



**ANNUAL REPORT OF
THE GOVERNMENT OF THE COOK ISLANDS
FOR THE YEAR ENDED 30 JUNE 2012**

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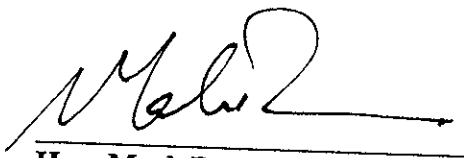
STATEMENT OF RESPONSIBILITY

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.

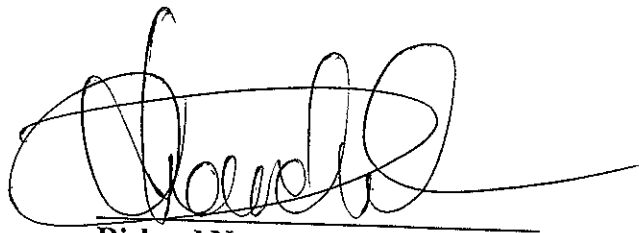
We have taken steps to satisfy ourselves that the financial statements fairly reflect the financial position, operations and cash flows of the Crown for the year ended 30 June 2012 and are consistent with the requirements of the Ministry of Finance and Economic Management Act 1995/96.

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 2012.



Hon. Mark Brown
Minister of Finance

29th April 2015



Richard Neves
Financial Secretary

29th April 2015

OVERVIEW

Introduction

These financial statements contain the audited results for the year ended 30 June 2012.

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 with the Statement of Fiscal Responsibility included in the Supplementary Budget of 2011/12.

Financial Performance

The table below contains the audited results for the year ended 30 June 2012 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 13 to 65.

Table 1 Statement of Financial Performance

Budget Approp 2012 \$000		Actual			
		Crown 2012 \$000	Approp 2012 \$000	Crown 2011 \$000	Approp 2011 \$000
	Revenue and Expenses from Crown Funded Activities				
	<i>Revenue</i>				
92,676	Taxation & levies	84,718	87,331	92,395	90,251
5,193	Provision of goods and services	39,381	7,039	36,287	6,520
10,880	Other	14,209	11,864	10,741	11,839
<u>108,749</u>		<u>138,308</u>	<u>106,234</u>	<u>139,423</u>	<u>108,610</u>
	<i>Expenses (by functional classification)</i>				
12,715	Welfare and Grants	12,778	12,618	12,305	12,305
44,113	Wages, Salaries, and Employee Benefits	53,699	45,488	52,320	44,480
5,753	Depreciation and Amortisation Expenses	11,878	4,623	12,042	4,716
969	Finance Cost	3,129	631	2,638	905
-	Doubtful Debts	370	7	493	220
-	Net(Gain)/Loss on Foreign Exchange	1,057	-	(11,176)	-
-	Audit Fees	242	12	232	13
1,620	Private School Funding	1,625	1,625	1,620	1,620
12,500	Air NZ Subsidy	11,829	11,829	4,486	4,486
33,645	Other Operating Expenses	44,250	33,649	59,398	31,262
<u>111,315</u>		<u>140,857</u>	<u>110,482</u>	<u>134,358</u>	<u>100,007</u>
<u>(2,566)</u>	Net Surplus from Crown Funded Activities	<u>(2,549)</u>	<u>(4,248)</u>	<u>5,064</u>	<u>8,603</u>

Actual Appropriation Compared to Budget Appropriation

A net deficit from Crown funded activities of \$4.2 million at 30 June 2012 showed a decrease of \$1.7 million on the 2011/12 budgeted appropriation.

Overall, revenue was \$2.5 million lower than the 2011/12 budget estimates while operating expenditure was lower by \$0.8 million.

Revenue

Taxation and levies revenue was lower than budget by \$5.3 million. This was mainly attributed to the lower than anticipated tax revenues, in particular VAT, company and income tax.

VAT is a broad based consumption tax levied on all goods and services in the economy and is a fair indication of economic activity. Income tax are the taxes charged on the earnings of companies and individuals. The decrease compared to budget in both tax types is an indication of reduced commercial and economic activity resulting from lower visitor numbers. Moreover, custom levies which are directly proportionate to the number of vessels per year experienced a reduction in importing goods to the Cook Islands as a result of reduced services by the shipping company the Pacific Forum Line. A total of 49 cargo/oil/gas vessels delivered imports in 2010/11 compare to 41 in 2011/12.

A lower taxation and levy revenues was offset by a higher than expected provision of goods and services \$1.9 million and other revenue of \$1.0 million.

Expenses

The decrease of \$0.8 million of actual expenditure to the final appropriation was attributable to the following:

- higher wages, salaries, and employee benefits of \$1.4 million in Tourism, Health, Justice and the Ministry support offices.
- lower depreciation of \$1.1million as a result of a lower then estimated asset transfers of completed projects from agencies.
- Lower Air NZ subsidy of \$0.7 million.

Actual Appropriation Compared to Prior Year Expenditure

Revenue

Total Crown revenue of \$106.2 million under performed compared to the previous year (2011). This was a result of a decrease of Individual Income taxes of \$2.5 million, Company Income taxes \$1.9 million and Value Added taxes of \$2.6 million offset by increases for the new Withholding taxes of \$3.4m and other taxes and duties of \$0.7 million.

Table 2 Expenses by Output Type

Budget Approp 2012 \$000 \$000		Actual			
		Crown 2012	Approp 2012 \$000	Crown 2011 \$000	Approp 2011 \$000
	Welfare Benefits, Grants and Transfer Payments				
7,866	Old age benefits	8,174	8,080	7,760	7,760
2,707	Child benefits	2,935	2,901	2,873	2,873
879	Destitute and infirm benefits	761	752	764	764
220	Parliamentary superannuation benefits	217	38	246	246
-	Student Grants	-	-	-	-
1043	Other Grants	691	847	662	662
<u>12,715</u>		<u>12,778</u>	<u>12,618</u>	<u>12,305</u>	<u>12,305</u>
	Personnel				
44,113	Salaries and wages	53,699	45,488	52,320	44,480
-	Employee superannuation subsidy	-	-	1	-
<u>44,113</u>		<u>53,699</u>	<u>45,488</u>	<u>52,320</u>	<u>44,480</u>
	Depreciation and Amortisation				
2,469	Depreciation on Infrastructure Assets	4,634	2,217	4,923	2,896
3,284	Depreciation on Property, Plant and Equipment	7,201	2,363	7,075	1,776
-	Amortisation on Intangible Assets	43	43	44	44
<u>5,753</u>		<u>11,878</u>	<u>4,623</u>	<u>12,042</u>	<u>4,716</u>
	Finance Costs				
969	Interest Expense on Foreign and Domestic Loans	3,129	631	2,638	905
<u>969</u>		<u>3,129</u>	<u>631</u>	<u>2,638</u>	<u>905</u>
47,765	Other Operating Expenditure	59,373	47,122	55,053	31,262
<u>111,315</u>	Total Expenses by Output Type	<u>140,857</u>	<u>110,482</u>	<u>134,358</u>	<u>100,007</u>

n/b - these expense categories were not separately classified within the 2011/12 budget.

Expenditure on Appropriation funded activities increased from \$100.0 million to \$110.5 million on the previous year. This is due to increase payments for Air NZ subsidy \$7.3 million, personnel payments and Te Maeva Nui. Transfer payments to beneficiaries and depreciation remained relatively constant to the previous year.

Financial Position

Table 3 Statement of Financial Position

	Crown 2012 \$000	Crown 2011 \$000
Assets		
<i>Current assets</i>		
Cash and Term deposits	77,624	78,633
Trust accounts	14,831	14,597
Inventory	7,821	6,933
Debtors and receivables	27,932	28,230
Property Held for Sale	896	-
Investments	1,184	1,351
Other Assets	-	-
	<u>130,288</u>	<u>129,744</u>
<i>Non-current assets</i>		
Investments	5,046	4,882
Banking investment portfolio	31,806	29,125
Fixed and infrastructural assets	210,091	192,153
Term Deposits	-	-
	<u>246,943</u>	<u>226,159</u>
Total Assets	<u>377,231</u>	<u>355,903</u>
Liabilities		
<i>Current liabilities</i>		
Creditors and payables	22,942	18,065
Employee entitlements	1,253	1,501
Trustee liabilities	20,870	15,305
Current portion of Banking customer deposits	22,493	20,467
Current portion of Borrowings	4,364	3,281
Customer bonds	710	677
Provision for legal settlement –Current	1,408	1,149
	<u>74,038</u>	<u>60,445</u>
<i>Non-current liabilities</i>		
Banking customer deposits	1,553	3,967
Employee entitlements	97	159
Members of Parliament pension liability	1,221	1,599
Borrowings	80,314	67,717
Provision for legal settlement –Term	4,765	6,381
	<u>87,952</u>	<u>79,823</u>
Total Liabilities	<u>161,990</u>	<u>140,268</u>
Crown Balance	<u>215,241</u>	<u>215,635</u>

Cash and Term Deposits

Cash and term deposits (excluding trust accounts) decreased by \$1.0 million over the previous year, predominately due to a decrease in term deposits parallel to an increase in cash to accommodate the operating deficit result of the Crown. There was positive cash flow from operating activities of \$7.9 million and financing activities of \$12.0 million however this was offset by the net cash outflows from investing activities \$20.9 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.

