



ANNUAL REPORT OF
THE GOVERNMENT OF THE COOK ISLANDS
FOR THE YEAR ENDED 30 JUNE 2010



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STATEMENT OF RESPONSIBILITY

In terms of Section 30 of the Ministry of Finance and Economic Management Act 1995/96, the Minister of Finance and the Financial Secretary are responsible for the preparation of the Crown's financial statements and the judgments made in the process of producing those statements.

It is the responsibility of the Minister of Finance and the Financial Secretary to ensure consistency with the requirements of the Ministry of Finance and Economic Management Act 1995/96 and the integrity of the disclosures.

We have taken steps to satisfy ourselves that the financial statements fairly reflect the financial position, operations and cash flows of the Crown for the year ended 30 June 2010 and are consistent with the requirements of the Ministry of Finance and Economic Management Act 1995/96.

The current Financial Secretary, Richard Neves, was appointed in July 2011. The responsibility for these financial statements before this date was held by Sholan Ivaiti, the former Financial Secretary.

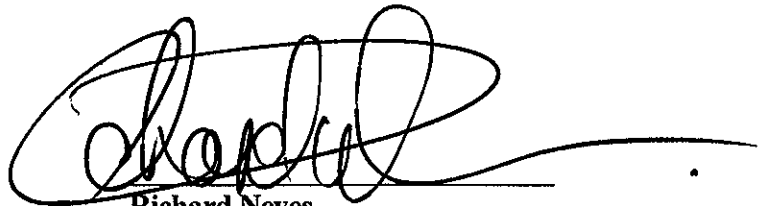
The current Minister of Finance, Hon Mark Brown, was not in the position covered in the period presented in this report. For the 2010 financial year, Hon Sir Terepai Maoate was the Minister of Finance.

In our opinion, subject to the qualifications included within the Report of the Cook Islands Audit Office, these financial statements fairly reflect the financial position, operations and cash flows of the Crown for the year ended 30 June 2010.



Hon. Mark Brown
Minister of Finance

25 June 2013



Richard Neves
Financial Secretary

25 June 2013



OVERVIEW

Introduction

These financial statements contain the audited results for the year ended 30 June 2010.

The financial statements use the full consolidation method to incorporate the Crown's financial interest in Public Enterprises and Other Authorities or the State Owned Enterprises (SOEs) on a line by line basis.

As the Appropriation Bill only covers ministries and entities funded by the Crown (and does not cover SOEs), there is not a comparative budget that can be included in these financial statements. However, the budgetary information that we have disclosed in the following pages is prepared on an accrual basis and is consistent to the Statement of Fiscal Responsibility included in the Supplementary Budget of 2009/10.

Financial Performance

The table below contains the audited results for the year ended 30 June 2010 and is compared against the budget and prior year audited actual results. The first column 'Crown' is the fully consolidated Government of the Cook Islands (including SOEs) and the second 'Approp' represents only the Ministries and entities funded through the budget appropriation (excluding SOEs).

The following tables and this commentary should be read in conjunction with the financial statements on pages 14 to 61.

Table 1 Statement of Financial Performance

Budget Approp 2010 \$000		Actual			
		Crown 2010 \$000	Approp 2010 \$000	Crown 2009 \$000	Approp 2009 \$000
	Revenue and Expenses from Crown Funded Activities				
	<i>Revenue</i>				
83,762	Taxation & levies	90,827	92,456	80,122	81,795
5,413	Provision of goods and services	36,084	7,344	36,806	7,289
10,895	Other	9,366	34,886	9,513	8,545
<u>100,070</u>		<u>136,277</u>	<u>134,686</u>	<u>126,441</u>	<u>97,629</u>
	<i>Expenses (by functional classification)</i>				
11,869	Welfare and Grants	12,268	12,267	10,815	10,897
41,685	Wages, Salaries, and Employee Benefits	50,397	43,232	50,430	43,611
2,397	Depreciation and Amortisation Expenses	10,318	4,647	10,367	4,064
947	Finance Cost	3,431	831	2,497	958
-	Doubtful Debts	7,004	6,254	423	149
-	Net(Gain)/Loss on Foreign Exchange	(6,355)	-	1,252	1,500
-	Audit Fees	289	-	308	11
1,620	Private School Funding	1,620	1,620	1,630	1,630
3,000	Air NZ Subsidy	1,912	1,912	2,982	2,982
41,224	Other Operating Expenses	50,630	62,693	54,507	35,053
<u>102,742</u>		<u>131,514</u>	<u>133,456</u>	<u>135,211</u>	<u>100,855</u>
<u>(2,672)</u>	Net Surplus from Crown Funded Activities	<u>4,763</u>	<u>1,230</u>	<u>(8,770)</u>	<u>(3,226)</u>

Actual Appropriation Compared to Budget Appropriation

A net surplus from Crown funded activities of \$1.2 million at 30 June 2010 showed an increase of \$3.9 million on the 2009/10 budgeted appropriation.

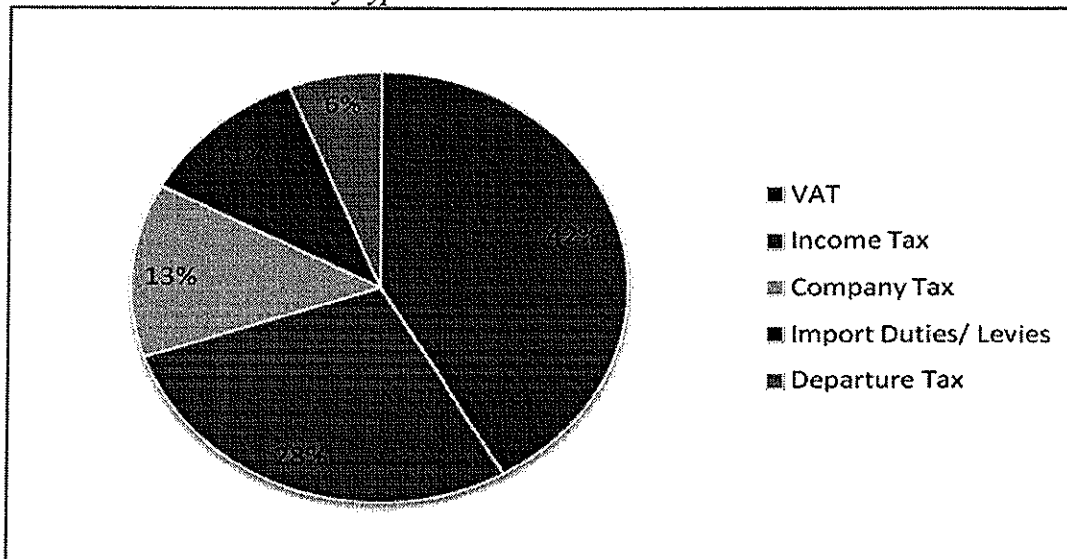
Overall, revenue was \$34.6 million higher than the 2009/10 budget estimates while operating expenditure was higher by \$30.7 million.

Revenue

Taxation and levies revenue was higher than budget by \$8.7 million. This was mainly attributed to the higher than anticipated tax revenues, in particular VAT and income tax.

VAT is a growth tax levied on all goods and services in the economy showing a fair indication of economic activity while income tax is the taxes charged on the earnings of companies and individuals. The increases above budget in both tax types is an indication of increased commercial activity brought about by higher visitor numbers

Chart 1 - Tax Revenue by Type



The other major increases in revenue were:

- Trading revenue generated by ministries and agencies through the provision of goods and services \$1.9 million; and
- Other Crown revenues such as fishing licences, motor vehicle registration and numismatic revenue.

Expenses

The increase of \$30.7 million of actual expenditure to budget was attributed to the following:

- welfare payments as a result of increased recipients – particularly the old age benefits. These payments are required under legislation;
- wages and salaries as a result of increase in public sector personnel; and
- increases in Payments on Behalf of the Crown (POBOC) particularly, the TOA expenditure, Aitutaki and Penrhyn cyclone recovery, Te Maire Maeva Nui outer island transport and the provision of subsidised freight for supplies to the Northern group islands.

Actual Appropriation Compared to Prior Year Appropriation

Revenue

Total revenue of \$134.7 million from Crown funded activities was higher than previous year by \$37.1 million.

This is attributed to the increases tax revenues showing an increase of \$10.7 million from the previous year resulting primarily from an increase in company tax and VAT.

Table 2 Expenses by Output Type

Budget Approp 2010 \$000		Actual			
		Crown 2010 \$000	Approp 2010 \$000	Crown 2009 \$000	Approp 2009 \$000
	Welfare Benefits, Grants and Transfer Payments				
7,791	Old age benefits	7,919	7,919	6,603	6,603
2,834	Child benefits	3,001	3,001	3,062	3,062
755	Destitute and infirm benefits	746	746	660	660
245	Parliamentary superannuation benefits	276	276	229	311
160	Student Grants	154	154	160	160
84	Other Grants	172	172	101	101
<u>11,869</u>		<u>12,268</u>	<u>12,268</u>	<u>10,815</u>	<u>10,897</u>
	Personnel				
41,685	Salaries and wages	48,974	42,056	48,618	43,181
-	Employee superannuation subsidy	1,423	1,176	1,812	1,140
<u>41,685</u>		<u>50,397</u>	<u>43,232</u>	<u>50,430</u>	<u>44,321</u>
	Depreciation and Amortisation				
2,397	Depreciation on Infrastructure Assets	5,300	1,923	3,773	1,845
2,911	Depreciation on Property, Plant and Equipment	4,987	2,693	6,557	2,182
-	Amortisation on Intangible Assets	31	31	37	37
<u>5,308</u>		<u>10,318</u>	<u>4,647</u>	<u>10,367</u>	<u>4,064</u>
	Finance Costs				
831	Interest Expense on Foreign-Sourced Loans	715	715	822	822
116	Interest Expense on Domestic Loans	2,716	116	1,675	136
<u>947</u>		<u>3,431</u>	<u>831</u>	<u>2,497</u>	<u>958</u>
42,933	Other Operating Expenditure	55,100	72,479	61,102	40,615
<u>102,742</u>	Total Expenses by Output Type	<u>131,514</u>	<u>133,457</u>	<u>135,211</u>	<u>100,855</u>

n/b - these expense categories were not separately classified within the 2009/10 budget.

Expenditure on Appropriation funded activities increased from \$100.9 million to \$133.5 million on the previous year. Transfer payments to beneficiaries have shown an increase of \$1.4 million on the previous year. This is primarily due to an increase in old age benefits paid.

Personnel costs have been relatively constant for the two years.

Financial Position

Table 3 Statement of Financial Position

	Crown 2010 \$000	Crown 2009 \$000
Assets		
<i>Current assets</i>		
Cash and Term deposits	77,475	63,914
Trust accounts	8,468	5,694
Inventory	4,396	4,026
Debtors and receivables	20,208	20,564
Investments	5,194	6,753
Other Assets	-	-
	<u>115,740</u>	<u>100,951</u>
<i>Non-current assets</i>		
Investments	4,917	4,921
Banking investment portfolio	23,220	24,400
Fixed and infrastructural assets	188,341	181,432
Term Deposits	-	955
	<u>216,478</u>	<u>211,708</u>
Total Assets	<u>332,218</u>	<u>312,659</u>
Liabilities		
<i>Current liabilities</i>		
Creditors and payables	12,829	11,473
Employee entitlements	1,520	1,454
Trustee liabilities	9,134	8,348
Current portion of Banking customer deposits	22,523	20,212
Current portion of Borrowings	3,120	2,894
Customer bonds	615	566
Provision for legal settlement—Current	1,065	1,750
	<u>50,806</u>	<u>46,697</u>
<i>Non-current liabilities</i>		
Banking customer deposits	1,193	1,810
Employee entitlements	88	127
Members of Parliament pension liability	1,599	2,027
Borrowings	74,786	65,233
Provision for legal settlement—Term	4,407	4,485
	<u>82,073</u>	<u>73,682</u>
Total Liabilities	<u>132,878</u>	<u>120,379</u>
Crown Balance	<u>199,339</u>	<u>192,280</u>

Cash and Term Deposits

Cash and term deposits (excluding trust accounts) increased by \$13.6 million over the previous year. This increase is mainly attributed to the increase in term deposits. There was positive cash flow from operating activities of \$8.5 million and financing activities of \$17.8 million however this was offset by the net cash outflows from investing activities \$12.8 million.

