



Government of the Cook Islands
Financial Statements
for the year ended 30 June 2016



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Directory

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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 Cook Islands Government's financial statements and the judgments made in the process of producing those statements.

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 Cook Islands Government'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.

The current Financial Secretary, Garth Henderson, was not responsible for Cook Islands Government's financial statements for the 30 June 2016 financial year.

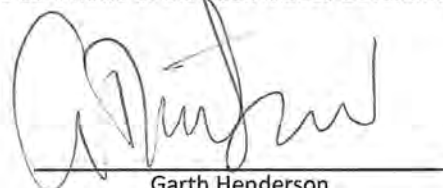
We have taken steps to satisfy ourselves that the financial statements fairly reflect the financial position, performance and cash flows of the Cook Islands Government for the year ended 30 June 2016 and are consistent with the requirements of the Ministry of Finance and Economic Management Act 1995/96.

In our opinion, subject to the qualifications included within the Independent Auditors Report, these financial statements fairly reflect the financial position, performance and cash flows of the Cook Islands Government for the year ended 30 June 2016.



Hon. Mark Brown
Minister of Finance

20 December 2019



Garth Henderson
Financial Secretary

20 December 2019

Fiscal Overview

At a glance

Summary of the performance of the economy

Nominal GDP grew by 5.7% in the year to reach \$435.9 million. Economic activity was largely the result of tourist arrivals and higher levels of public and private capital investment.

Tourist arrivals have risen by 8.4% reaching a new annual high of 146,473 visitors. New Zealand remains our largest tourist market with 99,490 (68%) of total visitors. Our next largest market is Australia with 23,796 (16%) visitors for the year.

The value of residential and commercial building approvals has been much higher than the prior year. The rise in residential approvals appears to be for holiday houses, rather than residential living, driven by tourism growth. Commercial approvals have been led by a number of large community projects as well as a significant increase in tourist accommodation approvals [1].

Notable large Government capital projects during the year were Te Mato Vai \$89.6 million and the Southern Group Renewable Energy Project \$60.4 million.

Summary of the performance of Government

The Government's fiscal position has continued to strengthen this year with a surplus in the operating balance before gains and losses (OBEGAL), net Crown debt has remained steady as a share of the economy and net worth increased in nominal terms.

- Crown tax revenue was \$21.6 million more than last year and \$12.7 million more than the 2016 Budget Estimates (page 13).
- Other sovereign revenue was \$3.7 million less than last year and \$4.4 million less than the 2016 Budget Estimate (page 14).
- Other revenue was \$10.7 million less than last year (page 7).
- Crown expenses was \$5.6 million higher than last year (page 8).
- The OBEGAL surplus of \$28.6 million was \$1.5 million higher than last year (page 10).
- The total Crown net surplus was \$36.6 million (page 10).
- Gross Crown debt increased nominally by \$1.7 million to \$103.9 million from the prior year, and remained stable as a percentage of GDP at 23.8% (page 11).
- Net Crown debt increased in nominal terms by \$1.6 million to \$87.2 million from the prior year, and remained stable as a percentage of GDP at 20% (page 11).
- Net worth increased by \$29.5 million to \$292.6 million. This was largely owing to net surplus for the year (page 12).

Table 1 - Financial results

| Year ended 30 June \$ '000 | Actual 2012 | Actual 2013 | Actual 2014 | Actual 2015 | Actual 2016 |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Taxation revenue | 84,718 | 96,077 | 99,826 | 94,075 | 115,647 |
| Other sovereign revenue | 8,839 | 8,785 | 9,004 | 17,252 | 13,511 |
| Other revenue | 71,229 | 74,316 | 78,829 | 92,136 | 81,431 |
| Expenses | 165,300 | 161,544 | 175,309 | 176,329 | 181,948 |
| OBEGAL (excluding minority interest) | (514) | 17,634 | 12,350 | 27,134 | 28,641 |
| Net surplus | (452) | 16,844 | 20,571 | 20,996 | 36,553 |
| Net debt | 83,563 | 78,801 | 71,525 | 85,581 | 87,214 |
| as percentage of GDP | 23.1% | 22.0% | 18.8% | 20.8% | 20.0% |
| Gross debt | 84,678 | 79,953 | 87,735 | 102,222 | 103,901 |
| as percentage of GDP | 23.5% | 22.3% | 23.0% | 24.8% | 23.8% |
| Net worth | 215,241 | 232,085 | 252,656 | 263,070 | 292,611 |

[1] Source: Cook Islands Government Budget Estimates 2019/20: Section 5: Economic Update



Fiscal Overview (continued)

Year End results compared to Prior Year

Revenue

Total Crown revenue was \$210.6 million, an increase of \$7.1 million (4%) from last year owing to increased Crown taxation \$21.6 million, this was offset by a decrease in Aid revenue of (\$12.9) million.

Table 2 - Breakdown of revenue

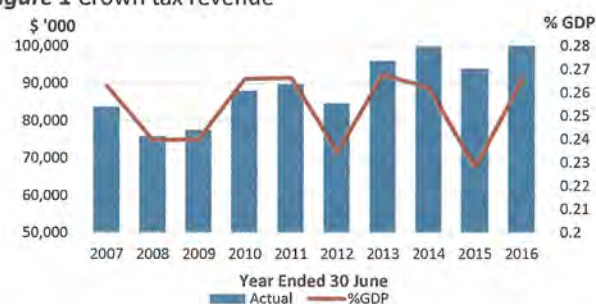
| Year ended 30 June \$ '000 | Actual 2012 | Actual 2013 | Actual 2014 | Actual 2015 | Actual 2016 |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|
| Taxation revenue | 84,718 | 96,077 | 99,826 | 94,075 | 115,647 |
| Other sovereign revenue | 8,839 | 8,785 | 9,004 | 17,252 | 13,511 |
| Other revenue | 71,229 | 74,316 | 78,829 | 92,136 | 81,431 |
| Total Crown revenue | 164,786 | 179,178 | 187,659 | 203,463 | 210,589 |
| % of GDP | | | | | |
| Taxation revenue | 23.5% | 26.8% | 26.2% | 22.8% | 26.5% |
| Other sovereign revenue | 2.4% | 2.4% | 2.4% | 4.2% | 3.1% |
| Other revenue | 19.7% | 20.7% | 20.7% | 22.3% | 18.7% |
| Total Crown revenue | 45.6% | 49.9% | 49.3% | 49.3% | 48.3% |

Crown Taxation Revenue

Crown taxation revenue was \$115.6 million, up \$21.6 million (23%) from the year before. The increase in Crown tax revenue was broadly the result of strong economic activity during the year.

Crown taxation revenue as a percentage to GDP increased from 23% in the prior year to 27%. This ratio establishes boundaries on the collection of revenue and ensures that the Crown limits the diversion of resources from the private sector. The benchmark that current and previous Governments have agreed to work within, is to maintain collections to within 25% of GDP.

Figure 1 Crown tax revenue



Most major tax types increased over the year with three tax types making up most of the increase (Table 3). Strong economic activity was largely the result of tourist arrivals, tourist arrivals have risen by 8.4% reaching a new annual high of 146,473 visitors, and higher levels of public and private capital investment. Significant amount of private capital investment for tourist accommodation.

- Individual income tax increased by \$3.9 million (21%). This was the result of strong growth in the economy facilitated by an increase in tourist numbers and residential building approvals for holiday homes. This was offset by the decrease in personal income tax rates and adjustments to the tax income bands effective from 1 January 2016. Refer to Table 4
- Company income tax increased by \$5.6 million (82%), mainly owing to strong growth in the economy facilitated by the increase in tourist numbers and commercial building approvals for tourist accommodation.
- Value added tax (VAT) was \$10.7 million (22%) higher than last year, with most of the growth coming from strong performance of the economy and government policy to increase the rate from 12.5% to 15% effective 1 April 2014.

Table 3 - Decrease in taxation revenue

| Year ended 30 June | \$ million |
|------------------------------|--------------|
| 2015 taxation revenue | 94.1 |
| Individual income tax | 3.9 |
| Company income tax | 5.6 |
| Withholding tax | (1.0) |
| Value added tax | 10.7 |
| Customs levies | 1.8 |
| Departure tax | 0.5 |
| 2016 taxation revenue | 115.6 |

Table 4 - Revised income tax bands and rates

| 2014 & 2015 personal income tax | | 2016 & 2017 personal income | |
|---------------------------------|-------|-----------------------------|-------|
| Up to \$11,000 | Nil | Up to \$11,000 | Nil |
| \$11,000 to \$30,000 | 18.5% | \$11,000 to \$30,000 | 17.5% |
| \$30,000 to \$80,000 | 27.5% | \$30,000 to \$80,000 | 27.5% |
| \$80,000 upwards | 30.0% | \$80,000 upwards | 0.3 |

source: <http://www.mfem.gov.ck/rmd-tax/rmd-forms-guides/rmd-tax-return-and-registration>

Fiscal Overview (continued)

Other Sovereign Revenue

Crown other sovereign revenue was \$13.5 million, a decrease of \$3.7 million (-22%) from the previous year. Other sovereign revenue includes fees, fines, levies and licensing (e.g. fishing licenses issued to foreign vessels).