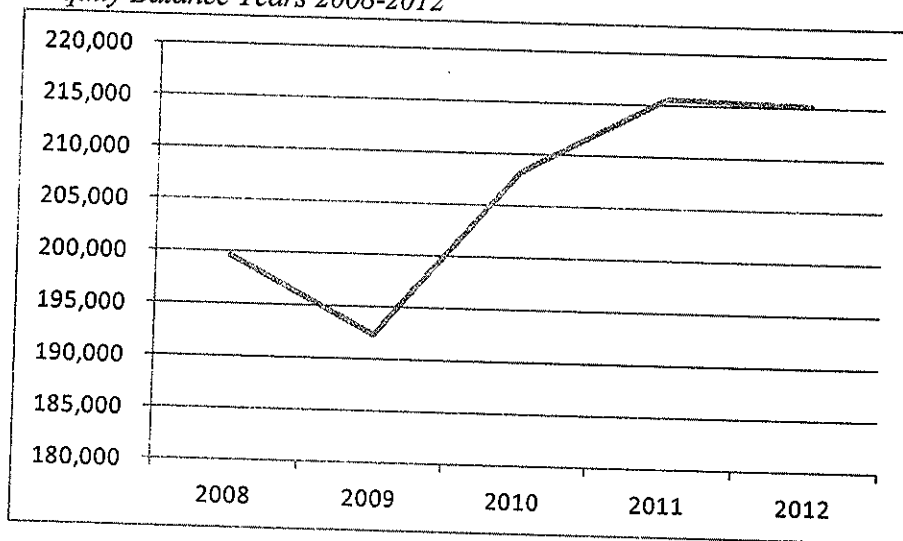
Crown Balance

The Crown equity balance (sometimes referred to as Net Worth) has decreased from \$215.6 million to \$215.2 million.

Table 4 Schedule of Crown Equity

	Actual 2007/08	Actual 2008/09	Actual 2009/10 Restated	Actual 2010/11	Actual 2011/12
Property, Plant & Equipment	158,276	181,432	197,411	192,152	210,091
Financial Assets	104,059	101,716	114,357	123,706	126,341
Other Assets	28,350	29,511	29,520	40,045	40,799
Total Assets	290,685	312,659	341,228	355,903	377,231
Borrowings	48,760	68,127	77,910	70,998	84,678
Other Liabilities	42,194	52,252	54,969	69,270	77,312
Total Liabilities	90,954	120,379	132,879	140,268	161,990
Crown Equity	199,731	192,280	208,409	215,635	215,241

Chart 2 Crown Equity Balance Years 2008-2012



Inventory

Inventory balances increased from \$6.9 million to \$7.8 million in 2011/12. 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 decreased by \$28.2 million to \$27.9 million. This was due to a reduction of the recognition of tax accruals on a subsequent receipt basis from \$17.6 million to \$12.7 million in 2011/12. This was offset with an increase in accounts receivable of \$1.5 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 all loans provided by the Bank of the Cook Islands. The loan portfolio primarily comprises of housing, pearl, tourism and business development loans. Interest rates of 9.5% -16.50% (2011: of 9.5% -16.50%) are applicable on consumer loans.

Creditors and Payables

The Crown shows an increase in creditors and payables of \$5.5 million, from \$18.1 million in 2010/11 to \$22.9 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 increased from \$71.0 million (including local domestic borrowings) to \$84.7 million as at 30 June 2012.. Overall, debt of \$2.6 million was repaid during the year to various lenders and in addition to this there was an unrealised foreign exchange loss of \$1.3 million. This was offset by draw downs of \$14.9 million for ADB loans. These movements are detailed in the Statement of Borrowings pages 36-41.

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 are included within the Statement of Financial Performance.

The financial statement disclosures on page 24 reflects the aid income and expenditure administered by the Aid Management Division (AMD) 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 \$2.1 million for 2011/12.



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AUDIT REPORT

TO THE READERS OF THE FINANCIAL STATEMENTS OF THE COOK ISLANDS GOVERNMENT FOR THE YEAR ENDED 30 JUNE 2012

We have audited the financial statements on pages 13 to 65. The financial statements provide information about the past financial performance of the Cook Islands Government and its financial position as at 30 June 2012. 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 2012, and the results of its operations and cash flows for the year ended 30 June 2012.

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 and Tax Receivable

We were unable to confirm the completeness of tax revenue accruals, and the related receivables reported. Tax revenue and tax receivables have been recognized based on 2012 tax receipts collected in 2012, 2013 and 2014. We were unable to establish total tax revenue for the financial year ending 30 June 2012 that is outstanding but not collected. Total tax receivables and tax revenue is reported at \$12.76m and \$84.72m respectively.

2. 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 \$2.01m held by three Government entities (Infrastructure Cook Islands, Ministry of Health and Cook Islands Pearl Authority). Total inventory is reported at \$7.51m.

3. 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 three Ministries (Ministry of Health, Infrastructure Cook Islands and the Ministry of Marine Resources) amounting to \$11.78m.

Furthermore, included in total reported property, plant, equipment and infrastructure assets of \$135.52m and \$73.94m respectively are amounts relating to State Owned Enterprises (SOE) of \$84.89m and \$64.18m respectively. This may not be a complete presentation of SOE assets and certain assets have been disclosed at nil value. We have been unable to verify the valuation and completeness of these assets by other means.

Any misstatement of these balances would have a consequential effect on the depreciation expense of \$12.14m charged to the statement of financial performance.

4. Lease Commitments – scope limitation

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. Accordingly we were unable to confirm the accuracy and completeness of lease commitments.

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 2012 and its financial performance and cash flow for the year ended on that date.

Our audit was completed on **29 April 2015** 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 2012

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) 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 Mark Brown Minister Teariki Heather Minister Nandi Glassie Minister Teina Bishop 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.

Statement of Compliance

These financial statements have been prepared in accordance with the Ministry of Finance and Economic Management (MFEM) Act 1995/96 and 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 except certain assets are revalued. 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). The functional currency is New Zealand dollars.

Reporting Period

The reporting period is the year ended 30 June 2012. These financial statements were authorised for issue on 29th April, 2015.

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 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

These new standards have been issued but are not effective for the Crown for the 2011/12 period.

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 nor 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 relate 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 - 40 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.

Impairment

If the estimated recoverable amount of an asset is less than its carrying amount, the asset is written down to its estimated recoverable amount and an impairment loss is 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 and accumulated impairment losses.

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 include cash on hand, deposits held on 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.

Tax receivables have been calculated on a subsequent receipt bases. All tax revenue received in the years subsequent to 30 June 2012 has been disclosed as tax receivables at year end.

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.

Provision is made for banking portfolio Investments (specific loans) where recovery is considered doubtful or they have become non-performing. The accounting policy relating to measuring the impairment of loans and advances requires the Bank to assess impairment at least at each reporting date. The credit provisions raised represent management's best estimate of the losses incurred in the loan portfolio at balance date based on their experienced judgement and in accordance with the Financial Supervisory Commission's (FSC) guidelines. The use of such judgements and

reasonable estimates is considered by management to be an essential part of the process and does not impact on reliability. Management regularly reviews and adjusts the estimates and methodologies as improved analysis becomes available. Changes in these assumptions and methodologies could have a direct impact on the level of provision and impairment. 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 on the Statement of Financial Position. 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.

The direct cash flow method has been applied.

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.

Adjustments and Reclassifications

During the year, we made the following adjustments/ reclassifications:

- a) Bank Portfolio Investments have been reclassified in the Statement of Cash flows from Investing Activities to Operating Activities as this is the core activities of the Bank of the Cook Islands, a subsidiary of Cook Islands Investment Corporation.
- b) Members of Parliament Superannuation liability has been decreased by the expenditure payments in relation to the 21 retirees entitlements under the Legislative Assembly Members' Superannuation Act 1976. The liability was previously disclosed at the actuarial valuation carried out in 2010 and had no movements against it until the next 3 year valuation.