The Crown repaid \$2.6 million to various lenders during the year.

All components of the movements in cash are detailed in the Statement of Cash Flows.

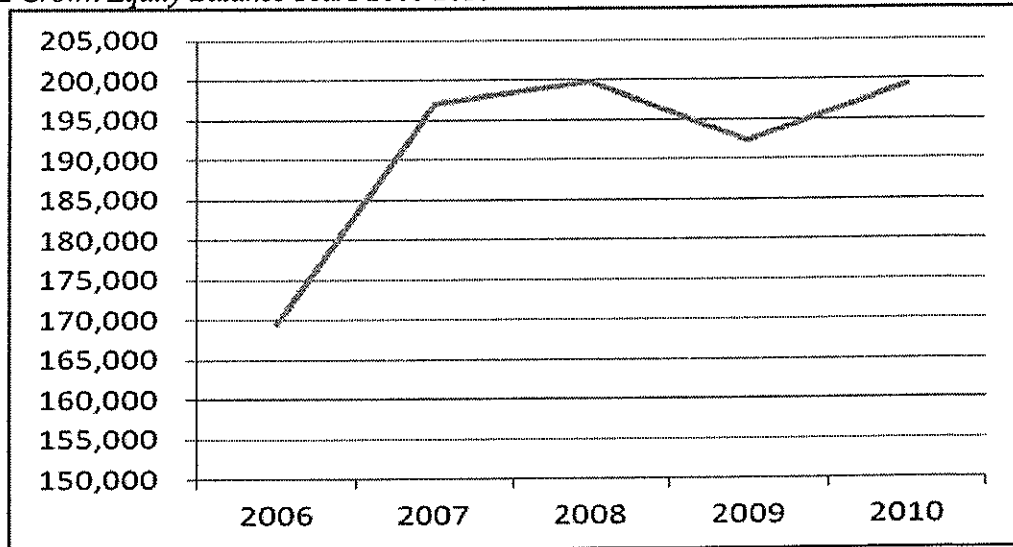
Crown Balance

The Crown equity balance has increased from \$192.3 million to \$199.3 million.

Table 4 Schedule of Crown Equity

	Actual 2005/06	Actual 2006/07	Actual 2007/08	Actual 2008/09	Actual 2009/10
Property, Plant & Equipment	151,429	159,832	158,276	181,432	188,341
Financial Assets	78,181	93,029	104,059	101,716	114,357
Other Assets	35,609	31,121	28,350	29,511	29,520
Total Assets	265,219	283,982	290,685	312,659	332,218
Borrowings	58,310	46,247	48,760	68,127	77,909
Other Liabilities	37,449	40,751	42,194	52,252	54,969
Total Liabilities	95,759	86,998	90,954	120,379	132,878
Crown Equity	169,460	196,984	199,731	192,280	199,339

Chart 2 Crown Equity Balance Years 2006-2010



Inventory

Inventory balances increased from \$4.0 million to \$4.4 million in 2009/10. This increase is due to the increase in the volumes and value of diesel and fuel that is held for use in the provision of electricity on Rarotonga and the outer islands.

Debtors and Receivables

The debtors and receivables balances have increased by \$0.4 million to \$20.2 million. This was due to a deduction in prepayments of \$2.1 million and an increase in the tax provision for doubtful debts of \$7.6 million. This was offset with an increase in taxes receivable of \$6.3 million and accounts receivable of \$1.6 million.



Investments

Included in investments are the Crown's small shareholding in the Asia Development Bank and the Pacific Forum Line. Also included in investments are shares in associates which represents the Crown's 40 per cent stake in Telecom Cook Islands Ltd held within Crown's 100 per cent owned subsidiary, Cook Islands Telecommunication Holdings Ltd.

Banking Investment Portfolio

These are in relation to the Bank of the Cook Islands and are composed of the loans given by the Bank. The loan portfolio primarily comprises of housing, pearl, tourism and business development loans. Interest rates of 9.5% -16.50% (2009: 14.50%-17.50%) are applicable on consumer loans.

Creditors and Payables

The Crown shows an increase in creditors and payables of \$1.3 million from \$11.5 million in 2008/09 to \$12.8 million this year. This was driven by an increase in the trade creditors, accruals and provisions.

Employee Entitlements

This relates to provisions for annual leave, sick leave and long service leave bonuses. The sick leave provision relates to periods prior to 1996 and is only paid when the employee retires or leaves the Public Service.

Borrowings

The Crown's borrowings have increased from \$68.1 million (including local domestic borrowings) to \$77.9 million as at 30 June 2010. Overall, debt of \$2.6 million was repaid during the year to various lenders and in addition to this there was a unrealised foreign exchange gain of \$6.3 million. This was offset by draw downs for \$14.3 million of ADB loans and \$4.4 million of Westpac loans for the Airport Authority. These movements are detailed in the Statement of Borrowings pages 33-38.

Members of Parliament Pension Liability

Legislation was passed by Parliament in 2003 to incorporate the Members of Parliament pension scheme into the Cook Islands National Superannuation Fund. This liability follows a three year actuarial valuation period. The 2007 valuation was reviewed by Melville Jessup Weaver Limited, a New Zealand firm of actuaries to \$1.6 million as at 30 June 2010. The next valuation is scheduled for 30 June 2013.

Development Partner Funding

Funds received from various international development partners are treated as trustee liabilities until expended on approved projects, at which stage the funding is included within the Statement of Financial Performance as Crown income. Capital expenditure funded by development partners is accounted for as property, plant and equipment within the Statement of Financial Position with a corresponding increase in the aid revenue in the Statement of Financial Performance. Other expenditure funded by development partners is included within the Statement of Financial Performance.

The financial statement disclosures on page 24 reflect the aid income and expenditure administered by the Development Coordination Division (DCD) of the Ministry of Finance and Economic Management (MFEM) in addition to those development partner funds managed directly by other Government agencies. There was a surplus of \$2.3 million for 2009/2010.



COOK ISLANDS AUDIT OFFICE

P.O. Box 659
Avarua, Rarotonga
Cook Islands

Phone: (682) 21-231

Fax: (682) 25-231

Email: perca@auditoffice.gov.ck

<http://www.auditoffice.gov.ck/>



AUDIT REPORT

TO THE READERS OF THE FINANCIAL STATEMENTS OF THE COOK ISLANDS GOVERNMENT FOR THE YEAR ENDED 30 JUNE 2010

We have audited the financial statements on pages 13 to 60. The financial statements provide information about the past financial performance of the Cook Islands Government and its financial position as at 30 June 2010. This information is stated in accordance with the accounting policies set out on pages 14 to 23.

Responsibilities of the Cook Islands Government

Section 28(2) of the Ministry of Finance and Economic Management Act 1995-96 requires the Cook Islands Government to prepare financial statements in accordance with GAAP, as approved by the International Federation of Accountants, which fairly present the financial position, borrowings and commitments of the Cook Islands Government as at 30 June 2010, and the results of its operations and cash flows for the year ended 30 June 2010.

Auditor's Responsibilities

Section 28(4) of the Ministry of Finance and Economic Management Act 1995-96 requires the Cook Islands Audit Office to audit the financial statements presented by the Cook Islands Government. It is the responsibility of the Cook Islands Audit Office to express an independent opinion on the financial statements and report its opinion to you.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgments made by the Cook Islands Government in the preparation of the financial statements; and
- whether the accounting policies are appropriate to the Cook Islands Government's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Other than in our capacity as auditor, we have no relationship with or interests in the Cook Islands Government.



Basis for Qualified Opinion

1. Tax Revenue, Tax Receivables and the related Provision for Doubtful Debts – scope limitation

We were unable to confirm the accuracy and completeness of tax revenue accruals, and the related receivables reported. Failure to produce year end reports from the Revenue Management System resulted in an estimation of the year end accrual which could not be verified due to insufficient documentation.

Tax revenue is reported at \$88.087m, taxes receivable are reported at \$20.234m and the provision for doubtful debts in relation to taxes receivable is reported at \$8.371m.

2. Operating expenses of Ministries and Outer Island Administrations – scope limitation

Two ministries (Ministry of Foreign Affairs and Ministry of Cultural Development) and six outer island administrations (Penrhyn, Mauke, Manihiki, Atiu, Rakahanga and Mangaia) had insufficient financial records and internal controls to enable us to verify the occurrence, completeness and accuracy of operating expenditure of \$2.634m. Consequently there were no practical audit procedures which could be undertaken to assess the accuracy of the recorded operating expenditures.

3. Inventory – scope limitation

Due to insufficient financial records and internal controls we were unable to verify the existence, valuation and completeness of inventory to the value of \$1.233m held by three ministries (Ministry of Infrastructure and Planning, Parliamentary Services and the Aitutaki Power Supply) and seven outer island administrations (Penrhyn, Mitiaro, Mauke, Manihiki, Atiu, Rakahanga and Mangaia).

Total inventory is reported at \$4.395m.

4. Property, Plant and Equipment, Infrastructure assets, Accumulated Depreciation and Depreciation expense – scope limitation

Due to a lack of appropriate internal controls and insufficient financial records, we were unable to confirm, or verify by alternate means, the valuation, existence and completeness of property plant and equipment (including capital work in progress) and infrastructure assets of seven Ministries (Aitutaki Power Supply, Business Trade and Investment Board, Ministry of Education, Ministry of Health, Human Resources Development, Ministry of Marines and the Ministry of Tourism) and five Outer Island Administrations (Aitutaki, Atiu, Mangaia, Mauke & Penrhyn) amounting to \$13.624m.

Furthermore, included in total reported property, plant, equipment and infrastructure assets is \$90.684m and \$57.365m respectively relating to State Owned Enterprises. These assets may not be a complete presentation of all assets falling under the ownership and or control of the Group. The assets presented are included on the basis of the current understanding of the Directors of the CIIC Group at the time the financial statements were presented. Additionally, certain assets have been disclosed in the financial statements at nil value. This is due to difficulties experienced in obtaining information relating to these assets. We have been unable to verify the valuation and completeness of these assets by other means.

Total reported property, plant and equipment is \$118.902m and infrastructure assets are reported at \$69.340m.



Any misstatement of these balances would have a consequential effect on the depreciation expense of \$10.318m charged to the statement of financial performance.

5. Borrowings Disclosure – non compliance with GAAP

Total borrowings are reported at \$77.906m. *IPSAS 15 Financial Instruments: Disclosure and Presentation* requires for each class of financial asset and liability held by an enterprise, information about the financial asset and liabilities fair value should be disclosed. When it is not practicable within constraints of timeliness or cost to determine the fair value of a financial asset or financial liability with sufficient reliability, that fact should be disclosed together with information about the principal characteristics of the underlying financial instrument that are pertinent to its fair value. No such disclosure has been made. In this regard, the financial statements do not comply with Generally Accepted Accounting Practice.

6. Lease Commitments – scope limitation and non compliance with GAAP

The Cooks Islands Government Property Corporation has not fully disclosed future commitments on its land leases due to incomplete records. This is a departure from *IPSAS 13 Leases*, which requires full disclosure of all current and non current lease commitments.

As the Group does not have complete records of its leases we were unable to determine the total of any required adjustments to commitments or provisions required for lease liabilities.