The decrease over the year related predominantly to a decrease of \$3.2 million (-29%) from fisheries licenses issued to foreign fishing vessels and the decrease illegal fishing fines amounting to \$1.2 million.

The decline in fisheries licenses is the result of the decrease in the number of active registered purse seiner vessels and the number of vessel days purchased, vessel day schemes [2], by purse seiners.

Two foreign fishing vessels were caught illegally fishing and using fish aggregation devices within the Cook Islands exclusive economic zone (EEZ). The offences occurred in the 2013 financial year and the \$1.2 million settlement was reached during the 2015 year. There were no foreign fishing vessels caught illegally fishing during the current year.

Table 5 - Number of active fishing vessels

| Licensed and active vessels | 2014 | 2015 | 2016 |
|---|------------|------------|------------|
| Offshore fishery | | | |
| Long liner | 36 | 38 | 47 |
| Purse seiner | 18 | 65 | 33 |
| Other commercial | 5 | 5 | 10 |
| Total offshore fishery | 59 | 108 | 90 |
| Local artisanal and game fishery | | | |
| | 302 | 301 | 285 |

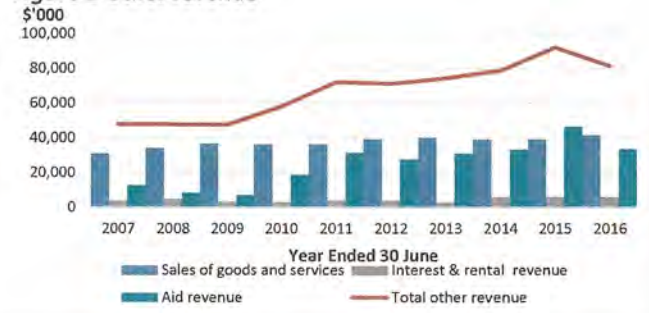
source: Cook Islands Government Budget Estimates 2018/19 Book 1 - Table 6.8 Number of active fishing vessels

Other Revenue

Total Crown other revenue was \$81.4 million, a decrease of \$10.7 million (-12%) from the previous year. Other revenue includes revenue from operations of Crown entities and State-owned enterprises (SOEs), interest revenue, rental income and aid revenue.

The decrease in other revenue from the prior year was owing to the decrease of \$12.9 million (-28%) in aid revenue. The decrease was the result of donated assets received in the prior year, particularly, Te Kukupa patrol boat refit undertaken by the Australian Government amounting to \$8.6 million and \$9.0 million worth of donated heavy machinery from the Peoples Republic of China.

Figure 2 Other revenue



[2] Vessel day scheme (VDS) – relates to the number of days the purse seiner vessels have purchased to fish within Cook Islands' EEZ. Purse seiners are charged a daily rate.



Fiscal Overview (continued)

Expenses

Total Crown expenses were \$181.9 million in the current year, \$5.6 million (3%) more than last year. Crown expense as a percentage to GDP slightly decreased from 43% (2015) to 42% in the current year.

Figure 3 Crown expenses

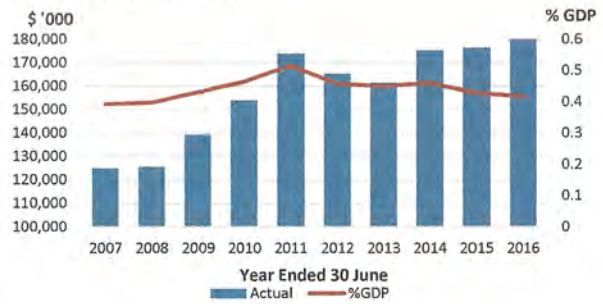


Table 6 - Breakdown of expenses

| Year ended 30 June \$ '000 | Actual 2012 | Actual 2013 | Actual 2014 | Actual 2015 | Actual 2016 |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|
| Personnel expense | 53,699 | 53,913 | 58,378 | 58,904 | 60,118 |
| Welfare payments | 12,778 | 13,108 | 14,348 | 15,691 | 15,878 |
| Depreciation | 11,879 | 12,374 | 10,893 | 14,247 | 15,497 |
| Finance cost | 3,129 | 3,159 | 4,609 | 4,538 | 4,765 |
| Air New Zealand underwrite | 11,829 | 9,554 | 11,102 | 9,764 | 5,920 |
| Fuel and oil | 13,728 | 13,267 | 12,318 | 10,375 | 8,092 |
| Repairs and maintenance | 3,848 | 6,985 | 6,742 | 5,413 | 13,804 |
| Tourism marketing | 4,497 | 3,413 | 4,658 | 4,745 | 2,441 |
| Other expense | 24,189 | 16,086 | 21,028 | 24,819 | 24,619 |
| Aid expenses | 25,724 | 29,685 | 31,233 | 27,833 | 30,814 |
| Total Crown expense | 165,300 | 161,544 | 175,309 | 176,329 | 181,948 |
| % of GDP | | | | | |
| Personnel expense | 14.9% | 15.0% | 15.3% | 14.3% | 13.8% |
| Welfare payments | 3.5% | 3.7% | 3.7% | 3.6% | 3.6% |
| Depreciation | 3.3% | 3.4% | 2.9% | 3.5% | 3.6% |
| Finance cost | 0.9% | 0.9% | 1.2% | 1.1% | 1.1% |
| Air New Zealand underwrite | 3.3% | 2.7% | 2.9% | 2.4% | 1.4% |
| Fuel and oil | 3.8% | 3.7% | 3.2% | 2.5% | 1.9% |
| Repairs and maintenance | 1.1% | 1.9% | 1.8% | 1.3% | 3.2% |
| Tourism marketing | 1.2% | 1.0% | 1.2% | 1.2% | 0.6% |
| Other expense | 6.7% | 4.5% | 5.5% | 6.0% | 5.6% |
| Aid expenses | 7.1% | 8.3% | 8.2% | 6.8% | 7.1% |
| Total Crown expense | 45.7% | 45.1% | 46.0% | 42.6% | 41.7% |

Fiscal Overview (continued)

Personnel expense

Personnel expense was \$60.1 million, an increase of \$1.2 million (2%) from previous year. Personnel expense as a percentage to total revenue (excluding aid revenue) has decreased from 38% to 34%. This ratio is aimed at controlling expansion in the size of the public sector. The benchmark that current and previous Governments agreed to work within is maintaining the expenditure on personnel within 40% of total revenues. Refer to page 50 Note 4: Personnel expense of the Financial Statements for further information.

Table 7 - Movement in Crown expenses

| Year ended 30 June | \$ million |
|----------------------------|--------------|
| 2015 Crown expenses | 176.3 |
| Personnel expense | 1.2 |
| Welfare payments | 0.2 |
| Depreciation | 1.2 |
| Aid expenses | 3.0 |
| Other expenses | - |
| 2016 Crown expenses | 181.9 |

Welfare payments

Welfare payments was \$15.9 million, an increase of \$0.2 million (1%) from previous year. Refer to page 50 Note 5: Welfare payments of the Financial Statements for further information.

Depreciation

Depreciation was \$15.5 million, an increase of \$1.2 million (8%) from previous year. This increase largely related to capital expenditure for the year. Refer to pages 55 - 57 Note 14, 15 & 16: Property, plant and equipment of the Financial Statements for further information.

Air New Zealand underwrite

The Air New Zealand underwrite is to support two non- economical long haul services operated by Air New Zealand from Los Angeles, United States of America and Sydney, Australia. Air New Zealand underwrite was \$5.9 million, a decrease of \$3.8 million (-39%) from previous year.

Table 8 - Visitor arrivals by country

| Year ended | Total | New Zealand | Australia | USA | Canada | Europe | Other |
|------------|---------|-------------|-----------|-------|--------|--------|-------|
| 2012 | 116,897 | 77,595 | 20,633 | 4,387 | 2,066 | 9,612 | 2,604 |
| 2013 | 122,569 | 80,975 | 21,850 | 4,846 | 1,996 | 9,456 | 3,446 |
| 2014 | 121,772 | 82,217 | 20,627 | 5,064 | 1,876 | 9,313 | 2,675 |
| 2015 | 135,134 | 89,910 | 23,389 | 5,876 | 2,062 | 9,944 | 3,953 |
| 2016 | 146,473 | 99,490 | 23,796 | 6,192 | 2,212 | 10,767 | 4,016 |

Aid Expenses

Aid expenses was \$30.8 million, an increase of \$3.0 million (11%) from previous year. Aid expenses is largely dependent on the respective grant funding agreements with respective donors and the timing of aid funded projects. Refer to page 51 Note 8: Aid expenses of the Financial Statements for further information.