Statement of Financial Performance

As at 30 June 2012

	Note	2012 \$000	2011 \$000
Crown Revenue and Expenses			
REVENUE			
Operating revenue			
Taxation	(1)	84,718	89,878
Fees, fines, penalties, and licenses	(2)	2,600	2,517
Total operating revenue		87,317	92,395
Other Crown revenue			
Investment income	(3)	5,371	5,486
Other Crown income	(4)	6,239	5,255
Total other Crown revenue		11,610	10,741
Provision of goods and services		39,381	36,287
Total Crown revenue		138,308	139,423
EXPENSES			
Personnel and employee benefits	(5)	53,699	52,319
Welfare and grants	(6)	12,778	12,305
Audit Fees		242	232
Impairment of Plant, Property, and Equipment		224	695
Net (gain) / loss on foreign exchange		1,057	(11,176)
Provision for legal settlement TOA	(26)	(687)	2,787
Changes in provision for doubtful debts		370	493
Depreciation and amortisation	(7)	11,879	12,045
Finance costs	(8)	3,129	3,459
Other expenses	(9)	58,166	61,199
Total Crown-funded operating expenses		140,857	134,358
Total Crown surplus / (deficit) before aid funded activities		(2,549)	5,064
Aid (Development Partner) Funded Activities			
Aid (Development Partner) revenue	(10)	27,821	31,578
Aid (Development Partner) expenses	(10)	25,724	29,191
Net surplus from aid funded activities		2,097	2,387
Total Crown surplus / (deficit)		(452)	7,452

The accompanying notes are an integral part of these financial statement



Statement of Changes in Net Assets / Equity

For the Year Ended 30 June 2012

	General Reserves	Revaluation Reserves	Accumulated Surpluses / (Deficits)	Total Net Assets / Equity
	\$000	\$000	\$000	\$000
Balance at 30 June, 2011 brought forward	1,958	(226)	213,904	215,635
Changes in accounting polices/ prior period errors **	-	58	-	58
Restated Balance	1,958	(168)	213,904	215,693
Changes in net assets / equity for 2012:				
Net surplus / (deficit) for the year	-	-	(452)	(452)
Total recognised revenue and expense for the year	-	-	(452)	(452)
Balance as at 30 June, 2012 carried forward	1,958	(168)	213,452	215,241
Balance at 30 June, 2010 brought forward	1,958	-	206,452	208,410
Changes in accounting polices/ prior period errors **	-	-	-	-
Restated Balance	1,958	-	206,452	208,410
Changes in net assets / equity for 2011:				
Net surplus / (deficit) for the year	-	-	7,452	7,452
Total recognised revenue and expense for the year	-	-	7,452	7,452
Revaluation Reserves	-	(226)	-	(226)
Balance as at 30 June, 2011 carried forward	1,958	(226)	213,904	215,635

** Relates to the reversal of intangible assets by the Cook Islands Investment Corporation.

The accompanying notes are an integral part of these financial statement

Statement of Financial Position

As at 30 June 2012

	Note	2012 \$000	2011 \$000
Assets			
Current assets			
Cash			
Term deposits	(11)	26,830	19,568
Trust accounts	(11)	50,794	59,065
Inventory	(11)	14,831	14,597
Debtors and other receivables	(12)	7,821	6,933
Property Held for Sale	(13)	27,932	28,230
Current portion of banking portfolio investments	(13)	896	-
	(15)	1,184	1,351
		<u>130,288</u>	<u>129,744</u>
Non-current assets			
Investments in shares and associate	(14)	5,046	4,882
Banking portfolio investments	(15)	31,806	29,125
Property, plant and equipment	(16)	135,640	120,154
Intangible assets	(17)	365	59
Infrastructural assets	(18)	74,086	71,939
		<u>246,943</u>	<u>226,159</u>
Total Assets		377,231	355,903
Liabilities			
Current liabilities			
Creditors and other payables	(20)	22,942	18,065
Employee entitlements	(21)	1,253	1,501
Trustee liabilities	(22)	20,870	15,305
Current portion of banking customer deposits	(23)	22,493	20,467
Current portion of borrowings	(24)	4,364	3,281
Customer bonds		710	677
Provision for legal settlement TOA-Current	(26)	1,408	1,149
		<u>74,038</u>	<u>60,445</u>
Non-current liabilities			
Non-current portion of banking customer deposits	(23)	1,553	3,967
Employee entitlements	(21)	97	159
Members of Parliament pension liability	(25)	1,221	1,599
Non-current portion of borrowings	(24)	80,314	67,717
Provision for legal settlement TOA-Term	(26)	4,765	6,381
		<u>87,952</u>	<u>79,823</u>
Total Liabilities		161,990	140,268
Net Assets		215,241	215,635
Crown Balance		215,241	215,635

The accompanying notes are an integral part of these financial statement

Statement of Cash Flows

For the Year Ended 30 June 2012

	Note	2012 \$000	2011 \$000
Cash Flows From Operating Activities			
Cash was provided from:			
Taxation		88,887	83,937
Compulsory Fees, Fines and Levies		2,600	2,517
Provision of Goods and Services		34,517	33,893
Other Crown activities		4,974	4,987
Interest on advances and bank funds		161	(135)
Net Aid Receipt		2,097	2,387
Income from Associates		1,601	1,498
		<u>134,836</u>	<u>129,084</u>
Cash was applied to:			
Produce outputs			
- Social welfare benefits and education grants		12,562	12,060
- Parliamentary superannuation		217	246
- Personnel		53,918	52,172
- Banking Portfolio Investments		2,514	2,062
- Other supplier payments		55,074	55,652
		<u>124,284</u>	<u>122,192</u>
Realised foreign exchange gain/(loss)		(249)	(38)
Debt servicing		3,206	3,451
		<u>127,241</u>	<u>125,602</u>
Net Cash Inflows / (Outflows) From Operating Activities		7,596	3,482
Cash Flows From Investing Activities			
Cash was provided from:			
Proceeds from sale of fixed assets		514	18
Funds transferred into Reserve Trust Fund		-	(226)
Interest received from investments		4,027	4,249
		<u>4,541</u>	<u>4,041</u>
Cash was applied to:			
Purchase of fixed assets		30,498	11,416
Net increase/(decrease) in trustee accounts		(5,332)	(41)
		<u>25,166</u>	<u>11,375</u>
Net Cash Inflows/(Outflows) From Investing Activities		(20,625)	(7,334)

The accompanying notes are an integral part of these financial statements

Statement of Cash Flows (continued)

For the Year Ended 30 June 2012

	Note	2012 \$000	2011 \$000
Cash Flows From Financing Activities			
Cash was provided from:			
Drawdown of loans		14,942	12,766
Inflow/(Outflow) to client deposit accounts		(388)	718
Customs bonds received		34	62
		<u>14,588</u>	<u>13,546</u>
Cash was applied to:			
Loan repayments			
- Locally-sourced debt		422	6,051
- Foreign-sourced debt		2,146	2,485
		<u>2,568</u>	<u>8,536</u>
Net Cash Inflows/(Outflows) From Financing Activities		12,020	5,010
Net increase in cash held		(1,010)	1,159
Add opening cash and deposits		78,634	77,475
Closing Cash and Deposits		77,624	78,634
Cash and Deposits Comprise			
Cash	(11)	26,830	19,568
Short term deposits	(11)	50,794	59,065
Closing Cash and Deposits		77,624	78,634

The accompanying notes are an integral part of these financial statements

Statement of Cash Flows (continued)

For the Year Ended 30 June 2012

	Note	2012 \$000	2011 \$000
Reconciliation of Crown Overall Operating Balance to Cash Flows From Operations			
Crown Overall Operating Balance		(452)	7,452
		<u>(452)</u>	<u>7,452</u>
Add / (less) non cash items			
- Depreciation		11,879	12,045
- Change in Provision for doubtful debts		(90)	(8,709)
- Impairment on PPE		224	695
- Unrealised Foreign Exchange Movement		1,057	(11,176)
- Prior Year Adjustment		(4,996)	85
- Asset Revaluation		(58)	-
		<u>8,016</u>	<u>(7,061)</u>
Add / (less) movements in working capital			
- (increase) / decrease in taxes receivable		4,830	2,734
- (increase)/ decrease in accounts receivable		(4,493)	(1,901)
- (increase)/ decrease in dividend receivable		257	260
- (increase)/ decrease in interest receivable		161	(135)
- (increase)/ decrease in prepayments		(370)	(268)
- (increase) / decrease in inventory		(888)	(2,538)
- (increase) / decrease in other current assets		(896)	-
- increase / (decrease) in amounts due to employees		219	(147)
- increase/ (decrease) in interest accrued		78	(9)
- increase/ (decrease) in tax refund liability		(571)	36
- increase/ (decrease) in customer deposits		354	-
- increase/ (decrease) in banking portfolio investments		(2,514)	(2,062)
- increase / (decrease) in creditors		5,057	5,100
- increase / (decrease) in investments in shares and associates		164	(34)
- increase / (decrease) in provision for legal settlement TOA		(1,357)	2,058
		<u>32</u>	<u>3,091</u>
Net Cash Inflows/(Outflows) from Operating Activities		7,596	3,482