Accordingly we were unable to confirm the accuracy and completeness of lease commitments reported at \$350,000.

Except as noted above, we have obtained all the information and explanations that we have required.

Qualified Opinion

In our opinion, except for the matters noted above, the financial statements of the Cook Islands Government:

- Comply with International Public Sector Accounting Standards; and
- Fairly present in all material respects, the financial position, borrowings and commitments of the Cook Islands Government as at 30 June 2010 and its financial performance and cash flow for the year ended on that date.

Our audit was completed on 25 June 2013 and our qualified opinion is expressed as at that date.



Allen Parker
Director of Audit
Cook Islands Audit Office
Rarotonga, Cook Islands



Schedule of Crown Entities

Reporting Entity as at 30 June 2010

These financial statements are for the Crown as defined in the Ministry of Finance and Economic Management Act 1995/96. This comprises the following entities:

Table 5 Schedule of Crown Entities

<p>Ministries Agriculture Cultural Development Education Finance and Economic Management Foreign Affairs and Immigration Health Human Resource Development Internal Affairs Justice Marine Resources Infrastructure and Planning Police Prime Minister's Office Public Service Commission Tourism Corporation Transport Tu'anga Taporoporo (Environment)</p> <p>Island Administrations Aitutaki Atiu Mangaia Manihiki Mauke Mitiaro Palmerston Penrhyn Pukapuka/ Nassau Rakahanga</p> <p>Offices of Parliament Office of Public Expenditure Review Committee and Audit (PERCA)</p> <p>Office of the Ombudsman Crown Law Parliamentary Services</p>	<p>Corporations and Public Authorities Airport Authority Bank of the Cook Islands Cook Islands Government Property Corporation Cook Islands Broadcasting Corporation Cook Islands Investment Corporation Ports Authority Te Aponga Uira O Tumu-te-Varovaro Cook Islands Pearl Authority</p> <p>Companies Cook Islands Telecommunication Holdings Limited Cook Islands Telecommunication Assets Limited The Rarotongan Hotel Company Limited Cook Islands Property Corporation (NZ) Limited Banana Court Company Limited Suwarrow Development Corporation Limited Pacific Mini Games 2009 Ltd</p> <p>Other Entities Prime Minister's Support Office Deputy Prime Minister's Office Minister of Culture Minister of Environment, Natural Heritage and Infrastructure Minister of Foreign Affairs, Immigration, Youth & Sports and Transport Minister of Justice Office of the Leader of the Opposition Head of State Financial Supervisory Commission Business Trade Investment Board Financial Intelligence Unit Financial Services Development Authority Aitutaki Power Supply</p>
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STATEMENT OF ACCOUNTING POLICIES

BASIS OF PREPARATION

Reporting Entity

These financial statements are for the Government of the Cook Islands (Crown). This consists of:

- Ministers of the Crown;
- Ministries;
- Island Administrations;
- Offices of Parliament; and
- Public Enterprises and Other Authorities

A schedule of the entities included in these financial statements is detailed on page 13.

The primary objective of the Crown is to provide goods or services for the social benefit of all Cook Islands citizens and permanent residents living in the Cook Islands. The achievement of social responsibility is paramount to the making of a financial return. Accordingly, the Crown has designated itself and the group as public benefit entities for the purpose of the International Public Sector Accounting Standards Board (IPSASB).

Statement of Compliance

These financial statements have been prepared in accordance with the Ministry of Finance and Economic Management (MFEM) Act 1995/96 which include the requirement to comply with the International Public Sector Accounting Standards (IPSAS).

Measurement Base

The financial statements have been prepared on the going concern assumption and the accounting policies have been applied consistently throughout the period except where stated elsewhere in this Statement of Accounting Policies.

These financial statements have been prepared using the historical cost method to report results, cash flows and the financial position of the Crown. The financial statements have been prepared under the accrual basis of accounting and are presented in New Zealand dollars rounded to the nearest thousand dollars (\$000).

Reporting Period

The reporting period is the year ended 30 June 2010. These financial statements were authorised for issue on 25 June, 2013.

SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies, which significantly affect the measurement of financial performance, financial position and cash flows have been applied:

Recent Standards

Of significant relevance to the Crown is the recent development of new standards at the IPSAS Board. These include:

List of IPSASs Issued		Effective for periods beginning on or after	Crown accounting period
IPSAS 4	The Effects of Changes in Foreign Exchange Rates	January 1, 2010	2010-2011
IPSAS 25	Employee Benefits	January 1, 2011	2011-2012
IPSAS 26	Impairment of Cash generating assets	April 1, 2009	2009-2010
IPSAS 27	Agriculture	April 1, 2011	2011-2012
IPSAS 28	Financial Instruments: Presentation	January 1, 2013	2013-2014
IPSAS 29	Financial Instruments: Recognition & measurement	January 1, 2013	2013-2014
IPSAS 30	Financial Instruments: Disclosures	January 1, 2013	2013-2014
IPSAS 31	Intangibles Assets	April 1, 2011	2011-2012

These new standards have been issued but are not effective for the Crown for the 2009/10 period. IPSAS 24 is applicable for the 2009/10 Crown accounting period. We have reviewed IPSAS 24 and concluded it to be non-applicable to the Crown financial statements as the budgetary information disclosed in the public domain is limited to only Ministries and government funded agencies. We have disclosed budgetary information on pages 4-6. This disclosure is consistent with the budgetary information that is in the public domain.

Basis of Consolidation

Ministries, public enterprises and other authorities (including state owned enterprises (SOEs)) comprising the reporting entity are consolidated by adding together like items of assets, liabilities, equity, revenues and expenses on a line by line basis.

The effect of all material inter-entity transactions and balances are eliminated on consolidation.

Commitments and contingent liabilities of public enterprises and other authorities are reported in the Statements of Commitments and of Contingent Liabilities.

Associate

The Crown's associate investment is accounted for in the group financial statements using the equity method. An associate is an entity over which the Crown has significant influence where the

entity is neither a subsidiary nor an interest in a joint venture. Investment in an associate is initially recognised at cost and the carrying amount is increased or decreased to recognise the Crown's share of the surplus or deficit after the date of acquisition. When the Crown transacts with an associate, all surplus and deficits related to the Crown are eliminated. Distributions received from an associate reduce the carrying value of the investment in the Crown Financial Statements.

Revenue

Revenue is measured at fair value of the consideration received or receivable.

Revenue Levied Through the Crown's Sovereign Power

Payment of tax does not of itself entitle a taxpayer to an equivalent value of services or benefits, such revenue is received through the exercise of the Crown's sovereign power. Revenue arising through taxes is recognised when the taxable event occurs and when the criteria for recognition of revenue is met.

Revenue Type	Revenue Recognition Point
Individual Income Tax	Income tax is earned when individuals earn taxable income.
Company Income Tax	When the corporate community earns taxable income.
Value Added Tax	When taxable sales are made.
Customs levies	When goods liable to duty are assessed, except for Oil Companies which are accounted for when the liability to the Crown is incurred.
Departure Tax	When departure tax coupons are purchased.

Revenue Earned Through Operations

Revenue from sales of goods or services is recognised when the product is sold or the services are provided to the customer.

Interest Income

Interest income is earned on cash or cash equivalent assets. This is recognised in the period in which it is earned.

Fines

Fines are economic benefits or services potentially received by the Crown from an individual or other entity, as determined by a court or other law enforcement body, as consequence of the individual or other entity breaching the requirements of laws and regulations.

Investment Income

Investment income is earned from the leasing or rental of Crown assets to third parties that is neither a Crown entity or a Crown related party. Investment income is recognised in the period in which it is earned.

Gains

Realised gains arising from sale of assets or from the early settlement of a liability are recognised in the Statement of Financial Performance in the period in which the transaction is concluded.

Dividends

Dividends are recognised when the right to receive the payment has been established.

Aid (Development Partner) Revenue

Revenue is recognised when donor funds are expensed on approved projects and upon receipt of aid donated assets.

Expenses

General

Expenses are recognised when incurred and are reported in the financial period to which they relate.

Welfare Benefits

Welfare benefits are recognised in the period to which the payment of these benefits relates to.

Grants and Subsidies

Where grants and subsidies are discretionary until payment, the expense is recognised when the payment is made. Otherwise, the expense is recognised when the specified criteria have been fulfilled and notice has been given to the Crown.

Losses

Realised losses arising from sales of assets or the early settlement of a liability are recognised in the Statement of Financial Performance in the period in which the transaction is concluded.

Borrowing Costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

Foreign Currencies

Transactions in foreign currencies are translated into New Zealand dollar (NZD) using the exchange rate on the date of the transaction. Foreign exchange gain and losses arising from these transactions are included in the Statement of Financial Performance.

Any monetary assets and monetary liabilities held at year end are translated at the exchange rate at the balance sheet date.

Aid Expenses

Expenses are recognised when incurred on approved projects and are reported in the financial period to which they relate.

Depreciation

Each part of an item of plant, property, and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

Depreciation of plant, property, and equipment is provided on a straight line basis so as to allocate the cost of assets to their estimated residual value over their estimated useful lives. Typically, the estimated useful lives are:

Office and computer equipment	3 – 4 years
Motor vehicles	5 years
Furniture and fittings	4 – 10 years
Plant and Equipment	5-15years
Buildings and improvements	10 years
Coastal protection	25 years
Power distribution network	20 years
Road network	30 years
Water network	15 years
Airport runways	15 – 100 years
Harbour and ports structures	10 – 20 years
Waste management facilities	15 years
Plant and Equipment Tools	4 – 5 years
Marine Equipment	5 years
Leased Land and Leasehold improvements	Term of the lease
Specialised Buildings and Other Buildings	15 years

Non-Current Assets

Plant, Property, and Equipment

Plant, property and equipment is recorded at cost less accumulated depreciation.

The cost of purchased plant, property, and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

The cost of assets constructed by the Crown includes the cost of all materials used in construction, direct labour on the project, financing costs that are directly attributable to the project and an appropriate proportion of variable and fixed overheads. Costs cease to be capitalised as soon as the asset is ready for productive use and do not include any inefficiency costs.

Disposals

When an item of plant, property and equipment is disposed, the gain or loss (disposal proceeds less carrying value) associated with that item will be recognised in the Statement of Financial Performance.

Additions

The cost of an item of plant, property and equipment is recognised as an asset if, and only if, there will be future economic benefits evident and where these benefits will flow to the Crown and the cost of the item can be measured reliably.

Work in Progress

Work in Progress is recognised as cost less impairment and is not depreciated.

Infrastructure Assets

Infrastructure assets are recorded at cost less accumulated depreciation.

The cost of purchased infrastructure assets is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

The cost of assets constructed by the Crown includes the cost of all materials used in construction, direct labour on the project, financing costs that are directly attributable to the project and an appropriate proportion of variable and fixed overheads. Costs cease to be capitalised as soon as the asset is ready for productive use and do not include any inefficiency costs.

Infrastructure assets include: road networks, water networks, power distribution networks, coastal protection systems, harbour and ports structures, waste management and airport assets. When an infrastructure asset is disposed of, the gain or loss (disposal proceeds less carrying value) associated with that item will be recognised in the Statement of Financial Performance.

Intangible Assets

Intangible assets are software acquisition costs and are recorded at cost less accumulated amortisation.

The cost of purchased intangible assets is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service. Intangible assets might include: databases, software purchased, or software developed.

When an intangible asset is disposed of, the gain or loss (disposal proceeds less carrying value) associated with that item will be recognised in the Statement of Financial Performance.

Amortisation of intangible assets is on a straight line basis so as to allocate the cost of assets to their estimated residual value over their estimated useful lives. Typically, the estimated useful lives are:

Software, databases

3 - 5 years

Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

Receivables and Advances including Debtors and Other Receivables

Receivables and advances are recorded at cost.

