
Long service leave	<u>291,591</u>	<u>186,302</u>
	<u>1,648,099</u>	<u>1,887,723</u>

SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

9.0 Property, Plant and Equipment

<u>Cost</u>	<u>Water Systems</u>	<u>Land and Buildings</u>	<u>Machinery, Equipment and Computers</u>	<u>Motor vehicles</u>	<u>Furniture and Fittings</u>	<u>Work in Progress</u>	<u>Total</u>
	SBD	SBD	SBD	SBD	SBD	SBD	SBD
At 1 January 2017	286,382,468	8,954,500	4,003,125	9,015,685	459,982	3,146,226	291,961,983
Additions	1,510,257	1,034,666	6,606,046	775,235	-	35,847,299	45,773,501
Reclassifications	705	-	-	-	-	(15,307,270)	(15,306,565)
At 1 January 2018	287,893,430	9,989,166	10,609,171	9,790,920	459,982	23,686,255	322,428,924
Additions	36,585,940	303,990	784,953	673,535	-	37,706,889	76,055,308
Reclassifications	-	-	-	-	-	(47,372,510)	(47,372,510)
At 31 December 2018	304,479,370	10,293,156	11,394,124	10,464,455	459,982	14,020,634	351,111,722
<u>Depreciation and impairment</u>							
At 1 January 2017	13,093,649	489,252	1,623,837	4,701,838	308,704	-	20,217,281
Depreciation charge	8,691,132	95,093	1,015,860	1,174,476	37,820	-	11,014,381
At 1 January 2018	21,784,781	584,345	2,639,697	5,876,314	346,524	-	31,231,662
Depreciation charge	12,167,538	142,564	2,934,427	1,216,356	28,365	-	16,489,249
Disposals	-	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-	-
At 31 December 2018	33,952,319	726,909	5,574,124	7,092,670	374,888	-	47,720,911
Net book value:							
At 31 December 2018	270,527,051	9,566,247	5,820,000	3,371,785	85,094	14,020,634	303,390,812
At 1 January 2018	246,108,649	9,404,821	7,969,474	3,914,606	113,459	23,686,255	291,197,262
At 1 January 2017	253,288,819	8,465,248	2,379,288	4,313,847	151,278	3,146,226	271,744,705

SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

10.0 Intangible assets

	2018 SBD	2017 SBD
Software costs:		
At 1 January	452,808	187,580
Additions	-	265,228
At 31 December	<u>452,808</u>	<u>452,808</u>
Amortisation and impairment:		
At 1 January	245,501	168,372
Amortisation for the period	<u>121,748</u>	<u>77,129</u>
At 31 December	<u>367,249</u>	<u>245,501</u>
Net book value:	<u>85,559</u>	<u>207,307</u>

11.0 Deferred revenue

	SBD	SBD
Donor Funds Received for Capital Projects and Unspent		
Australian Government Department of Foreign Affairs and Trade	<u>1,257,542</u>	<u>10,194,168</u>
	<u>1,257,542</u>	<u>10,194,168</u>
Donor Funds Received for Capital Projects and Spent		
Australian Government Department of Foreign Affairs and Trade	38,193,353	32,459,652
Japan International Cooperation Agency	96,363,125	101,524,729
Solomon Islands Government	<u>2,906,810</u>	<u>3,073,570</u>
	<u>137,463,288</u>	<u>137,057,951</u>
The deferred income is shown on the statement of financial position as follows:		
Current	11,589,335	18,297,041
Non-current	<u>127,131,495</u>	<u>128,955,078</u>
	<u>138,720,830</u>	<u>147,252,119</u>

12.0 Contributed capital

	SBD	SBD
Contributed capital at the beginning of the year	59,625,874	59,625,874
Additional capital contribution during the year	<u>-</u>	<u>-</u>
Contributed capital at the end of the year	<u>59,625,874</u>	<u>59,625,874</u>

Capital represents Government's contribution on the establishment of Solomon Islands Water Authority.

SOLOMON ISLANDS WATER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2018

13.0 Commitments and contingent liabilities

a) Contingent liabilities

- i. Three former employees of the Authority have filed complaints in the Trade Disputes Panel claiming compensation for unfair dismissal. The Authority is defending the claims which are still pending.

The Authority together with the Solomon Islands Government are Claimants in a High Court Civil Case 339/16 against a group of landowners regarding access to a water source. The case is still pending. There is no financial claim against the Authority.

In the High Court Civil Case 232/18 the Authority is being sued by customary landowners over extraction of sand from disputed land. The claim is for about SBD150, 000. The Authority does not dispute owing the money but there is a dispute among landowners as to who is entitled to the money. The case is pending.