Fiscal Overview (continued)

Net Surplus

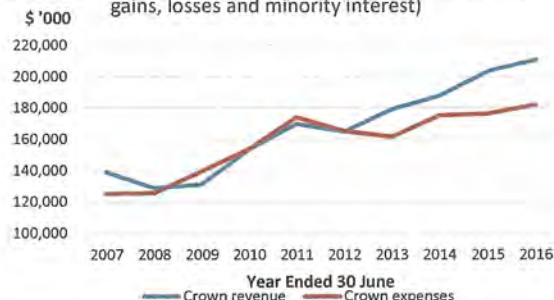
OBEGAL (Operating Balance before Gains and Losses)

The OBEGAL surplus of \$28.6 million is an improvement of \$1.5 million (6%) from last year. Total Crown revenue was \$210.6 million, an increase of \$7.1 million (4%) from last year. Total Crown expense also increased to \$181.9 million, an increase of \$5.6 million (3%) from last year.

The increase in OBEGAL surplus for the year was largely owing to increased Crown taxation revenue \$21.6 million. This was offset by:

- Decrease in aid revenue of (\$12.9) million and other sovereign revenue (\$3.7) million
- Increase in Aid expenses of \$3 million

Figure 4 Crown revenue and Crown expenses (excluding gains, losses and minority interest)



Net Surplus

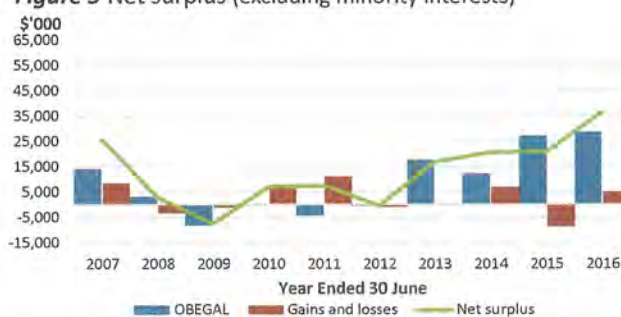
Current year net surplus was \$36.6 million, an increment of \$15.6 million from the past year. The OBEGAL surplus of \$28.6 million was increased further by \$7.9 million. This increase was the result of foreign exchange gains of \$4.9 million for the year and \$3.1 million from the Crowns interest in Telecom Cook Islands.

The Crown's fiscal strategy is to maintain a net surplus balance >\$0, this target ensures that the Government is able to afford operational expenditure required to perform the functions of Government from its own revenue streams.

Foreign exchange gain / (loss)

The Crown reported a foreign exchange gain of \$4.9 million opposed to a foreign exchange loss of \$8.9 million as reported in the prior year. This represents an increase of \$13.8 million from the past year. The Crown is subject to such volatile fluctuations as 70% of total borrowings of \$103.9 million are denominated in foreign currency.

Figure 5 Net surplus (excluding minority interests)



Refer to page 36 Statement of Borrowings – Currency analysis of the Financial Statements for further information.

Minority interest

Share of profit of associate relates to the Crowns interest in Telecom Cook Islands Limited which is incorporated in the Cook Islands and provides telecommunication services to the Cook Islands. The Crown has 40% ownership in Telecom Cook Islands Limited. Refer to page 53 Note 12: Share of profit of associate of the Financial Statements for further information.

Table 9 - Total Crown net surplus / (loss)

| Year ended 30 June \$ '000 | Actual 2012 | Actual 2013 | Actual 2014 | Actual 2015 | Actual 2016 |
|--|----------------|----------------|----------------|----------------|----------------|
| Total Crown OBEGAL | (514) | 17,634 | 12,350 | 27,134 | 28,641 |
| Gains, losses and minority interest | | | | | |
| Impairment loss / gain or loss on disposal of assets | (224) | (2,940) | (37) | (3) | (39) |
| Foreign exchange gain / loss | (1,057) | 585 | 6,940 | (8,898) | 4,872 |
| Share of profit of associate | 1,343 | 1,565 | 1,318 | 2,763 | 3,079 |
| Total gains, losses and minority interest | 62 | (790) | 8,221 | (6,138) | 7,912 |
| Total Crown net surplus / loss | (452) | 16,844 | 20,571 | 20,996 | 36,553 |
| % of GDP | | | | | |
| Total Crown OBEGAL | -0.1% | 4.9% | 3.2% | 6.6% | 6.6% |
| Total Crown gains and losses | -0.4% | -0.7% | 1.8% | -2.2% | 1.1% |
| Total Crown minority interest | 0.4% | 0.4% | 0.3% | 0.7% | 0.7% |
| Net surplus | -0.1% | 4.7% | 5.4% | 5.1% | 8.4% |

Fiscal Overview (continued)

Debt

Gross Crown debt was \$103.9 million, up \$1.7 million (2%) from year before. The increase was largely the result of the Crown drawing down \$10.5 million, relating to the Te Mato Vai loan with the Chinese Government, this was offset by the \$5.5 million in loan repayments and \$4.0 million foreign exchange gain for the year.

Net Crown debt is made up of gross Crown debt less loan repayment fund ^[3]. Net Crown debt was \$87.2 million, up \$1.6 million (2%) from year before. Net Crown debt as percentage to GDP remained relatively stable at 20% from the prior year. The Crown's fiscal strategy is to maintain net debt < 35% of GDP. This ensures the level of debt relative to national income, controls the overall level of debt taken on by Government.

Also part of the Crown's fiscal strategy is to maintain debt servicing < 5% of revenue (excluding aid revenue). This ensures the ability of Government to service its debt obligations from revenue collected. Current year net debt servicing percentage was 3% (3%: 2015)

Table 10 - Movement in gross Crown debt

| Year ended 30 June | \$ million |
|---------------------------------|------------|
| 2015 gross Crown debt | 102.2 |
| Additional loans | 11.2 |
| Loan repayments | (5.5) |
| Foreign exchange (gain) or loss | (4.0) |
| 2016 gross Crown debt | 103.9 |

Figure 6 Net Crown debt

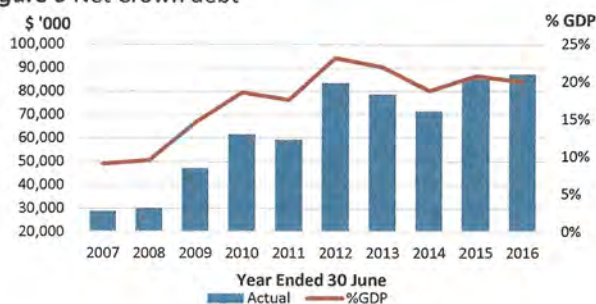


Table 11 - Debt

| Year ended 30 June | Actual | Actual | Actual | Actual | Actual |
|----------------------|--------|--------|--------|---------|---------|
| \$ '000 | 2012 | 2013 | 2014 | 2015 | 2016 |
| Net debt | 83,563 | 78,801 | 71,525 | 85,581 | 87,214 |
| as percentage of GDP | 23.1% | 22.0% | 18.8% | 20.8% | 20.0% |
| Gross debt | 84,678 | 79,953 | 87,735 | 102,222 | 103,901 |
| as percentage of GDP | 23.5% | 22.3% | 23.0% | 24.8% | 23.8% |

^[3] Loan repayment fund – included in cash and cash equivalents and term deposits are funds that have been quarantined for the repayment of debt as per the Loan Repayment Fund Act 2014.

Fiscal Overview (continued)

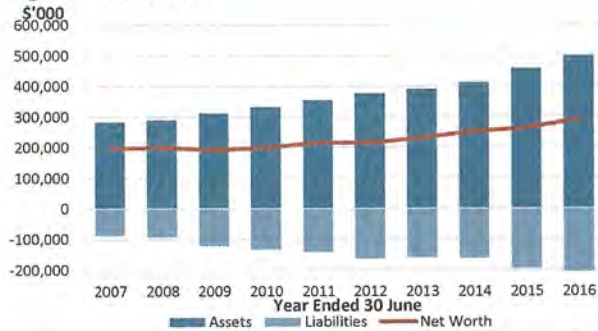
Total Crown Balance Sheet

Net Worth

Net worth is the difference between the Crown's total assets (what the government owns) and liabilities (what the government owes). This difference consists of the accumulation of past net surpluses and deficits (referred to as taxpayers' funds).

Net worth was \$292.6 million at 30 June 2016, an increase of \$29.5 million from a year earlier. This was largely owing to net surplus for the year. As a share of the economy, net worth increased by 3.3% from 63.8% of GDP in 2015 to 67.1% of GDP in the current year.

Figure 7 Net worth



The Crown Balance Sheet

Total Crown assets were \$499.3 million at 30 June 2016, a \$41.3 million increase from last year. This growth was largely in property, plant and equipment (PPE) of \$16.5 million, while financial assets grew by \$27.0 million and other assets decreased by \$2.3 million.

Crown liabilities were \$206.7 million, an increase of \$11.7 million from the previous year. This was largely owing to an increase of \$10.1 million in other liabilities.