After initial recognition, loans and receivables are measured at amortised cost less any provision for impairment. Gains and losses when assets are impaired or derecognised are recognised in the statement of financial performance.

Inventories

Inventories held for distribution or consumption in the provision of services that are not supplied on a commercial basis are measured at cost. Where inventories are acquired at no cost or for nominal consideration, the cost is the current replacement cost at the date of acquisition.

Inventories held for use in the production of goods and services on a commercial basis are valued at the lower of cost and net realisable value.

Investments

Investments in associates are accounted for in the consolidated financial statements using the equity method. That is, investments in associates are initially recognised at cost and the carrying amount is increased or decreased to recognise the Crown's share of the surplus or deficit of the associate after the day of acquisition.

Banking portfolio investments

Loans are valued at net realisable value after provisions. Applicable security is obtained depending on the size and nature of loans. Non-performing loans are reviewed monthly on a case by case basis.

Provision for doubtful debts

Provision is made for taxation debt where recovery is considered doubtful. There is no general provision against taxation debt.

Provision is made for banking portfolio Investments (specific loans) where recovery is considered doubtful or they have become non-performing. There is no general provision against banking portfolio Investments.

All bad debts are written off against specific provisions in the period in which they become classified as irrecoverable.

Aid (Development Partner) Assets

Donor funds are deposited into bank accounts until expensed on approved assets. Where an asset is acquired at no cost, or is donated for use by the Crown or other Crown entity, it is recognised at fair value as at the date of acquisition.

Liabilities

Borrowings

Borrowing liabilities are accounted for at amortised cost. Any changes are recognised in the Statement of Financial Performance. Borrowings or the proportion of borrowings expected to be settled within 12 months of balance date are disclosed as current liabilities in the statement of the financial position. All other borrowings are disclosed as non-current liabilities

Pension Liabilities

Pension liabilities, in respect of the contributory service of current and past Members of Parliament, are recorded at the latest (30 June 1997) actuarial value of the Crown's liability for pension payments. There are no pension liabilities accruing to the Crown as a result of Government employees' membership of the Government Superannuation Fund (New Zealand).

Employee Entitlements

These include annual leave earned but not yet taken at balance date and long service (bonus) leave. Long service bonus is paid out on the completion of three years continuous service within the Government. The bonus is equivalent to a fortnight pay of the employee and is provided for on a pro-rata basis in the statements of financial position. Annual leave and long service leave are expected to be settled within 12 months of balance date, are classified as current liability. All other employee entitlements are classified as a non-current liability

Other Liabilities

All other liabilities are recorded at the estimated obligation to pay. No liability for ongoing welfare payments has been recognised because no legal entitlement is considered to exist beyond the end of the current financial year until a new Appropriation Act is passed and is provided for on a pro-rata basis in the statement of financial position. Annual leave and long service leave to be settled within 12 months of the balance date, are classified as current liability. All other employee entitlements are classified as a non-current liability.

Aid Liabilities

Funds received from various donors are treated as liabilities until expensed on approved projects at which stage the funding is included within the Statement of Financial Performance as revenue.

Cash Flow

A cash flow statement identifies the sources of cash inflow, the items on which cash was utilised and the cash balance at the reporting date. Included in the cash flow statement are financing activities which are activities that result in the change of size and composition of the contributed capital and borrowings of the Crown.

Investing activities are the acquisition and disposal of long term assets and other investments.

Operating activities identify how much the Crown received from its actual operations.

Cash flow information allows users to ascertain how the Crown raised the cash it required to fund its activities and the manner in which that cash was utilised.

Leases

Finance leases transfer, to the Crown as lessee, substantially all the risks and rewards incidental to the ownership of an asset. The obligations under such leases are capitalised at the present value of minimum lease payments. The capitalised values are amortised over the period in which the Crown expects to receive benefits from their use.

Operating leases, where the lessors substantially retain the risks and rewards of ownership, are recognised in a systematic manner over the term of the lease. Operating leases are recognised as an expense in the statement of the financial performance in the periods in which they are incurred.

The cost of leasehold improvements is capitalised and amortised over the lesser of the leasehold improvements useful life or the original lease term.

Commitments

The Statement of Commitments discloses those operating and capital commitments arising from non-cancellable contractual or statutory obligations. Interest commitments on debts and commitments relating to employment contracts are not included.

Contingent Liabilities

Contingent liabilities are recorded when a possible obligation has arisen from an event in the past and which the existence will only be confirmed through the occurrence or non-occurrence of future events. Such liabilities will be disclosed if they are deemed to materially affect the reading of the presented financial statements.

Changes in Accounting Policies

There have been no changes to the accounting policies. All policies have been applied on a consistent basis with the prior year.



Statement of Financial Performance

As at 30 June 2010

	Note	2010 \$000	2009 \$000
Crown Revenue and Expenses			
REVENUE			
Operating revenue			
Taxation	(1)	88,088	77,591
Fees, fines, penalties, and licenses	(2)	2,739	2,531
Total operating revenue		90,827	80,122
Other Crown revenue			
Investment income	(3)	4,707	5,974
Other Crown income	(4)	4,659	3,539
Total other Crown revenue		9,366	9,513
Provision of goods and services		36,084	36,806
Total Crown revenue		136,277	126,441
EXPENSES			
Personnel and employee benefits	(5)	50,397	50,430
Welfare and grants	(6)	12,268	10,815
Audit Fees		289	308
Impairment of Inventory or Plant, Property, and Equipment		370	490
Net (gain) / loss on foreign exchange		(6,355)	1,252
Litigation settlements		-	5
Provision for legal settlement TOA	(25)	803	6,235
Changes in provision for doubtful debts		7,004	423
Depreciation and amortisation	(7)	10,318	10,367
Finance costs	(8)	3,431	2,497
Other expenses	(9)	52,989	52,389
Total Crown-funded operating expenses		131,514	135,211
Total Crown surplus / (deficit) before aid funded activities		4,763	(8,769)
Aid (Development Partner) Funded Activities			
Aid (Development Partner) revenue	(10)	18,722	7,235
Aid (Development Partner) expenses	(10)	16,424	5,918
Net surplus from aid funded activities		2,298	1,317
Total Crown surplus / (deficit) for the period		7,061	(7,453)

The accompanying notes are an integral part of these financial statement

Statement of Changes in Net Assets / Equity

For the Year Ended 30 June 2010

	General Reserves	Revaluation Reserves	Accumulated Surpluses / (Deficits)	Total Net Assets / Equity
	\$000	\$000	\$000	\$000
Balance at 30 June, 2009 brought forward	1,539	-	190,739	192,278
Changes in net assets / equity for 2010:				
Net surplus / (deficit) for the year	-	-	7,061	7,061
Total recognised revenue and expense for the year	-	-	7,061	7,061
Transfers to Trust Fund Reserve	419	-	(419)	-
Balance as at 30 June, 2010 carried forward	<u>1,958</u>	-	<u>197,381</u>	<u>199,339</u>
Balance as at 30 June, 2008	1,134	-	198,599	199,733
Changes in net assets / equity for 2009:				
Net surplus / (deficit) for the year	-	-	(7,453)	(7,453)
Total recognised revenue and expense for the year	-	-	(7,453)	(7,453)
Transfers to Trust Fund Reserve	405	-	(405)	-
Balance as at 30 June, 2009 carried forward	<u>1,539</u>	-	<u>190,741</u>	<u>192,280</u>

General Reserves are funds which have been set aside to meet any unexpected costs that may arise in the future

The accompanying notes are an integral part of these financial statement

Statement of Financial Position

As at 30 June 2010

	Note	2010 \$000	2009 \$000
Assets			
Current assets			
Cash	(11)	18,020	14,120
Term deposits	(11)	59,455	49,794
Trust accounts	(11)	8,468	5,694
Inventory	(12)	4,395	4,026
Debtors and other receivables	(13)	20,208	20,564
Current portion of banking portfolio investments	(15)	5,194	6,753
		<u>115,740</u>	<u>100,951</u>
Non-current assets			
Term deposits -CIIC		-	955
Investments in shares and associate	(14)	4,917	4,912
Banking portfolio investments	(15)	23,220	24,400
Other investments		-	9
Plant, property, and equipment	(16)	118,902	111,915
Intangible assets	(17)	99	63
Infrastructural assets	(18)	69,340	69,454
		<u>216,478</u>	<u>211,708</u>
Total Assets		332,218	312,659
Liabilities			
Current liabilities			
Creditors and other payables	(20)	12,829	11,473
Employee entitlements	(21)	1,520	1,454
Trustee liabilities	(22)	9,134	8,348
Current portion of banking customer deposits	(23)	22,523	20,212
Current portion of borrowings		3,120	2,894
Customer bonds		615	566
Provision for legal settlement TOA-Current	(25)	1,065	1,750
		<u>50,806</u>	<u>46,697</u>
Non-current liabilities			
Non-current portion of banking customer deposits	(23)	1,193	1,810
Employee entitlements	(21)	88	127
Members of Parliament pension liability	(24)	1,599	2,027
Non-current portion of borrowings		74,786	65,233
Provision for legal settlement TOA-Term	(25)	4,407	4,485
		<u>82,073</u>	<u>73,682</u>
Total Liabilities		132,879	120,379
Net Assets		199,339	192,280
Crown Balance		199,339	192,280

The accompanying notes are an integral part of these financial statement

Statement of Cash Flows

For the Year Ended 30 June 2010

	Note	2010 \$000	2009 \$000
Cash Flows From Operating Activities			
Cash was provided from:			
Taxation		82,439	77,811
Compulsory Fees, Fines and Levies		2,738	2,531
Provision of Goods and Services		33,715	35,186
Other Crown activities		6,749	1,146
Interest on advances and bank funds		-	280
Net Aid Receipt		2,298	1,317
Income from Associates		1,148	4,248
		129,087	122,519
Cash was applied to:			
Produce outputs			
- Social welfare benefits and education grants		12,169	10,715
- Parliamentary superannuation		526	101
- Personnel		48,757	48,215
- Employee superannuation subsidy		1,423	1,812
- Other supplier payments		54,141	51,049
		117,015	111,892
Realised foreign exchange gain/(loss)		(30)	(748)
Debt servicing		3,522	2,873
		120,507	114,017
Net Cash Inflows / (Outflows) From Operating Activities		8,580	8,502
Cash Flows From Investing Activities			
Cash was provided from:			
Repayments of advances from			
- Telecom Cook Islands Limited		-	-
Proceeds from sale of fixed assets		21,864	614
Funds transferred into Reserve Trust Fund		-	-
Interest received from investments		3,013	3,516
		24,877	4,130
Cash was applied to:			
Purchase of fixed assets		39,459	34,623
Purchase of Investments		-	242
Net increase in trustee accounts		1,033	(3,148)
Net Increase in Banking Portfolio Investments		(2,739)	4,120
		37,753	35,837
Net Cash Inflows/(Outflows) From Investing Activities		(12,866)	(31,707)

The accompanying notes are an integral part of these financial statements

Statement of Cash Flows (continued)

For the Year Ended 30 June 2010

	Note	2010 \$000	2009 \$000
Cash Flows From Financing Activities			
Cash was provided from:			
Drawdown of loans		18,694	20,545
Inflow to client deposit accounts		1,694	422
Customs bonds received		49	105
		<u>20,437</u>	<u>21,072</u>
Cash was applied to:			
Loan repayments			
- Locally-sourced debt		77	439
- Foreign-sourced debt		2,513	2,738
		<u>2,590</u>	<u>3,177</u>
Net Cash Inflows/(Outflows) From Financing Activities		17,847	17,895
Net increase in cash held		13,560	(5,311)
Add opening cash and deposits		63,914	69,225
Closing Cash and Deposits		77,474	63,914
Cash and Deposits Comprise			
Cash	(11)	18,020	14,120
Short term deposits	(11)	59,455	49,794
Closing Cash and Deposits		77,475	63,914