The accompanying notes are an integral part of these financial statements

Statement of Comparison of Budget and Actuals

For the year ended 30 June 2012

	2011/12 Budget Original \$000	2011/12 Budget Final \$000	2011/12 Crown Actual \$000
<u>Operating Revenue</u>			
Taxation Revenue	90,023	92,676	87,331
Other Crown Revenue	5,407	5,407	8,595
Trading Revenue	5,193	5,193	5,381
Interest on Loans to Subsidiaries	190	175	24
Dividends	3,051	3,051	2,099
Interest on Balances	2,247	2,247	2,547
Total Operating Revenue	106,110	108,749	105,977
<u>Operating Expenditure</u>			
Ministry Outputs	63,859	63,989	63,298
Personnel	44,056	44,113	43,077
Operating	16,518	16,592	17,667
Depreciation	3,284	3,284	2,554
Payments on Behalf of the Crown (for Operating Expenses)	35,093	40,213	40,784
Airport Authority	1,704	1,704	2,048
Bank of the Cook Islands	181	181	180
Te Aponga Uira	350	350	29
Debt Servicing Interest	1,023	969	629
Building Maintenance	1,300	1,300	1,300
Crown Infrastructure Depreciation	2,469	2,469	2,156
Disaster/ Contingency Operating Expenses	100	140	180
Total Operating Expenses	106,079	111,315	110,604
Fiscal Operating Surplus/(Shortfall)	31	(2,566)	(4,627)

The budget is approved on a cash basis by functional classification. The approved budget covers the fiscal period 1 July 2011 to 30 June 2012 and includes all entities within the general government sector. The general government sector includes all entities identified as government departments (Ministries, Island Administrations, Offices of Parliament and Other Entities) in the Schedule of Crown Entities on page 13.

The original budget was approved by legislative action on 1 July 2011 and a supplementary appropriation was approved on 20 February 2012. The Appropriation Amendment Bill amended the 30 June 2012 budget from \$172 million to \$178 million. A significant change in this appropriation relates to the Air New Zealand under-write agreement.

Statement of Comparison of Budget and Actuals (continued)

For the year ended 30 June 2012

The budget and the accounting bases differ. The financial statements for the whole of government are prepared on the accrual basis using a classification based on nature of expenses in the Statement of Financial Performance. The financial statements are consolidated statements that include all controlled entities, including State Owned Enterprises for the fiscal period 1 July 2011 to 30 June 2012. The financial statements differ from the budget which deals only with the general government sector which excludes State Owned Enterprises and certain other non-market government entities. The funding to State Owned Enterprises in the budget relates to Government's social contribution to these entities.

The comparison of budget to actual on page 32 relates to those entities that are listed on Schedule 1(a) and 1(b) of the supplementary budget issued on 20 February 2012. The actual expenditure/ trading revenue of those entities have been taken from the audited financial statements of those respective entities at 30 June 2012.

Statement of Comparison of Budget and Actuals (continued)

For the year ended 30 June 2012

	2011/12 Net Appropriation Budget Original \$000	2011/12 Net Appropriation Budget Final \$000	2011/12 Net Expenditure Actual \$000	2011/12 Trading Revenue Actual \$000
Agriculture	1,000	1,000	986	74
Audit (PERCA)	993	1,039	1,012	48
Crown Law	644	644	639	-
Cultural Development	938	938	967	224
Business Trade Investment Board	707	707	718	-
Education	10,092	10,092	9,891	-
Environment (Tu'anga Taporoporo)	1,045	1,062	1,007	12
Finance and Economic Management	3,182	3,182	3,375	629
Financial Intelligent Unit	308	308	308	-
Financial Services Development Authority	443	443	516	-
Foreign Affairs and Immigration	1,630	1,630	1,556	9
Head of State	218	218	201	-
Health	10,428	10,428	10,086	434
Human Resource Development	379	379	361	-
Internal Affairs	1,284	1,284	1,189	10
Justice	1,928	1,928	1,971	420
Marine Resources	1,386	1,386	1,361	7
Ombudsman	246	246	214	-
Parliamentary Services	550	590	605	7
Pearl Authority	502	502	612	-
Police	3,629	3,629	3,715	61
Prime Ministers Office	1,117	1,145	1,170	-
Public Service Commission	474	474	456	-
Transport	768	768	743	35
Tourism Corporation	4,296	4,296	4,622	292
Infrastructure and Planning	2,778	2,778	2,555	184
Aitutaki	1,415	1,415	1,471	38
Aitutaki Power Supply	2,213	2,213	2,065	1,813
Atiu	1,194	1,194	1,177	255
Mangaia	1,557	1,557	1,321	296
Manihiki	820	820	934	175
Mauke	933	933	990	130
Mitiaro	573	573	571	71
Palmerston	331	331	327	19
Penrhyn	593	593	507	39
Pukapuka-Nassau	958	958	795	59
Rakahanga	481	481	479	36
Prime Minister's Support Office	370	370	394	-
Deputy Prime Minister's Office	310	310	330	-
Minister 1	325	325	319	-
Minister 2	205	205	205	-
Minister 3	205	205	203	-
Minister 4	205	205	172	-
Office of the Leader of the Opposition	205	205	202	-
Appropriation	63,859	63,989	63,298	5,381

Statement of Segments

As at 30 June 2012

	Crown Parent		Crown Entities		Stated Owned Enterprises		Inter-Segment Eliminations		Total Government	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Revenue										
Taxation revenue	87,331	90,251	-	-	-	-	(2,613)	(373)	84,718	89,879
Revenue from Crown funding	-	-	61,631	61,314	3,175	4,119	(64,806)	(65,433)	-	-
Sales of goods and services	272	10	6,883	6,527	33,889	31,079	(1,663)	(1,330)	39,381	36,288
Interest revenue and dividends	4,670	5,800	58	63	1,228	1,130	(1,930)	(2,745)	4,027	4,249
Other revenue	23,320	29,862	10,881	7,974	2,900	3,851	(135)	(1,099)	36,966	40,586
Total Revenue	115,593	125,923	79,453	75,878	41,192	40,179	(71,146)	(70,979)	165,092	171,001
Expenses										
Transfer payments and subsidies	67,979	65,232	-	-	-	-	(67,979)	(65,232)	-	-
Personnel expenses	19	19	45,469	44,460	8,211	7,840	-	-	53,699	52,320
Welfare and grants	12,629	12,314	-	-	-	-	-	-	12,629	12,314
Interest expenses	631	905	15	25	1,759	1,806	(24)	(73)	2,381	2,663
Depreciation expenses	2,033	1,943	2,590	2,773	7,054	7,326	201	-	11,879	12,042
Other operating expenses	48,082	42,963	27,597	26,001	20,082	21,510	(10,806)	(6,265)	84,956	84,210
Total Expenses	131,373	123,376	75,672	73,260	37,106	38,483	(78,608)	(71,570)	165,543	163,550
Operating Balance	- 15,781	2,547	3,781	2,618	4,086	1,696	7,462	591	(452)	7,452
Assets										
Cash and equivalents	61,432	62,781	11,600	11,100	33,231	29,313	(13,808)	(9,963)	92,455	93,231
Debtors and other receivables	20,348	24,449	4,683	2,974	6,687	4,989	(4,042)	(4,182)	27,676	28,230
Property, plant and equipment	14,818	15,310	30,840	23,740	173,138	147,538	(13,323)	5,564	205,473	192,152
Other assets	47,515	29,624	23,534	20,412	49,694	45,689	(69,116)	(53,435)	51,627	42,291
Total Assets	144,113	132,163	70,657	58,226	262,750	227,529	(100,288)	(62,015)	377,231	355,903
Liabilities										
Creditors and other payables	10,472	6,209	5,561	6,256	8,448	9,982	(191)	(1,919)	24,291	20,529
Borrowings	78,787	64,685	-	-	23,585	9,812	(17,694)	(3,500)	84,679	70,998
Banking customer deposits	-	-	-	-	32,378	28,932	(8,332)	(4,499)	24,046	24,434
Other liabilities	40,664	37,507	36,903	29,356	18,454	16,984	(67,045)	(59,539)	28,975	24,308
Total Liabilities	129,923	108,401	42,464	35,612	82,865	65,711	(93,262)	(69,456)	161,990	140,268
Net Worth	14,189	23,762	28,194	22,614	179,885	161,818	(7,027)	7,441	215,241	215,635

The accompanying notes are an integral part of these financial statements



Statement of Commitments

As at 30 June 2012

	2012	2011
	\$000	\$000
By Type		
Lease commitments (excluding CIG Property Corporation)	1,289	1,287
Undisbursed bank loan facilities (Bank of the Cook Islands)	1,216	1,396
Capital Expenditure-Crown Parent	-	-
Capital Expenditure	24,200	22,200
Total Quantifiable Commitments	26,705	24,883
Quantifiable Commitments by Term		
One year or less	57	57
From one to two years	57	55
From two to five years	172	165
Over five years	25,203	23,210
Total Quantifiable Commitments (excluding CIG Property Corporation)	25,489	23,487

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 2012, these undrawn loans totaled \$1,215,905 (2011: \$1,395,584).