Table 12 - Composition of the total Crown balance sheet

| Year ended 30 June \$ '000 | Actual 2012 | Actual 2013 | Actual 2014 | Actual 2015 | Actual 2016 |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|
| Financial assets | 129,376 | 132,517 | 124,522 | 144,252 | 171,295 |
| Loan repayment fund | 1,115 | 1,152 | 16,210 | 16,641 | 16,687 |
| Property, plant and equipment | 209,726 | 219,933 | 231,069 | 261,546 | 278,032 |
| Other assets | 37,014 | 37,603 | 41,600 | 35,575 | 33,280 |
| Total assets | 377,231 | 391,205 | 413,401 | 458,014 | 499,294 |
| Borrowings | 84,678 | 79,953 | 87,735 | 102,222 | 103,901 |
| Other liabilities | 77,312 | 79,167 | 73,010 | 92,722 | 102,782 |
| Total liabilities | 161,990 | 159,120 | 160,745 | 194,944 | 206,683 |
| Net worth | 215,241 | 232,085 | 252,656 | 263,070 | 292,611 |

Financial assets

Financial assets at \$171.3 million was \$27.0 million higher than last year. The increase was largely the result of \$9.6 million increase in banking portfolio investments held by the Bank of the Cook Islands and a general increase in the Crowns cash reserves of \$16.0 million.

Property, plant and equipment (PPE)

The \$16.5 million increase in PPE was largely relating to \$6.0 million in work in progress relating to Te Mato Vai Stage 1 project and the general procurement of PPE during the year by all Government segments.

Other Liabilities

Other liabilities of \$102.8 million was \$10.1 million higher than last year. The increase was largely the result of \$18.1 million increase in banking customer deposits held by the Bank of the Cook Islands and \$5.7 million increase in funds held in trust for aid projects. This was offset by a \$12.5 million dollar decrease in other payables.



Fiscal Overview (continued)

Year End results compared to Budget 2016

The Cook Islands Government Budget Estimates 2015/16 was published on 15 June 2015. These financial statements of the Cook Islands Government comprises of the following segments ^[4]:

Crown parent + Crown entities (45) + State owned enterprises (13) = Cook Islands Government

State owned enterprise operations are not included in the preparation of the Government Budget Estimates. The analysis below is actual performance of the Crown parent and Crown entities against the Budget.

Table 13 - Comparison to the Budget 2016

| Year ended 30 June \$ '000 | Financial Statement Note Reference | Actual 2016 | Budget 2016 | Variance \$ | Variance % |
|---|---------------------------------------|----------------|----------------|-----------------|---------------|
| Crown taxation revenue | 1 | 115,647 | 102,914 | 12,733 | 12% |
| Crown other sovereign revenue | 2 | 13,511 | 17,932 | (4,421) | -25% |
| Sales of goods and services | 3 | 8,671 | 5,720 | 2,951 | 52% |
| Interest revenue | | 2,518 | 1,885 | 633 | 34% |
| Aid revenue | 8 | 33,839 | 49,115 | (15,276) | -31% |
| Total revenue | | 174,186 | 177,566 | (3,380) | -2% |
| Personnel expense | 4 | 50,701 | 50,361 | 340 | 1% |
| Welfare payments | 5 | 15,878 | 16,798 | (920) | -5% |
| Finance cost | 6 | 2,571 | 2,285 | 286 | 13% |
| Depreciation and amortisation | 14, 15 & 16 | 15,497 | 9,147 | 6,350 | 69% |
| Aid expenses | 8 | 33,839 | 49,115 | (15,276) | -31% |
| Payments on behalf of the Crown | 7 | 10,599 | 35,976 | (25,377) | -71% |
| Other expense | | 18,712 | 18,535 | 177 | 1% |
| Total expense | | 147,797 | 182,217 | (34,420) | -19% |
| Operating balance before gains and losses (OBEGAL) | | 26,389 | (4,651) | 31,040 | -667% |

Crown Taxation Revenue

Crown taxation revenue was \$12.7 million (12%) more than expected in Budget 2016, all major tax types were over budget (Table 14). Strong economic activity was largely the result of tourist arrivals, tourist arrivals have risen by 8.4% reaching a new annual high of 146,473 visitors, and higher levels of public and private capital investment. Significant amount of private capital investment being for tourist accommodation. The largest differences being as follows:

- Company income tax was \$1.7 million (16%) above budget, mainly owing to strong growth in the economy facilitated by the increase in tourist numbers and commercial building approvals for tourist accommodation.
- Value added tax (VAT) was \$7.7 million (15%) above budget, with most of the growth coming from strong performance of the economy and government policy to increase the rate from 12.5% to 15% effective 1 April 2014.
- Withholding tax was not budgeted for during the year.

Table 14 - Taxation revenue compared to budget

| Year ended 30 June | \$ million |
|-------------------------------------|--------------|
| 2016 budget taxation revenue | 102.9 |
| Individual income tax | 0.8 |
| Company income tax | 1.7 |
| Withholding tax | 1.2 |
| Value added tax | 7.7 |
| Customs levies | 0.4 |
| Departure tax | 0.9 |
| 2016 taxation revenue | 115.6 |

^[4] Refer to page 23 Schedule of Government entities for a detailed listing of all entities per segment



Fiscal Overview (continued)

Crown Other Sovereign Revenue

Crown other sovereign revenue was \$4.4 million (-25%) less than expected in Budget 2016, this shortfall was the result of different budgeting and accounting treatments of the budgeted \$3.1 million of sale of circulating currency Cook Islands coins. The 2017 Budget has classified this as Revenue on behalf of the Crown (ROBOC [5]), within the financial statements this has not been treated as revenue.

Aid Revenue and Expenses

Aid revenue was \$15.3 million (-31%) less than expected in 2016 Budget, the shortfall over the year related predominantly to aid funded projects by China and the European Union not being fully implemented or started during the year. The notable projects were:

- \$4.5 million European Union Renewable Energy Grant for the southern Cook Islands
- \$2.2 million European Union budget support
- \$5.4 million budgeted for the Apii Nikao School rebuild project funded by China. Construction commenced in May 2017.
Refer to page 62 Note 24: Subsequent events for further information.

Payments on Behalf of the Crown (POBOC) [6]

POBOC was \$25.4 million (-71%) less than expected in Budget 2016, with the largest differences being as follows:

- Air New Zealand underwrite was \$6.1 million (-51%) below forecast. This is the result of more tourist travelling to the Cook Islands via Los Angeles and Sydney direct flights than originally budgeted for. *Refer to Table 8 – Visitor arrivals by country.*
- Tourism marketing was \$5.0 million (-98%) below budget, this shortfall was the result of this expenditure being funded by the Performance Based Budget Support – Core Funding from New Zealand Aid. This expenditure has been recorded as Aid expense rather than POBOC.
- During the year, negative \$9.3 million of unsubstantiated consolidated eliminating entries was passed by the Crown through the Statement of Financial Performance. The Crown was unable to substantiate these posting errors .

^[5] ROBOC is receipts received directly by the Crown from third party individuals or entities

^[6] POBOC is payments made by the Crown directly to third party suppliers

Fiscal Overview (continued)