The accompanying notes are an integral part of these financial statements

Statement of Cash Flows (continued)

For the Year Ended 30 June 2010

	Note	2010 \$000	2009 \$000
Reconciliation of Crown Overall Operating Balance to Cash Flows From Operations			
Crown Overall Operating Balance		6,398	(7,453)
		6,398	(7,453)
Add / (less) non cash items			
- Depreciation		10,317	10,367
- Change in Provision for doubtful debts		-	1,600
- Impairment on PPE		370	-
- Interest Income		(3,164)	-
- Other		-	(3,185)
		7,523	8,782
Add / (less) movements in working capital			
- (increase) / decrease in taxes receivable		1,468	(1,480)
- (increase) / decrease in accounts receivable		(1,999)	198
- (increase) / decrease in dividend receivable		(390)	1,790
- (increase) / decrease in interest receivable		-	280
- (increase) / decrease in prepayments		2,091	(2,393)
- (increase) / decrease in inventory		(370)	296
- increase / (decrease) in amounts due to employees		217	403
- increase / (decrease) in interest accrued		(91)	(376)
- increase / (decrease) in tax refund liability		(113)	100
- increase / (decrease) in customer deposits		(427)	422
- increase / (decrease) in creditors		1,367	1,700
- increase / (decrease) in investments in shares and associates		(5)	-
- increase / (decrease) in provision for legal settlement TOA		(762)	6,235
- increase / (decrease) in foreign borrowings		(6,325)	-
		(5,341)	7,175
Net Cash Inflows/(Outflows) from Operating Activities		8,580	8,504

The accompanying notes are an integral part of these financial statements

Statement of Segments

As at 30 June 2010

	Crown Parent		Crown Entities		Stated Owned Enterprises		Inter-Segment Eliminations		Total Government	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000	2010 \$000	2009 \$000	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Revenue										
Taxation revenue	89,717	79,263	-	-	-	-	(1,629)	(1,672)	88,088	77,591
Revenue from Crown funding	-	-	60,517	61,472	6,096	6,092	(66,613)	(67,564)	-	-
Sales of goods and services	397	201	6,977	7,118	29,978	31,122	(1,268)	(1,635)	36,084	36,806
Interest revenue and dividends	4,577	6,128	58	44	923	292	(2,393)	(2,948)	3,165	3,516
Other revenue	20,432	9,341	6,317	5,074	3,444	4,266	(2,530)	(2,918)	27,662	15,763
Total Revenue	115,123	94,933	73,869	73,708	40,441	41,772	(74,433)	(76,737)	154,999	133,676
Expenses										
Transfer payments and subsidies	65,691	71,952	-	-	-	-	(65,691)	(71,952)	-	-
Personnel expenses	56	140	43,175	43,471	7,166	7,252	-	-	50,397	50,863
Welfare and grants	12,268	10,815	-	-	-	-	-	-	12,268	10,815
Interest expenses	831	958	-	-	1,730	1,539	(65)	-	2,496	2,497
Depreciation expenses	1,939	1,717	2,709	2,347	5,670	6,301	-	-	10,318	10,365
Other operating expenses	32,455	27,908	25,282	24,430	23,656	22,906	(8,934)	(8,655)	72,459	66,589
Total Expenses	113,240	113,490	71,166	70,248	38,222	37,998	(74,690)	(80,607)	147,938	141,129
Operating Balance	1,883	(18,557)	2,703	3,460	2,219	3,774	257	3,870	7,061	(7,453)
Assets										
Cash and equivalents	59,355	51,546	9,730	8,787	26,600	25,978	(9,742)	(16,703)	85,943	69,608
Debtors and other receivables	17,571	15,678	2,383	3,917	4,651	4,378	(4,397)	(950)	20,208	23,023
Property, plant and equipment	31,559	27,844	24,090	23,270	148,264	137,069	(15,572)	(6,753)	188,341	181,432
Other assets	16,340	20,925	16,035	19,142	43,382	41,965	(38,031)	(43,436)	37,726	38,596
Total Assets	124,825	115,993	52,238	55,116	222,897	209,390	(67,742)	(67,842)	332,218	312,659
Liabilities										
Creditors and other payables	5,962	7,289	4,439	1,856	3,389	6,648	(961)	(8,271)	12,829	7,522
Borrowings	71,833	63,083	-	-	7,343	2,979	(1,270)	(1,189)	77,906	64,873
Banking customer deposits	-	-	-	-	28,669	27,106	(4,953)	(10,531)	23,716	16,575
Other liabilities	25,596	27,668	25,920	29,165	18,282	23,694	(51,370)	(49,118)	18,428	31,409
Total Liabilities	103,391	98,040	30,359	31,021	57,683	60,427	(58,554)	(69,109)	132,879	120,379
Net Worth	21,434	17,953	21,879	24,095	165,214	148,963	(9,188)	1,267	199,339	192,280

The accompanying notes are an integral part of these financial statements

Statement of Commitments

As at 30 June 2010

	2010	2009
	\$000	\$000
By Type		
Lease commitments (excluding CIG Property Corporation)	1,389	1,439
Undisbursed bank loan facilities (Bank of the Cook Islands)	700	1,602
Capital Expenditure-Crown Parent	721	494
Capital Expenditure	-	5,943
	9,996	
Total Quantifiable Commitments	12,806	9,478
	2,842	
Lease Commitments by Term		
One year or less	57	57
From one to two years	57	57
From two to five years	171	170
Over five years	10,693	1,155
Total Lease Commitments (excluding CIG Property Corporation)	10,978	1,439

Lease Commitments

The Crown has commitments relating to land leases held by the Cook Islands Government Property Corporation. These are long term, usually for a 20-30 year period with perpetual renewal rights. Due to the incomplete nature of the Corporation's records on its leases it was not possible to calculate the future commitments in numerical terms.

Undisbursed Bank Loan Facilities

Bank of the Cook Islands (BCI) has committed to lending a number of loans in the future that has not yet been drawn down. As at 30 June 2010, these undrawn loans totaled \$1,506,526 (2009: \$1,601,748).

Capital and Operating Expenditure

There was no funds committed for future capital expenditure as at 30 June 2010 (2009: \$5,942,501)

There are no other financial or contractual commitments at balance date (2009: \$0)

The accompanying notes are an integral part of these financial statements

Statement of Contingent Liabilities

As at 30 June 2010

	2010	2009
	\$000	\$000
Uncalled Capital - Asian Development Bank	1,715	1,822
Legal proceedings	16,078	16,070
Total Quantifiable Contingent Liabilities	17,793	17,892

Uncalled Capital

Asian Development Bank – Cook Islands Property Corporation owns 88 uncalled shares with a par value of US\$13,500 each. Using the USD rate of 0.6929, this equates to \$1,714,533 in NZD (2009: \$1,822,086 at 0.6520).

Legal Proceedings

A \$14,500,000 claim has been lodged against Crown relating to its shipping policies.

A \$270,000 claim has been lodged in regards to negligence against Ministry of Infrastructure and Planning and the keeping of records up to date.

A \$105,000 claim is lodged in regards to a failure of ensuring work conditions are adequate in protecting employees.

A \$134,149 claim has been lodged in relation to medical negligence against the Ministry of Health.

A \$1,069,250 claim has been lodged against the Ministry of Police for human rights and trespass and conversion breaches.

The accompanying notes are an integral part of these financial statements

Statement of Borrowings

As at 30 June 2010

	Note	2010 \$000	2009 \$000
External Debt			
Asian Development Bank		49,603	40,591
Caisse Francaise de Developpement		5,402	7,402
NZ Government Superannuation Fund		2,548	3,254
Export -Import Bank of China		14,280	15,090
Total External Debt		71,833	66,337
Local Debt			
Westpac Banking Corporation		6,073	1,790
Total Local Debt		6,073	1,790
Total Borrowings		77,906	68,127

The accompanying notes are an integral part of these financial statements

Statement of Borrowings (continued)

As at 30 June 2010

	2010	2009
	\$000	\$000

The terms of the component loans of external debts are:

Asian Development Bank		
Economic restructuring loan (1996) - 1466	6,215	7,084
First multi project loan (1980) - 461	1,182	1,446
Second multi project loan (1987) - 849	2,981	3,518
First Cook Islands Development Bank project loan (1982) - 567	990	1,197
Second Cook Islands Development Bank loan (1992) - 1155	1,599	1,828
Third Cook Islands Development Bank loan (1996) - 1380	2,817	3,214
Outer Islands telecommunications project loan (1990) - 1031	6,595	7,544
Education development (1994) - 1317	3,411	3,894
Waste Management loan (2001 - 2005) - 1832	3,229	3,762
Cyclone Rehabilitation Project loan (1997) - 1588	1,038	1,183
Cyclone Emergency Assistance loan (2006) - 2174	3,779	4,662
TCI Emergency Loan (1992) - 1171	541	619
Pearl Loan (1994) - 1309	560	640
(SF) Avatiu Ports Development Loan (2009) - 2473	218	-
(OCF) Avatiu Ports Development Project Loan (2009) - 2472	16	-
(SF) Economic Recovery Support Program Loan (2010) - 2565	14,432	-
	<u>49,603</u>	<u>40,591</u>
<ul style="list-style-type: none"> - Repayable over 40 years from date of initial drawdown (year of initial drawdown beside each loan) - All loans have an interest rate of 1% - Loans totalling \$17.5 million up to and including 1992 are secured by New Zealand Government guarantee, loans issued after this date are unsecured 		

Caisse Francaise de Developement		
Northern Group Solarisation Project Loan (1999)	548	752
Rarotonga Water Supply & Electrification Loan (1999)	4,854	6,650
	<u>5,402</u>	<u>7,402</u>
<ul style="list-style-type: none"> - Repayable over 12 years from date of initial drawdown - All Loans have an interest rate of 0.75% and 1.75% respectively 		

NZ Government Superannuation Fund		
- Repayable over 15 years from 1998	2,548	3,254
- Interest rate of 3%		
- Unsecured		

The accompanying notes are an integral part of these financial statement

Statement of Borrowings (continued)

As at 30 June 2010

	2010	2009
	\$000	\$000

The terms of the component loans of external debts are:

	2010	2009
Export -Import Bank of China		
Indoor Sports Stadium Project, Repairs and Upgrade of Existing Sports Facilities,	14,280	15,090
	<u>14,280</u>	<u>15,090</u>
- Repayable over 20 years from date of initial drawdown		
- Loans have an interest rate of 2%, Management Fee of 1% and a Commitment Fee of 0.75%		

	2010	2009
Westpac Banking Corporation Loans	6,073	1,790
The term portion of the bank loans relates to the Airport Authority's bank loans which have a 10 year term and a variable interest rate applicable at 10.65% per annum (2009: 10.15%) per annum. The loans are secured by debenture over the Authority's assets and by way of mortgage over its land leases and income.		
Registered charge		
The Westpac bank holds a registered charge of \$268,946 and bill of sale over the equipment purchased by the Crown, namely the Sand Pump and Barge.		