- ii. The Authority 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.

b) Operating leases commitments contracted for building rentals

Future operating lease rentals not provided for in the financial statements and payable:

	2018	2017
	SBD	SBD
Not later than one year	1,778,310	970,161
Later than one year but not later than five years	-	-
	<u>1,778,310</u>	<u>970,161</u>

14.0 Related party transactions

a) Directors

The names of persons who were directors of Solomon Islands Water Authority at any time during the financial year are as follows:

- Mr Phil Bradford (Chairman) (re-appointed 2/2/2018 and retired 11/10/2018)
- Mr Carson Korowa (Chairman) (appointed 18/10/2018)
- Mr David Laurie (resigned 14/5/2018)
- Ms Ethel Frances (resigned 31/07/2018)
- Mr Trevor Palmer (appointed 31/07/2012)
- Ms Cynthia Wickham (appointed 12/03/2018)
- Mr Donald Marahare (appointed 12/03/2018)
- Mr John Belande (appointed 12/03/2018)
- Mr David Patternot (appointed 17/12/2018)
- Ms Gloria Hong (appointed 17/12/2018)

b) Controlling Entities

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

SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

14.0 Related party transactions (continued)

c) Compensation of key management personnel

	2018	2017
	SBD	SBD
Short term employee benefits	<u>5,547,140</u>	<u>2,240,713</u>

d) Transactions with related parties

Transactions with related parties during the year ended 31 December 2018 with approximate transaction value are summarised as follows;

<u>Directors</u>	SBD	SBD
Directors remuneration and expenses	<u>50,000</u>	<u>42,400</u>

e) Amount owed to related parties

Non-current	SBD	SBD
Solomon Islands Electricity Authority	425,302	1,145,765
Current		
Solomon Islands Electricity Authority	<u>5,010,345</u>	<u>2,974,651</u>
	<u>5,435,647</u>	<u>4,120,416</u>

The Debt Agreement with Solomon Islands Electricity Authority is an interest free loan over 8 years, repayable in equal monthly instalments which commenced 1st January 2013. If default of payment occurs at any time a default interest rate of interest, being the daily Business Index Rate published by the three main banks in Honiara, will be applied to the period of default.

f) Amount receivable from related parties

Current	SBD	SBD
SIG - Ministry of Infrastructure Development	375,964	2,359,598
SIG - Ministry of Mines, Energy and Rural Electrification	-	435,000
Staff	<u>57,323</u>	<u>-</u>
	<u>433,287</u>	<u>2,794,598</u>

15.0 Financial risk management objectives and policies

The effect of initially applying IFRS 9 on the Authority's financial instruments is described in Note 1.3(b). Due to transition method chosen, comparative information has not been restated to reflect the new requirements.

SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

15.0 Financial risk management objectives and policies (continued)

The principal financial liabilities comprise interest bearing borrowings and trade payables. The main purpose of these financial liabilities is to raise finance for the Authority's operations. The Authority has various financial assets such as trade receivables and cash, which arise directly from its operations.

The main risk arising from the Authority's financial statements are liquidity and credit risk. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

Liquidity risk

The Authority monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g. accounts receivables, other financial assets) and projected cash flows from operations.

The table below summarises the maturity profile of the Authority's financial liabilities at 31 December 2018 based on contractual undiscounted payments.

	Trade and other payables	Payable to related parties	Total
<u>31 December 2018</u>	SBD	SBD	SBD
3 to 12 months	15,337,631	5,010,345	20,347,976
1 - 2 years	-	859,375	859,375
> 2 years	-	-	-
	<u>15,337,631</u>	<u>5,869,720</u>	<u>21,207,351</u>
	Trade and other payables	Payable to related party	Total
<u>31 December 2017</u>	SBD	SBD	SBD
3 to 12 months	15,427,198	2,974,651	18,401,849
1 - 2 years	-	937,500	937,500
> 2 years	-	208,265	208,265
	<u>15,427,198</u>	<u>4,120,416</u>	<u>19,547,614</u>

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 and cash at bank.

SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

15.0 Financial risk management objectives and policies (continued)

Credit risk (continued)

The maximum exposure to credit risk at the reporting date is as follows:

	2018 SBD	2017 SBD
		Carrying amount
Cash at bank	47,705,278	57,248,750
Trade receivables	33,704,921	34,914,532
Other receivables (excluding prepayments)	17,210,084	18,901,510
	<u>98,620,283</u>	<u>111,064,792</u>

Trade receivables

Customer credit risk is managed subject to the Authority's established policy, procedures and control relating to customer credit risk management. Outstanding customer receivables are regularly monitored and water services disconnected where domestic and commercial accounts are outstanding greater than 30 days.

Comparative information under IAS 39

The aging of trade receivables at the reporting date was:

	SBD
Not past due	
Past due 31 - 60 days	7,459,959
Past due 61 - 90 days	3,757,487
More than 90 days	<u>227,598</u>
	<u>16,494,837</u>
Impairment losses on trade and other receivables	<u>17,210,084</u>

An impairment analysis is performed at each reporting date collectively for all customer accounts. The calculation is based on actual incurred historic data. The maximum exposure to credit risk at the reporting date is disclosed in Note 4. The Authority holds cash collateral of SBD 8,837,652 against the collective accounts. The Authority evaluates the concentration of risk with respect to trade receivables as high.