Capital and Operating Expenditure

On 25 February 2011 the Ports Authority signed a contract with McConnell Dowell Construction Ltd for the construction part of the Avatiu Port Development project. The cost is estimated to be approximately \$24.2 million and will be funded through the Asian Development Bank Loans.

There were no other funds committed for future capital expenditure as at 30 June 2012 (2011: \$0)

There are no other financial or contractual commitments at balance date (2011: \$0)

The accompanying notes are an integral part of these financial statements

Statement of Contingent Liabilities

As at 30 June 2012

	2012	2011
	\$000	\$000
Uncalled Capital - Asian Development Bank	1,510	1,436
Legal proceedings	1,332	15,985
Total Quantifiable Contingent Liabilities	2,842	17,421

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 0.7866, this equates to \$1,510,297 in NZD (2011: \$1,435,650 at 0.8275).

Legal Proceedings

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 \$86,149 claim has been lodged in relation to medical negligence against the Ministry of Health.

A \$976,250 claim has been lodged against the Ministry of Police for human rights.

The accompanying notes are an integral part of these financial statements

Statement of Borrowings

As at 30 June 2012

	Note	2012 \$000	2011 \$000
External Debt			
Asian Development Bank		60,264	45,587
Caisse Francaise de Developpement		3,714	4,740
NZ Government Superannuation Fund		1,359	1,783
Export -Import Bank of China		13,450	12,575
Total External Debt		78,787	64,685
Local Debt			
ANZ Bank		5,891	6,313
Total Local Debt		5,891	6,313
Total Borrowings		84,678	70,998

The accompanying notes are an integral part of these financial statements

Statement of Borrowings (continued)

As at 30 June 2012

	2012	2011
	\$000	\$000
The terms of the component loans of external debts are:		
Asian Development Bank		
Economic restructuring loan (1996) - 1466	5,387	5,511
First multi project loan (1980) - 461	867	970
Second multi project loan (1987) - 849	2,393	2,549
First Cook Islands Development Bank project loan (1982) - 567	747	823
Second Cook Islands Development Bank loan (1992) - 1155	1,362	1,415
Third Cook Islands Development Bank loan (1996) - 1380	2,441	2,498
Outer Islands telecommunications project loan (1990) - 1031	5,460	5,758
Education development (1994) - 1317	2,953	3,024
Waste Management loan (2001 - 2005) - 1832	2,672	2,801
Cyclone Rehabilitation Project loan (1997) - 1588	892	922
Cyclone Emergency Assistance loan (2006) - 2174	3,425	3,427
TCI Emergency Loan (1992) - 1171	467	479
Pearl Loan (1994) - 1309	485	496
(SF) Avatiu Ports Development Loan (2009) - 2473	7,364	1,587
(OCF) Avatiu Ports Development Project Loan (2009) - 2472	10,636	1,243
(SF) Economic Recovery Support Program Loan (2010) - 2565	12,713	12,085
	<u>60,264</u>	<u>45,587</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 Development		
Northern Group Solarisation Project Loan (1999) restructured	377	481
Rarotonga Water Supply & Electrification Loan (1999) restructured	3,337	4,259
	<u>3,714</u>	<u>4,740</u>
<ul style="list-style-type: none"> - Repayable over 12 years from date of initial drawdown with a grace period of 10 years - Loans have an interest rate of 0.75% and 1.75% respectively 		
Export -Import Bank of China		
Indoor Sports Stadium Project, Repairs and Upgrade of Existing Sports Facilities,	13,450	12,575
	<u>13,450</u>	<u>12,575</u>
<ul style="list-style-type: none"> - Repayable over 20 years from 19 November 2008 with a grace period of 5 years - Loans have an interest rate of 2%, Management Fee of 1% and a Commitment Fee of 0.75% 		

The accompanying notes are an integral part of these financial statement



Statement of Borrowings (continued)

As at 30 June 2012

	2012	2011
	\$000	\$000

The terms of the component loans of external debts are:

	2012	2011
NZ Government Superannuation Fund		
- Repayable over 15 years from 1998	1,359	1,783
- Interest rate of 3%		
- Unsecured		

	2012	2011
ANZ Bank Loan	5,891	6,313

The Airport Authority borrowed from ANZ Bank the amount of \$8.1 million to refinance its loan held with the Westpac Bank and to assist with capital expenditure programs. The loan was not fully drawn at balance date.

The ANZ Bank loan has a 5 year term and a variable interest rate is applicable at 5.99% per annum. The loan is repayable by monthly instalments of \$68,309 which is inclusive of interest and is based on a 15 year amortisation term with balloon payment at the end of the term.

The accompanying notes are an integral part of these financial statements

Statement of Borrowings (continued)

As at 30 June 2012

Maturity Profile as at 30 June 2012

	2012/13	2013/14	2014/15	2015/16	2016/17 - 2020/21	2021/22 and after	Total book value
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
External Debt							
Asian Development Bank	1,609	2,138	2,178	2,322	19,976	32,041	60,264
Caisse Francaise de Development	915	915	915	915	54	-	3,714
NZ Government Superannuation Fund	1,359	-	-	-	-	-	1,359
EXIM Bank China Concessional Loan	-	-	544	544	2,720	9,642	13,450
Total External Debt	3,883	3,053	3,637	3,781	22,750	41,683	78,787
Local Debt							
ANZ Banking Group Limited	481	508	540	1,180	3,182	-	5,891
Total Local Debt	481	508	540	1,180	3,182	-	5,891
Total Borrowings	4,364	3,562	4,176	4,961	25,932	41,683	84,678

Maturity Profile as at 30 June 2011

	2011/12	2012/13	2013/14	2014/15	2015/16 - 2019/20	2020/21 and after	Total book value
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
External Debt							
Asian Development Bank	1,058	1,591	2,094	2,133	12,906	25,805	45,587
Caisse Francaise de Development	915	915	915	915	1,080	-	4,740
NZ Government Superannuation Fund	854	929	-	-	-	-	1,783
EXIM Bank China Concessional Loan	-	-	-	544	2,719	9,312	12,575
Total External Debt	2,827	3,435	3,009	3,592	16,705	35,117	64,685
Local Debt							
ANZ Banking Group Limited	454	481	585	2,341	2,452	-	6,313
	454	481	585	2,341	2,452	-	6,313
Total Borrowings	3,281	3,916	3,594	5,933	19,157	35,117	70,998

The accompanying notes are an integral part of these financial statements

Statement of Borrowings (continued)

As at 30 June 2012

Movements during the year ended 30 June 2012

	As at 1 July 2011	Increases / additions	Decreases / repayments	Currency realignment	As at 30 June 2012
External Debt	\$000	\$000	\$000	\$000	\$000
Asian Development Bank	45,587	14,942	(1,117)	851	60,264
Caisse Francaise de Development	4,740	-	(606)	(420)	3,714
NZ Government Superannuation Fund	1,783	-	(424)	-	1,359
EXIM Bank China Concessional Loan	12,575	-	-	875	13,450
Total External Debt	64,685	14,942	(2,146)	1,306	78,787
Local Debt					
ANZ Banking Group Limited	6,313	-	(422)	-	5,891
Total Local Debt	6,313	-	(422)	-	5,891
Total Borrowings	70,998	14,942	(2,568)	1,306	84,678