The accompanying notes are an integral part of these financial statements

Statement of Borrowings (continued)

As at 30 June 2010

Maturity Profile as at 30 June 2010

	2010/11	2011/12	2012/13	2013/14	2014/15 - 2018/19	2019/20 and after	Total book value
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
External Debt							
Asian Development Bank	1,120	1,221	1,855	2,457	13,851	29,099	49,603
Caisse Francaise de Developpement	915	915	915	915	1,742	-	5,402
NZ Government Superannuation Fund	765	854	929	-	-	-	2,548
EXIM Bank China Concessional Loan	-	-	-	-	5,400	8,880	14,280
Total External Debt	2,800	2,990	3,699	3,372	20,993	37,979	71,833
Local Debt							
Westpac Banking Corporation	320	338	439	1,012	3,964	-	6,073
Total Local Debt	320	338	439	1,012	3,964	-	6,073
Total Borrowings	3,120	3,328	4,138	4,384	24,957	37,979	77,906

Maturity Profile as at 30 June 2009

	2009/10	2010/11	2011/12	2012/13	2013/14 - 2017/18	2018/19 and after	Total book value
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
External Debt							
Asian Development Bank	1,146	1,237	1,349	1,386	7,954	27,519	40,591
Caisse Francaise de Developpement	915	915	915	915	2,895	846	7,402
NZ Government Superannuation Fund	706	765	854	929	-	-	3,254
EXIM Bank China Concessional Loan	-	-	-	-	4,218	10,873	15,091
Total External Debt	2,767	2,917	3,118	3,230	15,067	39,238	66,337
Local Debt							
Westpac Banking Corporation	127	284	304	709	366	-	1,790
Total Local Debt	127	284	304	709	366	-	1,790
Total Borrowings	2,894	3,201	3,422	3,939	15,433	39,238	68,127

The accompanying notes are an integral part of these financial statements

Statement of Borrowings (continued)

As at 30 June 2010

Movements during the year ended 30 June 2010

	As at 1 July 2009	Increases / additions	Decreases / repayments	Currency realignment	As at 30 June 2010
External Debt	\$000	\$000	\$000	\$000	\$000
Asian Development Bank	40,591	14,334	(1,113)	(4,209)	49,603
Caisse Francaise de Developpement	7,402	-	(694)	(1,306)	5,402
NZ Government Superannuation Fund	3,254	-	(706)	-	2,548
EXIM Bank China Concessional Loan	15,090	-	-	(810)	14,280
Total External Debt	66,337	14,334	(2,513)	(6,325)	71,833
Local Debt					
Westpac Banking Corporation	1,790	4,360	(77)	-	6,073
Total Local Debt	1,790	4,360	(77)	-	6,073
Total Borrowings	68,127	18,694	(2,590)	(6,325)	77,906

Movements during the year ended 30 June 2009

	As at 1 July 2008	Increases / additions	Decreases / repayments	Currency realignment	As at 30 June 2009
External Debt	\$000	\$000	\$000	\$000	\$000
Asian Development Bank	36,330	858	(1,117)	4,520	40,591
Caisse Francaise de Developpement	7,852	-	(851)	401	7,402
NZ Government Superannuation Fund	4,024	-	(770)	-	3,254
EXIM Bank China Concessional Loan	-	18,012	-	(2,922)	15,090
Total External Debt	48,206	18,870	(2,738)	1,999	66,337
Local Debt					
Westpac Banking Corporation	554	1,675	(439)	-	1,790
Total Local Debt	554	1,675	(439)	-	1,790
Total Borrowings	48,760	20,545	(3,177)	1,999	68,127

The accompanying notes are an integral part of these financial statements

Statement of Borrowings (continued)

As at 30 June 2010

Currency Analysis as at 30 June 2010

	Currency in which loan denominated/repayable				
	United States dollars	Euros	New Zealand dollars	Chinese Yuan	Total
	\$000	\$000	\$000	\$000	\$000
External Debt					
Asian Development Bank	49,603	-	-	-	49,603
Caisse Francaise de Development	-	5,402	-	-	5,402
NZ Government Superannuation Fund	-	-	2,548	-	2,548
EXIM Bank China Concessional Loan	-	-	-	14,280	14,280
Total External Debt	49,603	5,402	2,548	14,280	71,833
Local Debt					
Westpac Banking Corporation	-	-	6,073	-	6,073
Total Local Debt	-	-	6,073	-	6,073
Total Borrowings	49,603	5,402	8,621	14,280	77,906

Currency Analysis as at 30 June 2009

	Currency in which loan denominated/repayable				
	United States dollars	Euros	New Zealand dollars	Chinese Yuan	Total
	\$000	\$000	\$000	\$000	\$000
External Debt					
Asian Development Bank	40,591	-	-	-	40,591
Caisse Francaise de Development	-	7,402	-	-	7,402
NZ Government Superannuation Fund	-	-	3,254	-	3,254
EXIM Bank China Concessional Loan	-	-	-	15,090	15,090
Total External Debt	40,591	7,402	3,254	15,090	66,337
Local Debt					
Westpac Banking Corporation	-	-	1,790	-	1,790
Total Local Debt	-	-	1,790	-	1,790
Total Borrowings	40,591	7,402	5,044	15,090	68,127

The accompanying notes are an integral part of these financial statements

Notes to the Financial Statements

For the Year Ended 30 June 2010

	2010 \$000	2009 \$000
Note 1: Taxation		
Direct Taxation		
Individual income tax	25,230	25,604
Company income tax	10,077	5,610
Total Direct Taxation	35,307	31,214
Indirect Taxation		
Value added tax	37,326	33,059
Customs levies	10,037	9,745
Departure tax	5,418	3,573
Total Indirect Taxation	52,781	46,377
Total Taxation	88,088	77,591

Note 2: Fees, Fines, Penalties, and Licenses

Registration fees	1,073	1,024
Road transport licensing	1,575	1,383
Court fines	44	69
Other fees, fines and levies	47	55
Total Compulsory Fees, Fines and Levies	2,739	2,531

Note 3: Investment Income

Interest on advances to Associate	-	66
Interest on bank deposits	3,164	3,450
Equity accounted earnings of Associate (see Note 14)	1,543	2,458
Total Investment Income	4,707	5,974

Note 4: Other Crown Income

Currency and numismatic revenue	515	517
Fisheries licenses	2,844	1,572
Tattsлото Income	161	148
Net Gain on disposal of assets	(363)	237
Other	1,502	1,065
Total Other Crown Income	4,659	3,539

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2010

	2010	2009
	\$000	\$000

Note 5: Personnel Expenses

Wages and salaries	48,974	48,618
Employee superannuation subsidy	1,423	1,812
Total Personnel Expenses	50,397	50,430

Note 6: Welfare and Grants

Old age benefits	7,919	6,585
Child benefits	3,001	3,062
Destitute and infirm benefits	746	660
Special assistance benefits	98	101
Power subsidies	74	18
Parliamentary pension beneficiary payments (note 23)	276	229
Student grants	154	160
Total Welfare and Grants	12,268	10,815

Note 7: Depreciation and Amortisation

Depreciation on infrastructure assets	5,300	3,773
Depreciation on plant, property, and equipment	4,987	6,557
Amortisation on intangible assets	31	37
Total Depreciation and Amortisation	10,318	10,367

Note 8: Finance Costs

Interest expenses on foreign-sourced loans	715	822
Interest expenses on domestic loans	1,781	1,675
TOA interest expenses (note 25)	935	-
Total Finance Costs	3,431	2,497

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2010

	2010	2009
	\$000	\$000
Note 9: Other Expenses		
Private school funding	1,620	1,630
Air New Zealand Underwrite	1,912	2,982
Fuel and oil	11,751	14,681
Communications	1,046	1,563
Repairs and maintenance	5,093	6,492
Office supplies and consumables	1,140	1,170
Professional services	1,103	1,652
Travel	1,701	1,720
Advertising and marketing	3,276	2,397
Insurance	1,093	903
Medical and hospital expenses	1,944	1,357
Other expenses	21,310	15,842
Total Other Expenses	52,989	52,389

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2010

	2010	2009
	\$000	\$000

Note 10: Aid (Development Partner) Funded Activities

Aid (Development Partner) Contributions

New Zealand Aid	14,400	3,533
European Union Assistance	97	214
United Nations Aid Assistance	1,425	808
Other Aid Assistance	2,800	2,680

Total Donor Aid Contributions	18,722	7,235
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Aid (Development Partner) Expenses

Public sector reform	2,151	949
Private sector development	-	-
Human Resource development	4,331	102
Outer Islands development	1,804	891
Health development	1,829	761
Education Development	1,571	1,823
Other Aid Expenses	4,738	1,392

Total Aid Expenses	16,424	5,918
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Funds received from various development partners are treated as trustee liabilities until expended on approved projects at which stage the funding is included within the Statement of Financial Performance as Crown income.

Development partner funded expenditure of a capital nature is accounted for as property, plant and equipment within the Crown's Statement of Financial Position. Other expenditure funded through aid is included within the Statement of Financial Performance.

In many cases, the various development partners expend the aid funding direct with suppliers of goods and services. The treatment of this spending within the Crown's financial statements is consistent with funding received and expended by the Crown.

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2010

	2010	2009
	\$000	\$000

Note 11: Cash and Equivalents

Cash

Crown entities accounts	15,311	10,730
Crown public accounts		
Australia and New Zealand Banking Group Limited	553	1,124
Westpac Banking Corporation	1,868	954
Taxation imprest accounts	226	489
Other Bank accounts	62	823
Total Cash	18,020	14,120

Term Deposits

Loan repayment reserves	16,261	20,934
Crown public account term deposits	25,604	11,632
Crown entities term deposits	17,590	17,228
Total Term Deposits	59,455	49,794

The loan repayment reserves are funds which are set apart specifically to meet future loan repayment commitments.

Trust Accounts

Unclaimed monies	-	-
Customs bond account	41	4
Workers compensation account	1,057	916
Insurance deposits account	31	30
Law Trust account	261	278
Land Trust deposits	3,251	1,192
Aid Accounts		
General Aid accounts	2,735	2,537
Outer Islands Development Grant Fund	259	638
Other Trust Fund	833	99
Total Trust Accounts	8,468	5,694

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2010

2010
\$000

2009
\$000

Note 12: Inventory

Inventory Held of Use

Electricity - Diesel	1,305	1,272
Infrastructure and Planning - Bitumen	481	599
Health - Pharmaceuticals and hospital supplies	666	720
Outer Islands - Various supplies	102	182
Education - School supplies	61	56
Other	82	192
	<hr/>	<hr/>
	2,697	3,021

Inventory Held for Sale

Electricity - Trading Stock	1,738	1,061
Numismatic - Coin Stocks	122	104
Cultural Development - Books and tapes	22	23
Parliamentary Services - Legislation materials	11	12
Total held for sale	<hr/>	<hr/>
	1,893	1,200
Provision for Obsolete Stock	(195)	(195)

Total Inventory	4,395	4,026
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Not included in Inventory is numismatic stock comprising of collectors coins and notes no longer in circulation. The notes (\$50, \$20, \$10 and \$3) were expensed in prior years when they were produced and the sample collectors coins were received from various minting companies in return for them using the 'Government of the Cook Islands' name on these coins. Whilst the collectors coins and notes have a face value, they have no value to the Crown as the notes are no longer in circulation and the coins are not held for resale.

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2010

2010
\$000

2009
\$000

Note 13: Debtors and Receivables

Taxes receivable	20,324	14,098
Accounts receivable	8,750	6,370
Prepayments	784	2,875
Interest receivable	346	196
Accrued revenue	283	-
Dividends receivable	1,200	810
	<u>31,686</u>	<u>24,349</u>
Provision for doubtful debts	(11,479)	(3,785)
Total Debtors and Receivables	20,208	20,564

Prepayments in 2010 were mostly made up of \$560,858 welfare prepayments and the University of the South Pacific contribution amount of \$41,712 relating to the next financial period.

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2010

	2010 \$000	2009 \$000
Note 14: Investments in Shares and Associates		
Investment in Shares		
Asian Development Bank	137	128
Pacific Forum Line Limited	<u>78</u>	<u>78</u>
Total Investments in Shares	215	206
Share of Net Assets of Associate		
Carrying amount at beginning of year	4,706	4,648
Equity accounted earnings of Associate	1,544	2,458
Dividends from Associate	<u>(1,548)</u>	<u>(2,400)</u>
Total Share of Net Assets of Associate	4,702	4,706
Total Investments in Shares & Associate	<u>4,917</u>	<u>4,912</u>

Associates are those entities in which the organisation has substantial shareholding and in whose commercial and financial policy decisions it participates but does not have any controlling interest.