Historical Financial Information

Historical Financial Information

| Year ended 30 June \$ '000 | Actual 2007 | Actual 2008 | Actual 2009 | Actual 2010 | Actual 2011 | Actual 2012 | Actual 2013 | Actual 2014 | Actual 2015 | Actual 2016 |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Statement of financial performance | | | | | | | | | | |
| Taxation revenue | 83,813 | 75,823 | 77,591 | 88,088 | 89,878 | 84,718 | 96,077 | 99,826 | 94,075 | 115,647 |
| Fees, fines, penalties and licenses | 1,832 | 2,212 | 2,531 | 2,739 | 2,517 | 2,600 | 2,598 | 2,698 | 4,269 | 2,970 |
| Fisheries licenses | 119 | 595 | 1,572 | 2,844 | 3,528 | 4,363 | 4,877 | 5,503 | 10,887 | 7,714 |
| Other Crown revenue | 5,520 | 2,668 | 1,967 | 1,815 | 1,727 | 1,876 | 1,310 | 803 | 2,096 | 2,827 |
| Total sovereign revenue | 91,284 | 81,298 | 83,661 | 95,486 | 97,650 | 93,557 | 104,862 | 108,830 | 111,327 | 129,158 |
| Sales of goods and services | 31,079 | 34,260 | 36,806 | 36,084 | 36,287 | 39,381 | 40,049 | 39,257 | 39,402 | 41,659 |
| Interest revenue | 4,045 | 4,963 | 3,516 | 3,164 | 4,249 | 4,027 | 3,151 | 3,349 | 3,169 | 3,047 |
| Rental revenue | - | - | - | - | - | - | - | 2,764 | 2,868 | 2,886 |
| Aid revenue | 12,810 | 8,406 | 7,235 | 18,722 | 31,578 | 27,821 | 31,116 | 33,459 | 46,697 | 33,839 |
| Total Crown revenue | 139,218 | 128,927 | 131,218 | 153,456 | 169,764 | 164,786 | 179,178 | 187,659 | 203,463 | 210,589 |
| Personnel expense | 45,855 | 48,829 | 50,430 | 50,397 | 52,319 | 53,699 | 53,913 | 58,378 | 58,904 | 60,118 |
| Welfare payments | 8,797 | 8,948 | 10,815 | 12,268 | 12,305 | 12,778 | 13,108 | 14,348 | 15,691 | 15,878 |
| Depreciation | 10,147 | 10,619 | 10,367 | 10,318 | 12,045 | 11,879 | 12,374 | 10,893 | 14,247 | 15,497 |
| Finance cost | 1,710 | 2,043 | 2,497 | 3,431 | 3,459 | 3,129 | 3,159 | 4,609 | 4,538 | 4,765 |
| Air New Zealand underwrite | - | 3,036 | 2,982 | 1,912 | 4,486 | 11,829 | 9,554 | 11,102 | 9,764 | 5,920 |
| Fuel and oil | - | - | 14,681 | 11,751 | 12,456 | 13,728 | 13,267 | 12,318 | 10,375 | 8,092 |
| Repairs and maintenance | - | - | 6,492 | 5,093 | 6,635 | 3,848 | 6,985 | 6,742 | 5,413 | 13,804 |
| Tourism marketing | - | - | 2,397 | 3,276 | 4,728 | 4,497 | 3,413 | 4,658 | 4,745 | 2,441 |
| Other expense | 50,815 | 44,838 | 32,808 | 39,053 | 36,406 | 24,189 | 16,086 | 21,028 | 24,819 | 24,619 |
| Aid expenses | 7,731 | 7,430 | 5,918 | 16,424 | 29,191 | 25,724 | 29,685 | 31,233 | 27,833 | 30,814 |
| Total Crown expense | 125,055 | 125,743 | 139,387 | 153,923 | 174,030 | 165,300 | 161,544 | 175,309 | 176,329 | 181,948 |
| Operating balance excluding gains and losses (OBEGAL) (excluding minority interest) | 14,163 | 3,184 | (8,169) | (467) | (4,266) | (514) | 17,634 | 12,350 | 27,134 | 28,641 |
| Impairment loss / gain or loss on disposal of assets | - | - | (490) | (370) | (695) | (224) | (2,940) | (37) | (3) | (39) |
| Foreign exchange gain / loss | 8,491 | (3,445) | (1,252) | 6,355 | 11,176 | (1,057) | 585 | 6,940 | (8,898) | 4,872 |
| Share of profit of associate | 2,772 | 3,008 | 2,458 | 1,543 | 1,237 | 1,343 | 1,565 | 1,318 | 2,763 | 3,079 |
| Net surplus | 25,426 | 2,747 | (7,453) | 7,061 | 7,452 | (452) | 16,844 | 20,571 | 20,996 | 36,553 |
| Statement of financial position | | | | | | | | | | |
| Property, plant and equipment | 159,832 | 158,182 | 181,369 | 188,242 | 192,093 | 209,726 | 219,933 | 231,069 | 261,546 | 278,032 |
| Financial assets | 80,148 | 90,362 | 84,739 | 103,013 | 116,949 | 129,376 | 132,517 | 124,522 | 144,252 | 171,295 |
| Loan repayment fund | 17,458 | 18,551 | 20,934 | 16,261 | 11,639 | 1,115 | 1,152 | 16,210 | 16,641 | 16,687 |
| Other assets | 26,544 | 23,590 | 25,617 | 24,702 | 35,222 | 37,014 | 37,603 | 41,600 | 35,575 | 33,280 |
| Total assets | 283,982 | 290,685 | 312,659 | 332,218 | 355,903 | 377,231 | 391,205 | 413,401 | 458,014 | 499,294 |
| Borrowings | 46,247 | 48,760 | 68,127 | 77,906 | 70,998 | 84,678 | 79,953 | 87,735 | 102,222 | 103,901 |
| Other liabilities | 40,751 | 42,194 | 52,252 | 54,973 | 69,270 | 77,312 | 79,167 | 73,010 | 92,722 | 102,782 |
| Total liabilities | 86,998 | 90,954 | 120,379 | 132,879 | 140,268 | 161,990 | 159,120 | 160,745 | 194,944 | 206,683 |
| Net worth | 196,984 | 199,731 | 192,280 | 199,339 | 215,635 | 215,241 | 232,085 | 252,656 | 263,070 | 292,611 |
| Debt indicators | | | | | | | | | | |
| Borrowings less loan repayment fund | 28,789 | 30,209 | 47,193 | 61,645 | 59,359 | 83,563 | 78,801 | 71,525 | 85,581 | 87,214 |
| Net debt percentage of GDP | 9.0% | 9.6% | 14.6% | 18.6% | 17.6% | 23.1% | 22.0% | 18.8% | 20.8% | 20.0% |
| Nominal Gross Domestic Product (GDP) | | | | | | | | | | |
| Nominal GDP | 318,659 | 316,180 | 323,306 | 331,420 | 337,405 | 360,990 | 358,846 | 380,818 | 412,297 | 435,948 |
| Annual GDP growth rates | 15.4% | -0.8% | 2.3% | 2.5% | 1.8% | 7.0% | -0.6% | 6.1% | 8.3% | 5.7% |
| <i>source: http://www.mfem.gov.ck/statistics/economic-statistics/national-accounts</i> | | | | | | | | | | |
| Visitor arrivals | | | | | | | | | | |
| Number of visitors | 96,499 | 96,186 | 96,930 | 100,319 | 108,750 | 116,897 | 122,569 | 121,772 | 135,134 | 146,473 |
| Annual growth rate in visitor numbers | 7.5% | -0.3% | 0.8% | 3.5% | 8.4% | 7.5% | 4.9% | -1.0% | 11.0% | 8.4% |
| <i>source: Ministry of Finance and Economic Management - Cook Islands Statistical Bulletin June 2019</i> | | | | | | | | | | |



Fiscal Overview (continued)