Movements during the year ended 30 June 2011

	As at 1 July 2010	Increases / additions	Decreases / repayments	Currency realignment	As at 30 June 2011
External Debt	\$000	\$000	\$000	\$000	\$000
Asian Development Bank	49,603	6,475	(1,049)	(9,441)	45,588
Caisse Francaise de Development	5,402	-	(671)	9	4,740
NZ Government Superannuation Fund	2,548	-	(765)	-	1,783
EXIM Bank China Concessional Loan	14,280	-	-	(1,705)	12,575
Total External Debt	71,833	6,475	(2,485)	(11,137)	64,686
Local Debt					
Westpac Banking Corporation	6,073	6,291	(6,051)	-	6,313
Total Local Debt	6,073	6,291	(6,051)	-	6,313
Total Borrowings	77,906	12,766	(8,536)	(11,137)	70,998

The accompanying notes are an integral part of these financial statements

Statement of Borrowings (continued)

As at 30 June 2012

Currency Analysis as at 30 June 2012

	Currency in which loan denominated/repayable				Total
	United States dollars	Euros	New Zealand dollars	Chinese Yuan	
	\$000	\$000	\$000	\$000	
External Debt					
Asian Development Bank	60,264	-	-	-	60,264
Caisse Francaise de Development	-	3,714	-	-	3,714
NZ Government Superannuation Fund	-	-	1,359	-	1,359
EXIM Bank China Concessional Loan	-	-	-	13,450	13,450
Total External Debt	60,264	3,714	929	13,450	78,787
Local Debt					
ANZ Banking Group Limited	-	-	5,891	-	-
Total Local Debt	-	-	5,891	-	5,891
Total Borrowings	60,264	3,714	6,820	13,450	84,678

Currency Analysis as at 30 June 2011

	Currency in which loan denominated/repayable				Total
	United States dollars	Euros	New Zealand dollars	Chinese Yuan	
	\$000	\$000	\$000	\$000	
External Debt					
Asian Development Bank	45,587	-	-	-	45,587
Caisse Francaise de Development	-	4,740	-	-	4,740
NZ Government Superannuation Fund	-	-	1,783	-	1,783
EXIM Bank China Concessional Loan	-	-	-	12,575	12,575
Total External Debt	45,557	4,740	1,783	12,575	64,685
Local Debt					
ANZ Banking Group Limited	-	-	6,313	-	6,313
Total Local Debt	-	-	6,313	-	6,313
Total Borrowings	45,557	4,740	8,096	12,575	70,998

The accompanying notes are an integral part of these financial statements

Notes to the Financial Statements

As at 30 June 2012

	2012 \$000	2011 \$000
Note 1: Taxation		
Direct Taxation		
Individual income tax	23,269	26,361
Company income tax	5,482	9,181
Total Direct Taxation	28,751	35,542
Indirect Taxation		
Value added tax	34,975	37,381
Customs levies	11,391	11,052
Departure tax	6,238	5,903
Withholding Tax	3,363	-
Total Indirect Taxation	55,967	54,336
Total Taxation	84,718	89,878

Note 2: Fees, Fines, Penalties, and Licenses

Registration fees	1,137	1,024
Road transport licensing	1,125	1,430
Court fines	45	27
Other fees, fines and levies	36	37
Total Compulsory Fees, Fines and Levies	2,343	2,517

Note 3: Investment Income

Interest on advances to Associate	-	-
Interest on bank deposits	4,027	4,249
Equity accounted earnings of Associate (see Note 14)	1,344	1,238
Total Investment Income	5,371	5,486

Note 4: Other Crown Income

Currency and numismatic revenue	439	457
Fisheries licenses	4,363	3,528
Tattslotto Income	158	182
Net Gain on disposal of assets	35	(27)
Other	1,244	1,114
Total Other Crown Income	6,239	5,255

Notes to the Financial Statements (continued)

As at 30 June 2012

	2012	2011
	\$000	\$000

Note 5: Personnel Expenses

Wages and salaries	53,699	52,319
Total Personnel Expenses	53,699	52,319

Note 6: Welfare and Grants

Old age benefits	8,174	7,854
Child benefits	2,935	2,908
Destitute and infirm benefits	761	774
Special assistance benefits	284	197
Power subsidies	124	42
Parliamentary pension beneficiary payments	217	246
Student grants	283	284
Total Welfare and Grants	12,778	12,305

Note 7: Depreciation and Amortisation

Depreciation on infrastructure assets	4,635	4,901
Depreciation on plant, property, and equipment	7,201	7,100
Amortisation on intangible assets	43	44
Total Depreciation and Amortisation	11,879	12,045

Note 8: Finance Costs

Interest expenses on foreign-sourced loans	629	873
Interest expenses on domestic loans	1,736	1,765
TOA interest expenses (note 26)	763	821
Total Finance Costs	3,129	3,459

Notes to the Financial Statements (continued)

As at 30 June 2012

2012
\$000

2011
\$000

Note 9: Other Expenses

Private school funding	1,625	1,620
Air New Zealand Underwrite	11,829	4,486
Fuel and oil	13,728	12,456
Communications	918	869
Repairs and maintenance	3,848	6,635
Office supplies and consumables	970	1,097
Professional services	1,085	1,119
Travel	1,876	1,528
Advertising and marketing	2,457	2,728
Insurance	975	1,011
Tertiary Training Institutions	474	1093
National Superannuation Fund	298	549
Community Cleaning Program (Vaka Maintenance)	449	447
Medical and hospital expenses	1,255	602
Cyclone Recovery	445	918
Outer Island Tourism Marketing	2,040	2,000
International Subscriptions	529	458
Rentals and operating lease costs	187	159
Other expenses	13,178	21,424
Total Other Expenses	58,166	61,199

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2012

2012
\$000

2011
\$000

Note 10: Aid (Development Partner) Funded Activities

Aid (Development Partner) Contributions

New Zealand Aid	23,003	24,827
European Union Assistance	204	317
United Nations Aid Assistance	1,191	1,141
Other Aid Assistance	3,423	5,293
Total Donor Aid Contributions	27,821	31,578

Aid (Development Partner) Expenses

Public Sector Reform	15	4,452
Private Sector Development	-	-
Human Resource Development	3,070	6,354
Outer Islands Development	1,392	6,289
Health Development	2,256	1,247
Education Development	1,985	1,955
Other Aid Expenses	17,007	8,894
Total Aid Expenses	25,724	29,191

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 2012

	2012 \$000	2011 \$000
Note 11: Cash and Equivalents		
Cash		
Crown entities accounts	20,976	17,257
Crown public accounts		
Australia and New Zealand Banking Group Limited	1,311	634
Westpac Banking Corporation	4,255	1,572
Taxation imprest accounts	222	42
Other Bank accounts	66	64
Total Cash	26,830	19,568
Term Deposits		
Loan repayment reserves	1,115	11,639
Crown public account term deposits	29,696	27,813
Crown entities term deposits	19,983	19,613
Total Term Deposits	50,794	59,065
<p>The loan repayment reserves are funds which are set apart specifically to meet future loan repayment commitments.</p>		
Trust Accounts		
Unclaimed monies	-	2,082
Customs bond account	261	29
Workers compensation account	1,303	1,166
Insurance deposits account	33	32
Law Trust account	281	307
Land Trust deposits	1,313	3,482
Aid Accounts		
General Aid accounts	10,931	6,852
Outer Islands Development Grant Fund	-	119
Other Trust Fund	708	529
Total Trust Accounts	14,831	14,597

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2012

2012
\$000

2011
\$000

Note 12: Inventory

Inventory Held for Use

Electricity - Diesel	1,894	1,710
Infrastructure and Planning - Bitumen	1,039	1,070
Health - Pharmaceuticals and hospital supplies	728	703
Outer Islands - Various supplies	2	56
Education - School supplies	67	69
Other	-	-
	<u>3,730</u>	<u>3,608</u>

Inventory Held for Sale

Electricity - Trading Stock	3,467	2,901
Numismatic - Coin Stocks	315	243
Cultural Development - Books and tapes	58	29
Pearls	437	338
Parliamentary Services - Legislation materials	9	9
Total held for sale	<u>4,286</u>	<u>3,520</u>
Provision for Obsolete Stock	(195)	(195)

Total Inventory	7,821	6,933
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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 2012

2012
\$000

2011
\$000

Note 13: Debtors and Receivables

Taxes receivable	12,760	17,590
Accounts receivable	12,241	10,791
Prepayments	1,422	1,052
Interest receivable	320	481
Accrued revenue	2,929	144
Dividends receivable	683	940
	<u>30,355</u>	<u>30,998</u>
Provision for doubtful debts	(2,679)	(2,769)
Total Debtors and Receivables	27,676	28,230

Prepayments in 2012 were mostly made up of \$473,480 welfare prepayments and health supplies by Ministry of Health of \$470,595.