At 30 June 2010 investments in associates comprises:

	Percentage Interest	Balance Date
Telecom Cook Islands Limited	40%	30 June

Telecom Cook Islands Limited is incorporated in the Cook Islands and provides telecommunication services to the Cook Islands.

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2010

	2010	2009
	\$000	\$000
Note 15: Banking Portfolio Investments		
Current	5,506	7,062
Provision for bad and doubtful loans - current	<u>(312)</u>	<u>(309)</u>
	5,194	6,753
Term	24,613	25,515
Provision for bad and doubtful loans - term	<u>(1,393)</u>	<u>(1,115)</u>
	23,220	24,400
Total Banking Portfolio Investments	28,414	31,153

The loans portfolio primarily comprises of housing, pearl, tourism and business development loans. Housing loans attract interest rates in the range of 5.00% - 16.50% (2009: 5.00% - 10.75%) whereas 7.00% - 16.50% (2009: 10.75% - 15.25%) applies to developmental (including business) loans. Interest rates in the range of 9.50% - 16.50% (2009: 14.50% - 17.50%) are applicable on consumer loans.

Also included within the bank portfolio investments are loans to directors and staff of the Bank of the Cook Islands of \$2,355,000 (2009: \$2,049,118). The interest rates on these balances are in the range of 8.75% - 9.75%.

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2010

Note 16a: Property, Plant, and Equipment 2010

Category	Opening Cost	Additions	Disposals	Other	Closing Cost	Opening Accum Depn	Depn	Accum Depn on Disposals	Other	Closing Accum Depn	Net Book Value
Office and computer equipment	5,626	354	174	(297)	5,509	4,186	409	144	(165)	4,286	1,223
Furniture and fittings	2,978	237	8	(4)	3,204	1,611	153	39	(36)	1,690	1,514
Motor vehicles	9,721	903	217	(226)	10,181	6,959	559	188	(233)	7,096	3,085
Plant and equipment	34,426	5,574	266	484	40,218	14,824	1,988	1,722	397	15,487	24,731
Buildings and improvements	63,942	17,814	164	(534)	81,057	16,398	1,872	-	-	18,270	62,788
Land	12,219	366	-	-	12,585	185	-	137	-	47	12,537
Work in progress	27,166	6,985	22,044	965	13,072	-	6	2	45	48	13,023
Total Property, Plant & Equipment	156,078	32,233	22,873	388	165,826	44,163	4,987	2,232	8	46,924	118,902

Note 16b: Property, Plant, and Equipment 2009

Category	Opening Cost	Additions	Disposals	Other	Closing Cost	Opening Accum Depn	Depn	Accum Depn on Disposals	Other	Closing Accum Depn	Net Book Value
Office and computer equipment	5,403	736	65	(448)	5,626	3,895	837	22	(524)	4,186	1,440
Furniture and fittings	2,124	782	14	86	2,978	1,457	189	14	(21)	1,611	1,367
Motor vehicles	9,143	1,035	573	116	9,721	6,958	756	443	(312)	6,959	2,762
Plant and equipment	32,425	3,540	34	(1,505)	34,426	13,772	2,701	34	(1,615)	14,824	19,601
Buildings and improvements	62,584	1,035	3	326	63,942	14,110	2,069	-	219	16,398	47,544
Land	12,219	-	-	-	12,219	180	5	-	-	185	12,034
Work in progress	3,422	23,473	2,014	2,285	27,166	-	-	-	-	-	27,166
Total Property, Plant & Equipment	127,320	30,601	2,703	860	156,078	40,372	6,557	513	(2,253)	44,163	111,915

Completeness and Valuation of Assets

The list of fixed assets may not be a complete presentation of assets falling under the ownership of the Crown. In addition some assets have been recorded at nil value due to the absence of adequate and reliable information
 * The description other is made up of various corrections of prior period errors.



Notes to the Financial Statements (continued)

For the Year Ended 30 June 2010

Note 17a: Intangible Assets 2010

Category	Opening Cost	Additions	Disposals	Other	Closing Cost	Opening Accum Amort	Amortisation	Accum Amort on Disposals	Other	Closing Accum Amortisation	Net Book Value
Purchased software	83	47	-	-	130	39	20	-	-	58	72
Developed software	216	-	-	18	234	196	11	-	-	207	27
Total Intangible Assets	299	47	-	18	364	235	31	-	-	265	99

Note 17b: Intangible Assets 2009

Category	Opening Cost	Additions	Disposals	Other	Closing Cost	Opening Accum Amort	Amortisation	Accum Amort on Disposals	Other	Closing Accum Amortisation	Net Book Value
Purchased software	81	2	-	-	83	8	24	-	8	40	43
Developed software	204	33	-	(21)	216	183	13	-	-	196	20
Total Intangible Assets	285	35	-	(21)	299	191	37	-	8	235	63



Notes to the Financial Statements (continued)

For the Year Ended 30 June 2010

Note 18a: Infrastructure Assets 2010

Category	Opening Cost	Additions	Disposals	Other	Closing Cost	Opening Accum Depn	Depn	Accum Depn on Disposals	Other	Closing Accum Depreciation	Net Book Value
Roading	16,770	1,877	-	(76)	18,571	10,625	1,313	-	(8)	11,930	6,641
Power network	9,249	2,402	2,802	(50)	8,799	1,008	1,587	2,414	(18)	163	8,636
Harbours and ports	8,607	18	3	23	8,645	1,512	439	6	20	1,965	6,680
Airports	46,376	17	-	-	46,393	5,498	1,142	-	-	6,641	39,752
Coastal protection	929	-	-	-	929	399	37	-	-	436	493
Water	10,405	2,767	-	(157)	13,015	9,775	508	-	(12)	10,271	2,744
Waste management	5,484	-	-	-	5,484	1,310	274	-	-	1,584	3,899
Work in progress	1,769	96	1,371	-	494	8	-	8	-	-	494
Total Infrastructure Assets	99,589	7,178	4,176	(260)	102,330	30,135	5,300	2,427	(18)	32,990	69,339

Note 18b: Infrastructure Assets 2009

Category	Opening Cost	Additions	Disposals	Other	Closing Cost	Opening Accum Depn	Depn	Accum Depn on Disposals	Other	Closing Accum Depreciation	Net Book Value
Roading	16,377	630	-	(237)	16,770	8,820	1,079	-	726	10,625	6,145
Power network	8,429	820	-	-	9,249	2,192	505	-	(1,689)	1,008	8,241
Harbours and ports	7,481	1,159	33	-	8,607	1,151	397	18	(18)	1,512	7,095
Airports	45,733	643	-	-	46,376	4,432	1,122	-	(56)	5,498	40,877
Coastal protection	929	-	-	-	929	319	37	-	43	399	530
Water	10,215	335	66	(81)	10,403	8,938	359	-	478	9,775	628
Waste management	5,484	-	-	-	5,484	457	274	-	579	1,310	4,174
Work in progress	2,895	400	12	(1,514)	1,769	-	-	-	8	-	1,761
Total Infrastructure Assets	97,543	3,987	111	(1,832)	99,589	26,309	3,773	18	71	30,135	69,454

* The description other is made up of various corrections of prior period errors.



Notes to the Financial Statements (continued)

For the Year Ended 30 June 2010

Note 19: Related Parties

Related party relationships are a normal feature of commerce. Therefore, the Government will transact with related parties as a matter of course.

Related parties of the Government include:

- Ministries of the Crown, who are key management personnel because they have authority and responsibility for planning, directing and controlling the activities of the Government, directly or indirectly;
- Ministers' spouses, children and dependants who are close family members of key management personnel; and
- Private sector entities owned or jointly controlled by Ministries, their spouses, children and dependants.

The key management personnel are members of the senior management group. Key management personnel have authority and responsibility for planning, directing and controlling activities of the Government, directly and indirectly. Key management personnel in Government are the Cabinet Ministers.

The aggregate remuneration of members of the senior management group and the number of individuals determined on a full time equivalent basis receiving remuneration within this category are:

	2010 \$000	2009 \$000
Aggregate remuneration	540	540
Number of persons	6	6

Given the breadth of Government activities these related parties transact with the government sector in the same capacity as ordinary citizens. Such transactions include the payment of taxes and user charges (such as purchase of electricity) and the receipt of entitlements and services (such as access to education). These transactions have not been separately disclosed in this note.

Other transactions with these related parties can include the employment of Minister's spouses, children and dependants by a Government entity, including ministerial offices, departments, Crown entities and state owned enterprises, receipts of grants from or the purchase or sale of goods and services to a Government entity by Ministers, their spouses, children and dependants, or private sector entities they own or jointly control. These transactions have not been separately disclosed in this note, unless they have taken place within a Minister's portfolio.

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2010

	2010 \$000	2009 \$000
Note 20: Creditors and Other Payables		
Accounts Payable Accrued from Current Year		
Creditors, accruals and provisions	10,918	9,538
Payroll accruals	1,169	977
Interest accrued	69	160
Taxation refunds payable	540	653
Total Accounts Payable Accrued from Current Year	12,696	11,328
Accounts Payable Accrued prior to 1 July 1996		
Creditors, accruals and provisions	133	145
	133	145
Total Creditors, Accruals and Provisions	12,829	11,473

The accounts payable balances are categorised separately between those relating to periods prior to 1 July 1996 and those of a current nature. In 1996 the Government went through a serious cash flow crisis and was unable to satisfy many of its on going commitments to suppliers.

Note 21: Employee Entitlements

Provision for annual leave	877	939
Provision for sick leave	168	190
Provision for long service bonus	475	325
Total Current Employee Entitlements	1,520	1,454
Non-Current		
Provision for long service bonus	88	127
Total Non-Current Employee Entitlements	88	127
Total Employee Entitlements	1,608	1,581

Under the previous Public Services Act, sick leave entitlements for Government employees could accumulate from year to year. This legislation was repealed in 1996. Therefore the provision for sick leave includes only those entitlements accruing up to that date which have not been paid to employees at 30 June 2010. This liability will be paid to employees when they leave Government service.

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2010

	2010 \$000	2009 \$000
Note 22: Trustee Liabilities		
Aid funding liabilities	3,216	2,804
Land Trust Deposits Liability	3,251	3,080
Outer Islands Development Grant Fund	327	651
Workers compensation	1,057	955
Law Trust liability	261	278
Immigration deposits	50	56
Customs bond account	41	4
Insurance deposits	31	30
Other Trust Fund	900	490
Total Trustee Liabilities	9,134	8,348

Land Trust Deposits Liability

The Justice Land Trust is made up of \$2,002,892 (2009: \$1,887,806) held at the Ministry of Justice banked at the Bank of the Cook Islands for the administration of a Land Trust Account where payments are received from lessees and are paid to the land owners. The balance of \$1,247,994 (2009: \$1,192,216) is held by the Crown.

Outer Islands Development Grant Fund (OIDGF)

This fund has been set up from the repayment of incorrectly spent aid and an equal contribution from NZ Aid. The fund is administered by the Aid Management Division of MFEM and grants are made to Outer Islands projects that are approved by Cabinet on recommendations of the OIDGF board.

Workers Compensation

The workers compensation liability is an accumulation of all historical levies received from employers less compensation payments to employees for accident or death under the Cook Islands Workers Compensation Ordinance 1964.

Law Trust Liability

This is reparation funds paid as ordered by the court and is held until the case is heard in court and a court ruling is delivered.