Historical Financial Information

| Year ended 30 June as % of GDP | Actual 2007 | Actual 2008 | Actual 2009 | Actual 2010 | Actual 2011 | Actual 2012 | Actual 2013 | Actual 2014 | Actual 2015 | Actual 2016 |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Statement of financial performance | | | | | | | | | | |
| Taxation revenue | 26.3% | 24.0% | 24.0% | 26.6% | 26.6% | 23.5% | 26.8% | 26.2% | 22.8% | 26.5% |
| Fees, fines, penalties and licenses | 0.6% | 0.7% | 0.8% | 0.8% | 0.7% | 0.7% | 0.7% | 0.7% | 1.0% | 0.7% |
| Fisheries licenses | 0.0% | 0.2% | 0.5% | 0.9% | 1.0% | 1.2% | 1.4% | 1.4% | 2.6% | 1.8% |
| Other Crown revenue | 1.7% | 0.8% | 0.6% | 0.5% | 0.5% | 0.5% | 0.4% | 0.2% | 0.5% | 0.6% |
| Total sovereign revenue | 28.6% | 25.7% | 25.9% | 28.8% | 28.9% | 25.9% | 29.2% | 28.6% | 27.0% | 29.6% |
| Sales of goods and services | 9.8% | 10.8% | 11.4% | 10.9% | 10.8% | 10.9% | 11.2% | 10.3% | 9.6% | 9.6% |
| Interest revenue | 1.3% | 1.6% | 1.1% | 1.0% | 1.3% | 1.1% | 0.9% | 0.9% | 0.8% | 0.7% |
| Rental revenue | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.7% | 0.7% | 0.7% |
| Aid revenue | 4.0% | 2.7% | 2.2% | 5.6% | 9.4% | 7.7% | 8.7% | 8.8% | 11.3% | 7.8% |
| Total Crown revenue | 43.7% | 40.8% | 40.6% | 46.3% | 50.3% | 45.6% | 49.9% | 49.3% | 49.3% | 48.3% |
| Personnel expense | 14.4% | 15.4% | 15.6% | 15.2% | 15.5% | 14.9% | 15.0% | 15.3% | 14.3% | 13.8% |
| Welfare payments | 2.8% | 2.8% | 3.3% | 3.7% | 3.6% | 3.5% | 3.7% | 3.8% | 3.8% | 3.6% |
| Depreciation | 3.2% | 3.4% | 3.2% | 3.1% | 3.6% | 3.3% | 3.4% | 2.9% | 3.5% | 3.6% |
| Finance cost | 0.5% | 0.6% | 0.8% | 1.0% | 1.0% | 0.9% | 0.9% | 1.2% | 1.1% | 1.1% |
| Air New Zealand underwrite | 0.0% | 1.0% | 0.9% | 0.6% | 1.3% | 3.3% | 2.7% | 2.9% | 2.4% | 1.4% |
| Fuel and oil | 0.0% | 0.0% | 4.5% | 3.5% | 3.7% | 3.8% | 3.7% | 3.2% | 2.5% | 1.9% |
| Repairs and maintenance | 0.0% | 0.0% | 2.0% | 1.5% | 2.0% | 1.1% | 1.9% | 1.8% | 1.3% | 3.2% |
| Tourism marketing | 0.0% | 0.0% | 0.7% | 1.0% | 1.4% | 1.2% | 1.0% | 1.2% | 1.2% | 0.6% |
| Other expense | 15.9% | 14.2% | 10.1% | 11.8% | 10.8% | 6.7% | 4.5% | 5.5% | 6.0% | 5.6% |
| Aid expenses | 2.4% | 2.3% | 1.8% | 5.0% | 8.7% | 7.1% | 8.3% | 8.2% | 6.8% | 7.1% |
| Total Crown expense | 39.2% | 39.8% | 43.1% | 46.4% | 51.6% | 45.8% | 45.0% | 46.0% | 42.8% | 41.7% |
| Operating balance excluding gains and losses (OBEGAL) (excluding minority interest) | | | | | | | | | | |
| | 4.4% | 1.0% | -2.5% | -0.1% | -1.3% | -0.1% | 4.9% | 3.2% | 6.6% | 6.6% |
| Impairment loss / gain or loss on disposal of assets | 0.0% | 0.0% | -0.2% | -0.1% | -0.2% | -0.1% | -0.8% | 0.0% | 0.0% | 0.0% |
| Foreign exchange gain / loss | 2.7% | -1.1% | -0.4% | 1.9% | 3.3% | -0.3% | 0.2% | 1.8% | -2.2% | 1.1% |
| Share of profit of associate | 0.9% | 1.0% | 0.8% | 0.5% | 0.4% | 0.4% | 0.4% | 0.3% | 0.7% | 0.7% |
| Net surplus | 8.0% | 0.9% | -2.3% | 2.1% | 2.2% | -0.1% | 4.7% | 5.4% | 5.1% | 8.4% |
| Statement of financial performance | | | | | | | | | | |
| Property, plant and equipment | 50.2% | 50.0% | 56.1% | 56.8% | 56.9% | 58.1% | 61.3% | 60.7% | 63.4% | 63.8% |
| Financial assets | 25.2% | 28.6% | 26.2% | 31.1% | 34.7% | 35.8% | 36.9% | 32.7% | 35.0% | 39.3% |
| Loan repayment fund | 5.5% | 5.9% | 6.5% | 4.9% | 3.4% | 0.3% | 0.3% | 4.3% | 4.0% | 3.8% |
| Other assets | 8.3% | 7.5% | 7.9% | 7.5% | 10.4% | 10.3% | 10.5% | 10.9% | 8.6% | 7.6% |
| Total assets | 89.1% | 91.9% | 96.7% | 100.2% | 105.5% | 104.5% | 109.0% | 108.6% | 111.1% | 114.5% |
| Borrowings | 14.5% | 15.4% | 21.1% | 23.5% | 21.0% | 23.5% | 22.3% | 23.0% | 24.8% | 23.8% |
| Other liabilities | 12.8% | 13.3% | 16.2% | 16.6% | 20.5% | 21.4% | 22.1% | 19.2% | 22.5% | 23.6% |
| Total liabilities | 27.3% | 28.8% | 37.2% | 40.1% | 41.6% | 44.9% | 44.3% | 42.2% | 47.3% | 47.4% |
| Net worth | 61.8% | 63.2% | 59.5% | 60.1% | 63.9% | 59.6% | 64.7% | 66.3% | 63.8% | 67.1% |
| Debt indicators | | | | | | | | | | |
| Net debt | 9.0% | 9.6% | 14.6% | 18.6% | 17.6% | 23.1% | 22.0% | 18.8% | 20.8% | 20.0% |
| Gross debt | 14.5% | 15.4% | 21.1% | 23.5% | 21.0% | 23.5% | 22.3% | 23.0% | 24.8% | 23.8% |
| Nominal Gross Domestic Product (GDP) | | | | | | | | | | |
| Nominal GDP | 318,659 | 316,180 | 323,306 | 331,420 | 337,405 | 360,990 | 358,846 | 380,818 | 412,297 | 435,948 |
| Annual GDP growth rates | 15.4% | -0.8% | 2.3% | 2.5% | 1.8% | 7.0% | -0.6% | 6.1% | 8.3% | 5.7% |





Independent Audit Report of the Director of Audit



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TO THE READERS OF THE FINANCIAL STATEMENTS OF THE GOVERNMENT OF THE COOK ISLANDS FOR THE YEAR ENDED 30 JUNE 2016

Opinion

I have audited the financial statements of the Government of the Cook Islands (the financial statements of the Government) for the year ended 30 June 2016 using my staff, resources, and appointed auditors and their staff. The financial statements of the Government on pages 23 to 63 comprise:

The annual financial statements include the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in equity, and statement of cash flows for the year ended on that date, statement of segments, statement of borrowings, statement of commitments, statement of contingent liabilities, notes to the financial statements that include accounting policies and other explanatory information.

Qualified opinion

In my opinion, except for the possible effects of the matters described in the *Basis for qualified opinion* section of my report, the financial statements of the Government on pages 23 to 63:

- i. present fairly in all material respects, the Government's:
 - a. financial position as at 30 June 2016; and
 - b. financial performance for the year ended on that date;
- ii. comply with generally accepted accounting practices as defined by the Ministry of Finance and Economic Management Act 1995-96 and International Public Sector Accounting Standards (IPSAS) issued by the International Public Sector Accounting Standards Board.

My audit was completed 20 December 2019. This is the date on which my opinion is expressed.

The basis for my opinion is explained below. I outline the responsibilities of the Ministry of Finance and the Minister of Finance and my responsibilities for the financial statements of the Government. I also comment on other information and explain my independence.

Basis for qualified opinion

I have identified seven matters affecting my opinion, which are outlined below.

1. I was unable to confirm property, plant and equipment of \$122.8 million and infrastructure assets of \$148.1 million

The Government could not provide enough evidence to confirm that the values recorded against property, plant and equipment and infrastructure assets in the statement of financial position, and the related elements included in the statement of financial performance, statement of changes in equity, and statement of cash flows were fairly presented. Therefore, I could not determine whether these statements comply with generally accepted accounting practice.



The Government has not kept appropriate records and does not have strong enough internal controls to record all of the assets it owns, including those received from donor partners.

Also, certain buildings and infrastructure assets, such as roads and water, which have been recognised by the Government have not been recorded by significant components. There is an accounting standard, IPSAS 17 - Property Plant and Equipment, which requires the assets to be recorded separately. The assets need to be recorded separately because they need to be managed differently.

The Government has also not assessed whether any of the property, plant and equipment and infrastructure assets are impaired, as required by IPSAS 21 - Impairment of Non-Cash-Generating Assets. This assessment is important to ensure that the value of the assets are not overstated at year end.

2. *I was unable to confirm taxation revenue of \$115.6 million and tax receivables of \$8.9 million*

My Office was not given access to the underlying tax records to assess whether tax revenue has been appropriately recorded. As a result, I cannot confirm that taxation revenue and tax receivables were fairly presented and comply with generally accepted accounting practice.

Also, the Government did not assess whether tax receivables were complete and reasonable at year end, including amounts owing from provisional taxpayers who have not yet filed their final tax return. The Government also did not assess whether any of the expected tax receivables might not eventuate at balance date (called impairment), as required by IPSAS 29 - Financial Instruments: Recognition and Measurement.

3. *I disagreed with how the Government has prepared its consolidated financial statements*

When the Government consolidated the activities of its subsidiaries it did not eliminate all of its inter-Government transactions. As a result, the Government's consolidated financial statements overstate its consolidated expenditure by \$7.7 million and include \$17.0 million that has been incorrectly categorised as other expenses.

The Government has recorded a number of transactions in its financial statements to correct prior year errors, which it has recognised through an "unexplained movements from prior years" equity account. This is a departure from IPSAS 3 – Accounting Policies, Estimates and Errors. The Government should instead have corrected these significant prior period errors by retrospectively correcting the comparative information in the financial statements.

4. *I was unable to confirm lease commitments*

I was unable to obtain sufficient audit evidence to confirm that the Government's disclosure of lease commitments is complete. This is because the Cooks Islands Government Property Corporation, a subsidiary of the Government, has incomplete records about its future commitments on its land leases. This is a departure from IPSAS 13 - Leases, which requires full disclosure of all current and non-current lease commitments.

5. *I disagreed with how low interest concessionary loans had been accounted for*

The Government has departed from the requirements of IPSAS 29 - Financial Instruments: Recognition and Measurement because it has not recorded all of its low-interest concessionary loans, made over the last 40 years, at their fair value. As a result, the Government's borrowings that have been recorded in the statement of financial position and the statement of borrowings are overstated. Without proper records, I cannot determine to what extent the borrowings are overstated.



6. I disagreed with how financial instruments had been disclosed

The Government has departed from the requirements of IPSAS 30 - Financial Instruments: Disclosure because it has not disclosed the nature, extent, and how it manages market risks in respect of its financial instruments. The Government holds a number of financial instruments, including financial assets of \$188.0 million and financial liabilities of \$206.7 million, which could expose the Government to foreign currency, credit, interest rate, liquidity and market risks.