Property Held for Sale

An offer to purchase the Symonds St Property in Auckland for \$1,610,000 was accepted during the year. A deposit of \$100,000 was received prior to year end. Final settlement and possession took place on 26th October 2012. A related party, the Cook Islands Consulate is able to occupy the top floor of Symonds Street, rent free, until 30th June 2013.

As at 30 June 2012, the company still holds legal title of the property and continues to receive rental income from Symonds St. As such the sale of the property hasn't been recognised in these financial statements, however the asset has been reclassified to held for sale in line with IPSAS 16: Investment Property.

The property continues to be measured at carrying value being the lower of carrying value and fair value.

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2012

	2012	2011
	\$000	\$000
Note 14: Investments in Shares and Associates		
Investment in Shares		
Asian Development Bank	137	137
Pacific Forum Line Limited	26	26
Total Investments in Shares	163	163
Share of Net Assets of Associate		
Carrying amount at beginning of year	4,719	4,702
Equity accounted earnings of Associate	1,344	1,384
Dividends from Associate	(1,180)	(1,367)
Total Share of Net Assets of Associate	4,883	4,719
Total Investments in Shares & Associate	5,046	4,882

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 2012 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 2012

	2012 \$000	2011 \$000
Note 15: Banking Portfolio Investments		
Current	1,282	1,440
Provision for bad and doubtful loans - current	<u>(98)</u>	<u>(89)</u>
	1,184	1,351
Term	34,438	31,048
Provision for bad and doubtful loans - term	<u>(2,632)</u>	<u>(1,923)</u>
	31,806	29,125
Total Banking Portfolio Investments	32,990	30,476

The loans portfolio primarily comprises of housing, pearl, tourism and business development loans.

Housing loans attract interest rates in the range of 8.50% - 16.50% (2011: 5.00% - 16.50%) whereas 8.50% - 16.50% (2011: 7.00% - 16.50%) applies to developmental (including business) loans.

Interest rates in the range of 9.50% - 16.50% (2011: 9.50% - 16.50%) are applicable on consumer loans.

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2012

Note 16a: Property, Plant, and Equipment 2012

Category	Opening Cost	Additions	Disposals	Closing Cost	Opening Accum Depn	Depn	Accum Depn on Disposals	Closing Accum Depn	Net Book Value
Office and computer equipment	5,734	933	129	6,538	4,910	454	112	5,252	1,286
Furniture and fittings	2,914	121	419	2,616	1,880	158	196	1,842	775
Motor vehicles	10,473	566	777	10,261	7,657	853	588	7,923	2,339
Plant and equipment	38,602	6,835	(1,942)	47,380	16,628	2,975	(1,459)	21,062	26,319
Buildings and improvements	80,406	2,798	5,517	77,687	20,949	2,503	4,458	18,994	58,694
Land	12,585	-	433	12,151	58	14	-	71	12,080
Work in progress	22,085	16,515	4,204	34,396	561	244	561	244	34,151
Total Property, Plant & Equipment	172,799	27,768	9,537	191,029	52,644	7,201	4,457	55,388	135,640

Note 16b: Property, Plant, and Equipment 2011

Category	Opening Cost	Additions	Disposals	Closing Cost	Opening Accum Depn	Depn	Accum Depn on Disposals	Closing Accum Depn	Net Book Value
Office and computer equipment	5,515	338	119	5,734	4,279	708	77	4,910	824
Furniture and fittings	3,200	212	498	2,914	1,694	188	3	1,880	1,034
Motor vehicles	10,323	767	617	10,473	7,151	940	433	7,657	2,816
Plant and equipment	40,817	1,387	3,603	38,602	16,293	1,908	1,573	16,628	21,973
Buildings and improvements	80,449	895	938	80,406	18,289	3,100	440	20,949	59,457
Land	12,585	-	-	12,585	45	14	-	58	12,527
Work in progress	20,359	9,069	7,343	22,085	48	241	(272)	561	21,524
Total Property, Plant & Equipment	173,248	12,668	13,117	172,798	47,799	7,100	2,254	52,643	120,155



Notes to the Financial Statements (continued)

For the Year Ended 30 June 2012

Note 17a: Intangible Assets 2012

Category	Opening Cost	Additions	Disposals	Closing Cost	Opening Accum Amort	Amortisation	Accum Amort on Disposals	Closing Accum Amortisation	Net Book Value
Purchased software	134	386	-	521	82	37	(53)	170	351
Developed software	234	15	-	249	229	6	-	235	14
Total Intangible Assets	368	401	-	770	310	43	(53)	406	365

Note 17b: Intangible Assets 2011

Category	Opening Cost	Additions	Disposals	Closing Cost	Opening Accum Amort	Amortisation	Accum Amort on Disposals	Closing Accum Amortisation	Net Book Value
Purchased software	130	4	-	134	52	29	-	81	54
Developed software	234	-	-	234	207	15	(7)	229	5
Total Intangible Assets	364	4	-	368	259	44	(7)	310	59

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2012

Note 18a: Infrastructure Assets 2012

Category	Opening Cost	Additions	Disposals	Closing Cost	Opening Accum Depn	Depn	Accum Depn on Disposals	Closing Accum Depreciation	Net Book Value
Roading	19,514	-	-	19,514	12,858	1,363	-	14,221	5,293
Power network	9,386	1,374	-	10,760	585	540	-	1,125	9,635
Harbours and ports	6,284	145	-	6,428	475	324	-	799	5,629
Airports	46,368	592	214	46,746	7,754	1,572	60	9,266	37,480
Coastal protection	929	-	-	929	473	37	-	510	418
Water	13,469	4	-	13,471	10,850	525	-	11,376	2,096
Waste management	5,484	-	-	5,484	1,858	274	-	2,133	3,351
Work in progress	5,388	6,479	1,683	10,184	26	-	26	-	10,184
Total Infrastructure Assets	106,821	8,592	1,897	113,516	34,882	4,634	86	39,430	74,086

Note 18b: Infrastructure Assets 2011

Category	Opening Cost	Additions	Disposals	Closing Cost	Opening Accum Depn	Depn	Accum Depn on Disposals	Closing Accum Depreciation	Net Book Value
Roading	18,272	1,889	647	19,514	11,890	1,173	205	12,858	6,656
Power network	11,404	619	2,637	9,386	66	1,420	900	585	8,801
Harbours and ports	8,645	60	2,422	6,284	1,967	317	1,809	475	5,808
Airports	46,393	-	24	46,368	6,641	1,137	24	7,754	38,614
Coastal protection	929	-	-	929	436	37	-	473	455
Water	13,015	455	-	13,469	10,271	543	(36)	10,850	2,618
Waste management	5,484	-	-	5,484	1,584	274	-	1,858	3,625
Work in progress	597	4,791	-	5,388	26	-	-	26	5,362
Total Infrastructure Assets	104,737	7,815	5,731	106,821	32,882	4,901	2,902	34,882	71,939

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2012

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 Ministers, 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:

	2012 \$000	2011 \$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 chargers (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 2012

	2012 \$000	2011 \$000
Note 20: Creditors and Other Payables		
Accounts Payable Accrued from Current Year		
Creditors, accruals and provisions	21,492	16,053
Payroll accruals	1,353	1,263
Interest accrued	-	78
Taxation refunds payable	4	574
Total Accounts Payable Accrued from Current Year	22,849	17,968
Accounts Payable Accrued prior to 1 July 1996		
Creditors, accruals and provisions	91	96
	91	96
Total Creditors, Accruals and Provisions	22,942	18,065

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 ongoing commitments to suppliers.

Note 21: Employee Entitlements

Provision for annual leave	1,143	1,072
Provision for sick leave	108	150
Provision for long service bonus	2	278
Total Current Employee Entitlements	1,253	1,501
Non-Current		
Provision for long service bonus	97	159
Total Non-Current Employee Entitlements	97	159
Total Employee Entitlements	1,350	1,660

Annual leave, and time off in lieu of overtime worked are recognised as they accrue to employees.