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2010

Immigration Deposits

These are bonds paid by foreign employees or employers of foreign employees as a security for these foreign workers. If any problem arises with regards to these workers, this money can be used to pay for outward travel arrangement for the employees. The amount is calculated and is equivalent to a one way outward travel ticket to the employees country of origin at the time of the deposit.

Other Trust Fund

Other trust fund of \$900,835 (2009: \$489,296) is funding received which has not been spent at 30 June 2010 on approved projects and are held within the Crown (or other Crown agency) trust bank account. This is made up of unspent funding from aid donors of \$1,663 (2009: \$308,712) for EU funding \$66,691 (2009: \$48,079) for the fertiliser rolling fund and \$832,481 (2009: \$132,505) on other.

Customs Bond

Deposits held as a bond on imported equipment that is imported for a project and that will be returned after the project is completed, a refund is paid out once the equipment is returned.

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2010

2010	2009
\$000	\$000

Note 23: Banking Customer Deposits

Current	22,523	20,212
Term: One to two years	1,193	1,810

Total Banking Customer Deposits	23,716	22,022
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Customer deposits yield interest rates between 1% and 5% (2009: 1% and 5.75%) and are unsecured.

Note 24: Members of Parliament Pension Liability

The Cook Islands Government Superannuation Scheme of Members of Parliament provided under the Legislative Assembly Members' Superannuation Act 1976 was most recently assessed in October 2012 by Melville Jessup Weaver Limited, a firm of actuaries from New Zealand, as at 30 June 2010. This resulted in a revaluation of the liability by \$0.43 million, reducing it from \$2.03 million to \$1.60 million. The liability relates to past and current contributions made by members and employers contributions.

There was a substantial change in the superannuation benefits payable to Members and former Members of Parliament (MPs) by the passing of new legislation in 2003, the Members of Parliament Superannuation Act 2003. All eligible current MPs were transferred to the Cook Islands National Superannuation Scheme and agreement was reached for a defined list of former MPs (retirees) and MPs widows to receive a pension from Government.

This list of former MPs and MPs widows, which currently comprises 21 retirees (2009: 28), will each receive a pension for the rest of their lives. This pension was received by the 2003 legislation and is a maximum of \$10,000 per annum.

There are no specific assets to match the superannuation benefit liability. The liability is funded from the Crown's general monetary assets.

Current Year Activity

The following figures show the activity of the superannuation scheme and these are included within the Crown's Statement of Financial Performance:

	2010	2009
	\$000	\$000
Expenses		
Parliamentary pension beneficiary payments	276	229
Operating Results of Parliament Pension Liability	(276)	(229)

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2010

Note 25: Provision for Legal Settlement

Apex Agencies Limited (TOA Petroleum)

In the 2008-09 financial year, Government proposed to restructure the Cook Islands fuel market by purchasing a fuel farm and outsourcing its management. The proposal would result in the bulk purchase of fuel for the Cook Islands by one entity (Government) which would then be available to retailers. The motivation for this was to reduce the cost of fuel to the consumers.

As a result of this proposal, triad Pacific Petroleum Limited (Triad) took legal action to halt the proceedings of the purchase. Government withdrew from the agreement to purchase and as a result of not fulfilling the purchase agreement, a settlement was negotiated to avoid litigation. This was finalised as a \$1.75 million payout from the Crown to TOA and also an undertaking that the Crown will provide revenue to TOA to enable them to make an annual Earnings Before Income Tax, Depreciation and Amortisation (EBITDA) profit of \$1.2 million for the following 8 years.

The settlement payment of \$1.75 million was paid in the 2009-10 financial year and the beginning of the EBITDA support was appropriated in that same financial year. A provision has been recorded for the 2009-10 financial year.

Provision for Toa settlement	2010	2009
	\$000	\$000
At 1 July	6,235	-
Arising during the year	803	6,235
Utilised	(2,501)	-
Unwinding & discount rate adjustment	935	-
At 30 June	<u>5,472</u>	<u>6,235</u>
Current	1,065	1,750
Non-current	<u>4,407</u>	<u>4,485</u>
	<u>5,472</u>	<u>6,235</u>

The crown has recognised a provision for the Apex Agencies Limited (TOA Petroleum) EBITDA guarantee to the value of \$5,472,717.

This reflects the present value of future obligations according to key assumptions around future expected EBITDA results and a discount rate based on a cost of capital rate of 15 per cent.

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2010

Note 26: Statement of Specific Fiscal Risks (Foreign Currencies)

The principles of responsible fiscal management as detailed in Part III, Section 23 of the Ministry of Finance and Economic Management (MFEM) Act 1995-96 are to:

- a) managing total Crown debt at prudent levels so as to provide a buffer against factors that may impact adversely on the level of total Crown debt in the future, by ensuring that, unless such levels have been achieved, the total operating expenses of the Crown in each financial year are less than its total operating revenues in the same financial year; and
- b) achieving and maintaining levels of Crown net worth that provide a buffer against factors that may impact adversely on the Crown's net worth in the future; and
- c) managing prudently the fiscal risks facing the Crown; and
- d) pursuing policies that are consistent with a reasonable degree of predictability about the level and stability of tax rates for future years.

Government continues to maintain debt repayment reserves which provide a buffer against adverse events such as foreign exchange fluctuations. The 2009-10 Budget maintained government's policy to provide allocations to the debt repayment reserves \$1,100 million (2009: \$1,100 million).

	30 June 2010	30 June 2009
Euros *	0.5685	0.4863
United States dollars *	0.6929	0.6520
Chinese Yuan *	4.7102	4.4572

* Exchange rate obtained from the Reserve Bank of New Zealand as at 30 June.

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2010

Note 27: Subsequent Events

Cook Islands Consulate – Symond Street, Auckland

Cabinet decided in 2011 that the Cook Islands Consulate should be relocated to South Auckland given the proximity of that location to Auckland International Airport and the fact that a significant proportion of people of Cook Islands descent in New Zealand live in South Auckland. Arising from that decision, the property and building which has housed the Consulate in Symond Street, Newton, Auckland was placed on the open market for sale in July last year. An offer by the Peterken Family Trust to purchase the property for \$1,610,000 was accepted in April 2012 and negotiations for the finalisation of the sale was completed in June 2012. Government purchased the property in 1994 for \$976,000. As part of the conditions for the sale of the property, the Consulate will continue to occupy the top floor of the property rent-free until 30 June 2013.

Suspension of Long service Bonus Policy

In 2012 cabinet directed to suspend the Long Service Bonus policy and establish an alternative provision. As a result of this directive all Long Service Bonuses were removed from all agency budget baselines in 2012/13. Budget policy directives required that in the absence of the Long Service Bonus policy, ministries be provided with an alternative, namely replacing cash payments with additional leave entitlement based on performance. No such provision has been confirmed to date.

Currency Conversion for ADB Loans of the Cook Islands – USD to NZD

In August 2012, the Government of the Cook Islands requested the Asian Development Bank (ADB) to convert all its ordinary capital resources sovereign loans from US dollars to NZ dollars. The Government of New Zealand approved the currency swap involving exchange of ADB's non-NZ dollar borrowings to NZ dollars. The sovereign loans proposed to undergo currency conversion are L2472: Avatiu Port Development Project; L2739: Avatiu Port Development Project (Supplementary Loan) and L2565: Economic Recovery Support Program 1. Additionally the request sought the currency conversion be based on the NZ dollar rate.

Water and Sanitation Improvement Programme

The Cook Islands Government in partnership with New Zealand and the People's Republic of China entered into agreement in August 2012 through blended finance (loans and grants) to implement the improvement of the water, sanitation and waste management. The Te Mato Vai programme totalling \$82,414,000 allocated as \$16,690,000 to waste and sanitation improvement, \$62,399,000 to water and \$3,325,000 to roading is to achieve long-term protection of public health, the environment and the economy of the Cook Islands.

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2010

Note 27: Subsequent Events (continued)

Cook Islands Infrastructure Valuation

The second phase of the Asian Development Bank (ADB) funded project- TA 7287-COO improving the delivery of Infrastructure services focussed on asset management with particular emphasis on the preparation of initial asset management plans and basic valuations. Basic asset registers have been created for the purpose of carrying out valuations and providing information for asset management plans. AECOM (NZ) Ltd carried out an independent revaluation of infrastructural assets for the Cook Island Investment Corporation (CIIC) and the Ministry of Infrastructure and Planning (MOIP). This includes buildings, roading, water, waste water and landfill and sanitation on Rarotonga only. The valuations are effective as at 31 December 2012.

Statement of Appropriations

For the year ended 30 June 2010

	2009/10 Net Appropriation Budget \$000	2009/10 Net Expenditure Actual \$000	2009/10 Net Appropriation Variance \$000	2008/09 Net Expenditure Actual \$000
Agriculture	877	877	-	960
Audit (PERCA)	832	832	-	852
Crown Law	700	700	-	727
Cultural Development	683	721	(38)	650
Business Trade Investment Board	706	706	-	705
Education	9,886	9,996	(110)	10,071
Environment (Tu'anga Taporoporo)	1,071	1,071	-	1,040
Finance and Economic Management	2,687	2,842	(155)	2,778
Financial Intelligent Unit	322	322	-	331
Financial Services Development Authority	540	540	-	
Foreign Affairs and Immigration	1,571	1,571	-	1,652
Head of State	219	219	-	222
Health	10,419	10,693	(274)	10,620
Human Resource Development	372	372	-	354
Internal Affairs	1,200	1,200	-	1,214
Justice	1,284	1,284	-	1,373
Marine Resources	1,454	1,454	-	1,461
Ombudsman	248	248	-	251
Parliamentary Services	723	723	-	750
Pearl Authority	381	395	(14)	406
Police	3,833	3,940	(107)	3,787
Prime Ministers Office	1,027	1,007	20	1,111
Public Service Commission	409	409	-	447
Transport	434	434	-	445
Tourism Corporation	4,403	4,403	-	4,463
Infrastructure and Planning	2,513	5,569	(3,056)	2,626
Aitutaki	1,506	1,525	(19)	1,458
Aitutaki Power Supply	235	235	-	238
Atiu	921	975	(54)	973
Mangaia	1,073	2,327	(1,254)	1,061
Manihiki	611	785	(174)	654
Mauke	770	894	(124)	720
Mitiaro	534	591	(57)	509
Palmerston	290	322	(32)	304
Penrhyn	504	526	(22)	514
Pukapuka-Nassau	879	654	225	878
Rakahanga	437	447	(10)	423
Prime Minister's Support Office	335	335	-	342
Deputy Prime Minister's Office	313	313	-	316
Minister 1	196	196	-	200
Minister 2	190	190	-	194
Minister 3	192	192	-	196
Minister 4	190	190	-	193
Office of the Leader of the Opposition	196	196	-	200
Contingency Expenses	150	236	(86)	252
Debt Servicing	947	831	116	958
Welfare Benefits, Grants and Transfer Payments	11,869	11,837	32	10,897
Building Maintenance (CIIC)	1,957	1,957	-	1,800
Depreciation on Crown-controlled Assets	2,397	1,923	474	1,717
Other Expenses	19,790	22,554	(2,764)	13,939
Appropriation	95,276	102,758	(7,482)	88,232

This statement compares the net budget appropriation against the net actual expenditure.

Statement of Appropriations (continued)

For the year ended 30 June 2010

<u>Reconciliation to Statement of Financial Performance</u>		
	2010	2009
Net Actual Expenditure for Ministries or Appropriations	102,758	88,232
Other Ministry revenues (excluding Appropriation)	13,352	12,236
State owned enterprises	28,359	27,824
Air NZ Underwrite (not budgeted in operating)	1,912	2,982
Prior Year consolidated adjustments	-	-
Other Crown costs	(9,613)	(1,378)
Total Expenses from Crown Funded Activities	136,768	129,896

With the exception of trading revenues, the reconciling items are components of overall Crown