7. I disagreed with the presentation of key assumptions, estimates and judgements that were used to prepare the financial statements

The Government has departed from the requirements of IPSAS 1 - Presentation of Financial Statements because it has not disclosed its key assumptions, estimates and judgements that it used to prepare its financial statements. Not including the information makes it difficult for a reader to assess whether the key assumptions, estimates and judgements that the Government has used is reasonable.

I carried out my audit in accordance with International Standards of Supreme Audit Institutions (ISSAI), which incorporate ISSAI 30 Code of Ethics issued by the International Organization of Supreme Audit Institutions (INTOSAI Code of Ethics). My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements of the Government* section of this report.

I have fulfilled my responsibilities in accordance with ISSAI.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Responsibilities of the Financial Secretary and the Minister of Finance for the financial statements of Government

The Financial Secretary is responsible for preparing financial statements of the Government that:

- comply with generally accepted accounting practice in the Cook Islands, in accordance with IPSAS;
- present fairly the Government's financial position, financial performance, and cash flows; and
- present fairly the Government's borrowings

The Minister of Finance is responsible for forming an opinion that the financial statements of the Government present fairly the financial position and financial performance of the Government.

The responsibilities of the Financial Secretary and the Minister of Finance arise from the Ministry of Finance and Economic Management Act 1995-96.

The Financial Secretary is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements of the Government that are free from material misstatement, whether due to fraud or error. The Financial Secretary is also responsible for publishing the financial statements of the Government, whether in printed or electronic form.

In carrying out their respective responsibilities for the financial statements of the Government, the Financial Secretary and the Minister of Finance are responsible for assessing the Government's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.



Auditor's responsibilities for the audit of the financial statements of Government

My objectives are to obtain reasonable assurance about whether the financial statements of the Government as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes my opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAI will always detect a material misstatement. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions readers make based on the financial statements of the Government.

As part of an audit in accordance with ISSAI, I exercise professional judgement and maintain professional skepticism throughout the audit. Also:

- I identify and assess the risks of material misstatement of the financial statements of the Government, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, because fraud can involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- I obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control used by the Financial Secretary to prepare the financial statements of the Government.
- I evaluate the appropriateness of accounting policies used, and the reasonableness of accounting estimates and related disclosures made by the Financial Secretary.
- I conclude on the appropriateness of using the going concern basis of accounting that has been used by the Financial Secretary to prepare the financial statements of the Government, up to the date of my auditor's report, based on the audit evidence I have obtained.
- I evaluate the overall presentation, structure, and content of the financial statements of the Government, including the disclosures, and whether the financial statements of the Government represent the underlying transactions and events in a manner that achieves fair presentation.

As part of my audit, I obtain information from my staff and appointed auditors of the entities that are consolidated into the financial statements of the Government, including information about:

- elimination of transactions between the entities that are consolidated into the financial statements of the Government;
- application by those entities of appropriate accounting policies and instructions to prepare the financial statements of the Government; and
- the risks of material misstatement of the financial statements of those entities that may affect the financial statements of the Government.

I communicate with the Financial Secretary, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that I identify during my audit.

I am responsible for expressing an independent opinion on the financial statements of the Government and reporting that opinion to you based on my audit. My responsibility arises from the Public Expenditure Review Committee and Audit Act 1995-96.



Other information

The Financial Secretary is responsible for the other information. The other information comprises the information included on pages 1 to 63, but does not include the annual financial statements of the Government and my auditor's report thereon.

My opinion on the financial statements of the Government does not cover the other information and I do not express any form of audit opinion or assurance conclusion on that information.

In connection with my audit of the financial statements of the Government, my responsibility is to read the other information. In doing so, I consider whether the other information is materially inconsistent with the financial statements of the Government or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on my work, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Independence

While carrying out this audit, my staff and appointed auditors and their staff complied with the ISSAI 30 Code of Ethics or the independence requirements of Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code).

As an Officer of Parliament, I am constitutionally independent of the Government.



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



Schedule of Government entities

For the year ended 30 June 2016

These financial statements are for the Government of the Cook Islands as defined in the Ministry of Finance and Economic Management Act 1995/96. This comprises of the following segments;

Crown parent + Crown entities (45) + State owned enterprises (13) = Cook Islands Government

Below is the listing of each individual entity that has been consolidated to prepare the financial statements of the whole of the Cook Islands Government:

Crown entities (45)

Ministries (12)

- 1 Infrastructure Cook Islands
- 2 Ministry of Agriculture
- 3 Ministry of Cultural Development
- 4 Ministry of Education
- 5 Ministry of Finance and Economic Management
- 6 Ministry of Foreign Affairs & Immigration
- 7 Ministry of Health
- 8 Ministry of Internal Affairs and Social Services
- 9 Ministry of Justice
- 10 Ministry of Marine Resources
- 11 Ministry of Police
- 12 Ministry of Transport

Island administrations (11)

- 13 Atiu Island Administration
- 14 Aitutaki Island Administration
- 15 Aitutaki Power Supply
- 16 Mangaia Island Administration
- 17 Manihiki Island Administration
- 18 Mauke Island Administration
- 19 Mitiaro Island Administration
- 20 Palmerston Island Administration
- 21 Penrhyn Island Administration
- 22 Pukapuka Nassau Island Administration
- 23 Rakahanga Island Administration

Crown agencies and offices (15)

- 24 Business Trade and Investment Board
- 25 Cook Islands Pearl Authority
- 26 Cook Islands Tourism and Marketing Corporation
- 27 Cook Islands Seabed Mineral Authority
- 28 Crown Law Office
- 29 Development Coordination Division
- 30 Financial Services Development Authority
- 31 Financial Supervisory Commission
- 32 Head of State
- 33 National Environment Service
- 34 Office of the Public Expenditure Review Committee and Audit
- 35 Office of the Public Service Commissioner
- 36 Office of the Ombudsman
- 37 Office of the Prime Minister
- 38 Parliament of the Cook Islands

Ministerial support (7)

- 39 Prime Minister's Support Office
- 40 Office of the Deputy Prime Minister
- 41 Office of the Leader of Opposition
- 42 Minister M.Brown's Support Office
- 43 Minister T.Heather's Support Office
- 44 Minister N.Glassie's Support Office
- 45 Minister T.Bishop's Support Office

State owned enterprises (13)

- 1 Cook Islands Investment Corporation

Subsidiaries of Cook Islands Investment Corporation (CIIC)

- 2 Ports Authority
- 3 Te Aponga Uira O Tumu Te Varovaro
- 4 Airport Authority
- 5 Cook Islands Broadcasting Corporation
- 6 CIIC Seabed Resources Limited
- 7 Cook Islands Government Property Corporation

Subsidiaries of Cook Islands Government Property Corporation

- 8 Banana Court Co Limited
- 9 Cook Islands Property Corporation
- 10 Bank of the Cook Islands Limited
- 11 Suwarrow Development Corporation
- 12 Development Finance limited
- 13 Cook Islands Telecommunication Holdings Limited

Statement of Financial Performance
For the year ended 30 June 2016
In New Zealand Dollars

| | Note | 2016 \$000 | 2015 \$000 |
|---|-----------------|----------------|----------------|
| Revenue | | | |
| Taxation revenue | 1 | 115,647 | 94,075 |
| Other sovereign revenue | 2 | 13,511 | 17,252 |
| Total sovereign revenue | | 129,158 | 111,327 |
| Sales of goods and services | 3 | 41,659 | 39,402 |
| Interest revenue | | 3,047 | 3,169 |
| Rental revenue | | 2,886 | 2,868 |
| Aid revenue | 8 | 33,839 | 46,697 |
| Total revenue earned through operations | | 81,431 | 92,136 |
| Total revenue (excluding gains and minority interest) | | 210,589 | 203,463 |
| Expenses | | | |
| Personnel expense | 4 | 60,118 | 58,904 |
| Welfare payments | 5 | 15,878 | 15,691 |
| Audit Fees | | 373 | 401 |
| Changes in provision for doubtful debts | 11 | 1,701 | 977 |
| Depreciation and amortisation | 14, 15, 16 & 17 | 15,497 | 14,324 |
| Finance costs | 6 | 4,765 | 4,538 |
| Aid expenses | 8 | 30,814 | 27,833 |
| Other expenses | 7 | 52,802 | 53,661 |
| Total expenses (excluding losses) | | 181,948 | 176,329 |
| Operating balance before gains and losses (OBEGAL) & minority interest | | 28,641 | 27,134 |
| Other gains / (losses) and minority interest | | | |
| Gain / (loss) on disposal of assets | | (39) | (3) |
| Foreign exchange gain / (loss) | | 4,872 | (8,898) |
| Share of profit of associate | 12 | 3,079 | 2,763 |
| Total other gains / (losses) and minority interest | | 7,912 | (6,138) |
| Net surplus | | 36,553 | 20,996 |