A long-service bonus (LSB) is paid out on the completion of 3 years continuous service within Government. The bonus is the equivalent of a fortnight's pay of the employee. The LSB is recognised as it accrues. The accrual is recorded as a pro-rated percentage of the time served against the 3-year condition. However, as the bonus is not paid out on a pro-rata basis, the accrual for all current employees is weighted by a probability-of-completion factor. This factor recognises that the closer an

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2012

employee comes to the 3-year timeframe, the higher probability there will be of that employee claiming the bonus. The weighting factors are listed below:

<i>Time Served</i>	<i>Factor</i>
1 year or less	20% of the pro-rated accrual amount
1 - 2 years	50% of the pro-rated accrual amount
2 - 2.5 years	80% of the pro-rated accrual amount
2.5 - 3 years	100% of the pro-rated accrual amount

The total LSB accrual in the Statement of Financial Position will be split between Current (payable within the next financial year) and Non-Current (payable beyond the next financial year). As per Cabinet minute CN12 (0250), Cabinet has directed all ministries to suspend Long Service Bonus leave. As a result of this budget policy directive, no provision has been made.

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 2012. This liability will be paid to employees when they leave Government service.

	2012	2011
	\$000	\$000

Note 22: Trustee Liabilities

Aid funding liabilities	14,867	7,908
Land Trust Deposits Liability	3,269	2,823
Outer Islands Development Grant Fund	-	186
Workers compensation	1,303	1,166
Law Trust liability	281	307
Immigration deposits	40	50
Customs bond account	261	29
Insurance deposits	33	32
Other Trust Fund	815	2,803
Total Trustee Liabilities	20,870	15,305

Land Trust Deposits Liability

The Justice Land Trust is made up of \$2,654,131 (2011: \$2,207,465) 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 \$1,312,749 (2011: \$615,357) is held by the Crown.

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2012

Outer Islands Development Grant Fund (OIDGF)

This fund was 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.

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 \$815,037 (2011: \$2,803,082) is funding received which has not been spent at 30 June 2012 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 \$1,279 (2011: \$1,513) for EU fund of \$55,807 (2011: \$67,141) for the fertiliser rolling fund and \$629,189 (2011: \$633,903) on other and \$128,762 (2011: \$2,100,525) for International Unclaimed monies.

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 2012

	2012 \$000	2011 \$000
Note 23: Banking Customer Deposits		
Current	22,493	20,467
Term: One to two years	1,553	3,967
Total Banking Customer Deposits	24,046	24,434

Customer deposits yield interest rates between 1.33% and 4.63% (2011: 2.5% and 7.5%) and are unsecured.

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2012

Note 24: Borrowings

Total Borrowings are the total borrowings of the Cook Islands Government (including State Owned Enterprises (SOEs)). This equates to the amount in the Statement of the Financial Position and represents the complete picture of whole of Government debt obligations to external parties.

Total Borrowings can be split into sovereign guaranteed and non-sovereign guaranteed debt. This split reflects the fact that borrowings by SOEs are not explicitly guaranteed by Government. In the financial year 30 June 2012, non-sovereign guaranteed debt is represented by the Airport Authority's loan from ANZ Bank, Rarotonga, Cook Islands. This loan of \$8.1 million of which \$5.9 million was drawn at balance date has a 5 year term and is secured by registered mortgage debenture over the assets and undertakings of the Airport Authority.

For the purposes of reporting the Government's debt obligations to external parties, the amounts disclosed on the Statement of Financial Position and Statement of Borrowings are disclosed at amortised cost.

The table below shows estimated fair value of borrowings. Fair value has been calculated based on the net present value of the expected future cash flows, discounted at market interest rates.

		2012	2011
New Zealand Govt Super Fund		\$000	\$000
	NZD	906	1,697
Restructured French Loans	EUR	3,171	3,803
China - Multi-Functional Indoor Sports Stadium	CNY	9,548	8,349
ADB 461 (SF) Multi Project	SDR	727	761
ADB 849 (SF) 2nd Multi-Project	SDR	1,669	1,625
ADB 1155 (SF) 2nd CIDB Project	SDR	846	784
ADB 1171 (SF) Emerg. Telecom Rehab Proj	SDR	288	260
ADB 1317 (SF) Educ'n Dev Project	SDR	1,687	1,521
ADB 1380 (SF) 3rd CIDB Project	SDR	1,345	1,207
ADB 1466 (SF) Economic Restructure Program	SDR	2,879	2,573
ADB 1588 (SF) Cyclone Emergency Rehab Proj	SDR	467	417
ADB 1832 (SF) Waste Mgt Project	SDR	1,612	1,515
ADB 2174 (SF) Cyclone Emergency Assist Proj	SDR	1,344	1,106
ADB 2565 OCR Economic Recovery Support Program SubProg 1	USD	10,138	9,099
ADB 2472 (OCR) Avatiu Port Development Project	USD	6,959	816
ADB 2473 (SF) Avatiu Ports Development	SDR	3,543	950
ADB 567 (SF) CIDB Project	SDR	594	607
ADB 1309 (SF) Pearl Industry Dev. Proj	SDR	277	250
ADB 1031 (SF) Outer Islands Telecom Project	SDR	3,551	3,395
Airport Authority ANZ Loan	NZD	5,891	6,313
		<u>57,441</u>	<u>47,048</u>

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2012

Many of the loans from the ADB are denominated in SDR. There is no term structure to SDR interest rates, to discount future SDR cash flows at [the SDR interest rate is an overnight rate]. The Cook Islands pays these loans at USD calculated using the SDR:USD spot rate. However, the SDR is based on a basket of 4 currencies (USD, EUR, JPY and GBP) whose weights change based on their strength relative to the USD. The EUR and USD comprise approx 80% of the weighted value of an SDR. To simplify the valuation process, we have converted the SDR cash flows into EUR and USD based on their relative weights in the SDR basket at each reporting date. Each series of USD and EUR cash flows has then been discounted using a EUR or USD interest rate derived as above, then converted to NZD at spot.

Note 25: 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 valuation is conducted every three years. The liability relates to past contributions made by members and employers contributions.

Actuarial Assumptions

The future pension payments to the each pensioner and, where appropriate, to the widow of the pensioner was projected. The projection took into account the probability that the pensioner would be alive to be able to be paid the pension.

An after tax, after expense discount rate of 5.5% per year was used. This was based on the assumption that if there were investments associated with this liability, it would be invested in New Zealand bonds. The 10-year New Zealand Government bond rate at 30 June 2010 was 5.35% per annum. The NZIER Consensus Forecast report for June 2010 shows an expected return on 10-year bonds for 2010-2011 is between 5.5% and 6.5%.

A mortality assumption of 100% New Zealand Life Tables 2005-07 should apply to all those entitled to receive pensions under the terms of the Act.

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 (2011: 21), 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.

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2012

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

	2012	2011
	\$000	\$000
At 1 July	1,599	1,599
Payments during the year	(179)	-
2011 payments	(198)	-
At 30 June	<u>1,221</u>	<u>1,599</u>

Note 26: 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 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 2011-12 financial year.

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2012

Provision for Toa settlement	2012 \$000	2011 \$000
At 1 July	7,530	5,472
Utilised	(1,433)	(1,550)
Unused amounts reversed	(687)	2,787
Unwinding of discounting	763	821
At 30 June	<u>6,173</u>	<u>7,530</u>
Current	1,408	1,149
Non-current	<u>4,765</u>	<u>6,381</u>
	<u>6,173</u>	<u>7,530</u>

The Crown has recognised a provision for the Apex Agencies Limited (TOA Petroleum) EBITDA guarantee to the value of \$6,172,961 (2011: \$7,530,326). This reflects the present value of future obligations according to 3 years of subsequent knowledge regarding actual EBITDA results and discount rate of 3 per cent. Government appropriates \$1.5 million p.a. and actual cash flows to the date of the signing of these financial statements have either met or fallen short of these appropriations.

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2012

Note 27: 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) manage 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) manage 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 holds loan reserves which have been built up from the repayment of monies on lent to Stated Owned Enterprises (SOEs). In the 2011 financial year, a nil balance on loan reserves existed (2010: \$1.1 million) as all repayments have been made on loans that were on-lent to SOEs.

The table below sets out the foreign exchange rates used at respective balance date in the preparation of these financial statements.

	30 June 2012	30 June 2011
Euros *	0.6323	0.5717
United States dollars *	0.7866	0.8275
Chinese Yuan *	5.0008	5.3485

*Exchange rates obtained for the Reserve Bank of New Zealand as at 30 June.

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2012

Note 28: Subsequent Events

Cook Islands Consulate – Symonds 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 Symonds 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 continued 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 entitlements based on performance. No such provision has been confirmed to date.

Water and Sanitation Improvement Programme

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

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.

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2012

Note 28: Subsequent Events (continued)

Avatea School Fire

On 20th October 2013, a group of classrooms at Avatea School, Nikao were destroyed by fire. Subsequently \$448,325 (including VAT) has been received from Willis Insurance in relation to the Avatea School fire claim.

There have been no other events subsequent to balance date which would materially affect the financial statements.