Expected credit loss assessment for trade receivables as at 1 January and 31 December 2018

The Authority uses an allowance matrix to measure the ECLs of trade receivables from individual customers, which comprise a very large number of small balances.

SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

15.0 Financial risk management objectives and policies (continued)

Expected credit loss assessment for trade receivables as at 1 January and 31 December 2018 (continued)

Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off.

The following table provides information about the exposure to credit risk and ECLs for trade receivables from individual customers as at 31 December 2018.

	Weighted- average loss rate	Gross carrying amount SBD	Loss allowance SBD	Credit impaired SBD
31 December 2018				
Current (not past due)	25.65%	5,049,793	1,295,272	3,754,521
31 - 60 days past due	42.14%	7,459,959	3,143,627	4,316,332
61 - 90 days past due	63.08%	3,757,487	2,370,223	1,387,264
More than 90 days past due	72.48%	14,350,642	10,400,963	3,949,679
		<u>30,617,881</u>	<u>17,210,084</u>	<u>13,407,797</u>

Loss rates are based on actual credit loss experience over the past two years. These rates are multiplied by scalar factors to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Authority's view of economic conditions over the expected lives of trade receivables. Scalar factors are based on actual and forecast GDP growth rates.

Movements in the allowance for impairment in respect of trade receivables

The movement in the allowance for impairment in respect of trade receivables during the year was as follows. Comparative amounts for 2017 represent the allowance account for impairment losses under IAS 39.

	2018 SBD	2017 SBD
	Collective impairment	
Balance at 1 January per IAS 39	18,901,510	21,791,395
Adjustment on initial application of IFRS 9	(1,939,666)	-
Balance at 1 January per IFRS 9	16,961,844	21,791,395
Amounts written off	(5,403,263)	(5,831,549)
Net measurement of loss allowance	<u>(2,838)</u>	<u>2,941,664</u>
Balance at 31 December	<u>11,555,743</u>	<u>18,901,510</u>

SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

15.0 Financial risk management objectives and policies (continued)

Cash and cash equivalents

The Authority held cash and cash equivalents of SBD 47,705,278.07 (2017: SBD 63,816,465). Cash and cash equivalents are held with banks which are rated Aa3 and B2, based on Moody's ratings.

Impairment on cash and cash equivalents has been measured on the 12 month expected loss basis and reflects short term maturities of the exposures. The Authority considers that its cash have low credit ratings of the counterparties.

On initial application of IFRS 9, the Authority recognised SBD 151,871 impairment allowance as at 1 January 2018. The amount of the allowance for 31st December 2018 was SBD 151,871.

The following table presents an analysis of the credit quality of debt securities at amortised cost:

	2018 SBD	2017 SBD
Credit rating		
Aa3	169,256	9,954,168
B2	<u>47,536,022</u>	<u>53,862,297</u>
Gross carrying amount (amortised cost before impairment)	47,705,278	63,816,465
ECL loss allowance	<u>(134,033)</u>	<u>(151,871)</u>
Carrying amount	<u><u>47,571,245</u></u>	<u><u>63,664,594</u></u>

16.0 Financial instruments

Set out below is a comparison by category of carrying amounts and fair values of all of the Authority's financial instruments that are carried on the financial statements.

	2018 SBD	Carrying amount 2017 SBD	2018 SBD	Fair Value 2017 SBD
<i>Financial assets</i>				
Cash	47,705,278	63,816,465	47,705,278	63,816,465
Trade and other receivables	<u>16,997,125</u>	<u>16,133,522</u>	<u>16,494,837</u>	<u>16,013,022</u>
	<u><u>64,702,402</u></u>	<u><u>79,949,987</u></u>	<u><u>64,200,115</u></u>	<u><u>79,829,487</u></u>
<i>Financial liabilities</i>				
Trade and other payables	<u><u>19,410,476</u></u>	<u><u>17,464,350</u></u>	<u><u>19,410,476</u></u>	<u><u>15,427,198</u></u>

The fair value of derivatives and borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates. The fair value of financial assets have been calculated using market interest rates.

SOLOMON ISLANDS WATER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

17.0 Subsequent events

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Authority, the results of those operations, or the state of affairs of the Authority in future financial years.

18.0 Principal business activity

The principal activity of the Authority during the year was the treatment and distribution of water in the Solomon Islands. There was no significant change in the nature of this activity during the financial year.

Principal place of business

The principal places of business are located at Mendana Ave and Commonwealth Ave, Honiara, Solomon Islands

Number of employees at the end of the period

Number of employees the authority employed at the reporting date was 145 (2017:136)