These financial statements should be read in conjunction with the accompanying notes and policies

Statement of Financial Position
For the year ended 30 June 2016
In New Zealand Dollars

| | Note | 2016 \$000 | 2015 \$000 |
|---|------------|----------------|----------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 9 | 38,807 | 51,252 |
| Term deposits | 9 | 53,985 | 33,305 |
| Trust accounts | 20 | 21,325 | 13,550 |
| Inventory | 10 | 9,062 | 8,560 |
| Debtors and other receivables | 11 | 24,218 | 26,165 |
| Banking portfolio investments | 13 | 8,633 | 7,987 |
| Total current assets | | 156,030 | 140,819 |
| Non-current assets | | | |
| Investments in shares and associate | 12 | 8,692 | 7,213 |
| Banking portfolio investments | 13 | 56,540 | 47,580 |
| Investment Assets | 17 | 5,711 | 5,918 |
| Property, plant and equipment | 14 | 122,803 | 137,951 |
| Intangible assets | 16 | 1,446 | 1,148 |
| Infrastructural assets | 15 | 148,072 | 117,377 |
| Total non-current assets | | 343,264 | 317,187 |
| Total assets | | 499,294 | 458,006 |
| Liabilities | | | |
| Current liabilities | | | |
| Creditors and other payables | 19 | 16,541 | 29,058 |
| Employee entitlements | 20 | 3,536 | 4,762 |
| Trustee liabilities | 21 | 27,937 | 22,274 |
| Banking customer deposits | 22 | 52,578 | 33,663 |
| Current borrowings | Borrowings | 6,040 | 5,436 |
| Total current liabilities | | 106,632 | 95,193 |
| Non-current liabilities | | | |
| Banking customer deposits | 22 | 2,190 | 2,957 |
| Non-current borrowings | Borrowings | 97,861 | 96,786 |
| Total non-current liabilities | | 100,051 | 99,743 |
| Total liabilities | | 206,683 | 194,936 |
| Net assets | | 292,611 | 263,070 |
| Equity | | | |
| Capital contributions and retained earnings | | 292,611 | 263,070 |
| Total equity | | 292,611 | 263,070 |

These financial statements should be read in conjunction with the accompanying notes and policies

Statement of Changes in Equity
For the year ended 30 June 2016
In New Zealand Dollars

| | General reserves \$000 | Taxpayers funds \$000 | Total equity \$000 |
|--|---------------------------|--------------------------|-----------------------|
| Net worth at 30 June 2014 | 1,956 | 250,700 | 252,656 |
| Unexplained movements from prior years * | - | (10,582) | (10,582) |
| Net surplus / (deficit) for the year | - | 20,996 | 20,996 |
| Net worth at 30 June 2015 | 1,956 | 261,114 | 263,070 |
| Unexplained movements from prior years * | - | (7,012) | (7,012) |
| Net surplus / (deficit) for the year | - | 36,553 | 36,553 |
| Net worth at 30 June 2016 | 1,956 | 290,655 | 292,611 |

*Unexplained movements from prior years are transactions and/or adjustments that the Crown is unable to confirm the accuracy and composition. The transactions and/or adjustments predominantly relate to property, plant and equipment and other expenses.

Due to the above limitation, the audit report of these financial statements is qualified in this regard.

These financial statements should be read in conjunction with the accompanying notes and policies.

Statement of Cash Flows
For the year ended 30 June 2016
In New Zealand Dollars

| | 2016 \$000 | 2015 \$000 |
|--|-----------------|-----------------|
| Cash Flows From Operating Activities | | |
| Cash was provided from: | | |
| Taxation receipts | 115,267 | 102,697 |
| Other sovereign receipts | 5,259 | 8,916 |
| Sales of goods and services | 38,781 | 36,871 |
| Net Aid receipt | 3,025 | 18,864 |
| Cash receipts from associates | 3,815 | 3,156 |
| Total cash provided from operations | 166,147 | 170,504 |
| Cash was disbursed to: | | |
| Social welfare benefits and education grant payments | 15,878 | 15,691 |
| Personnel payments | 61,344 | 63,552 |
| Banking portfolio investment payments | 9,606 | 12,092 |
| Supplier payments | 66,642 | 46,426 |
| Realised foreign exchange movements | (853) | (2,589) |
| Total cash disbursed to operations | 152,617 | 135,172 |
| Net cash flows from operations | 13,530 | 35,332 |
| Cash Flows From Investing Activities | | |
| Cash was provided from: | | |
| Sale of property, plant and equipment | 16,896 | 16,474 |
| Gain on investments | - | - |
| Interest received from investments | 3,090 | 3,169 |
| Total cash provided from investing activities | 19,986 | 19,643 |
| Cash was disbursed to: | | |
| Purchase of property, plant and equipment | 28,921 | 34,817 |
| Purchase of infrastructure | 23,868 | 27,663 |
| Purchase of intangible assets | 811 | 623 |
| Net change in investments value | 14,166 | (16,970) |
| Net increase in trustee accounts | 2,112 | (1,863) |
| Total cash disbursed to investing activities | 69,878 | 44,270 |
| Net cash flows from investing activities | (49,892) | (24,627) |
| Cash Flows From Financing Activities | | |
| Cash was provided from: | | |
| Drawdown of borrowings | 11,167 | 5,270 |
| Client deposit accounts held | 18,148 | 8,547 |
| Customs bonds received | 71 | 28 |
| Total cash provided from financing activities | 29,386 | 13,845 |
| Cash was disbursed to: | | |
| Loan repayments (foreign-sourced borrowings) | 5,469 | 2,273 |
| Total cash disbursed to financing activities | 5,469 | 2,273 |
| Net cash flows from financing activities | 23,917 | 11,572 |
| Net movement in cash | (12,445) | 22,276 |
| Opening cash balance | 51,252 | 28,976 |
| Closing cash and cash equivalents balance | 38,807 | 51,252 |

These financial statements should be read in conjunction with the accompanying notes and policies



Statement of Cash Flows (continued)
For the year ended 30 June 2016
In New Zealand Dollars

| | 2016 \$000 | 2015 \$000 |
|--|-----------------|----------------|
| Reconciliation between the Operating Balance and the Net Cash Flows from Operations | | |
| Comprehensive revenue and expenses for the year | 36,553 | 20,996 |
| Add / (less) non cash items | | |
| Depreciation and amortisation | 15,497 | 14,324 |
| Change in provision for doubtful debts | (823) | 841 |
| Impairment on property, plant and equipment | - | - |
| Unrealised foreign exchange movement | 4,019 | (11,487) |
| Prior year adjustment | (39,838) | (7,741) |
| Total non cash items | (21,145) | (4,063) |
| Add / (less) movements in working capital | | |
| (increase)/ decrease in taxes receivable | 1,583 | 7,673 |
| (increase)/ decrease in accounts receivable | - | - |
| (increase)/ decrease in dividend receivable | 736 | 393 |
| (increase)/ decrease in interest receivable | - | - |
| (increase)/ decrease in prepayments | 1,585 | (621) |
| (increase)/ decrease in inventory | (502) | (179) |
| (increase)/ decrease in other current assets | - | - |
| (increase)/ decrease in other receivables | (1,177) | (1,554) |
| (increase)/ decrease in trustee accounts | (1,312) | (1,312) |
| increase/ (decrease) in amounts due to employees | (1,226) | (4,648) |
| increase/ (decrease) in interest accrued | - | - |
| increase/ (decrease) in tax refund liability | 1,140 | (109) |
| increase/ (decrease) in customer deposits | 18,148 | 8,547 |
| increase/ (decrease) in banking portfolio investments | (9,606) | (12,092) |
| increase/ (decrease) in creditors | (10,546) | 9,981 |
| increase/ (decrease) in investments in shares and associates | (1,479) | (1,155) |
| increase/ (decrease) in provision for legal settlement TOA | (901) | (1,009) |
| increase/ (decrease) in foreign borrowings | 1,679 | 14,484 |
| Total movement in working capital | (1,878) | 18,399 |
| Net cash inflows/(outflows) from operating activities | 13,530 | 35,332 |

These financial statements should be read in conjunction with the accompanying notes and policies

Statement of Segments
For the year ended 30 June 2016
In New Zealand Dollars

| | Current Year Actual vs Prior Year Actual | | | | | | | | | | | |
|---|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|---------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | Crown Parent | | Crown Entities | | State Owned Enterprises | | Inter-Segment Elimination | | Whole of Government | | | |
| | Actual 2016 \$000 | Actual 2015 \$000 | Actual 2016 \$000 | Actual 2015 \$000 | Actual 2016 \$000 | Actual 2015 \$000 | Actual 2016 \$000 | Actual 2015 \$000 | Actual 2016 \$000 | Actual 2015 \$000 | Actual 2016 \$000 | Actual 2015 \$000 |
| Revenue | | | | | | | | | | | | |
| Taxation revenue | 118,169 | 96,156 | - | - | - | - | (2,522) | (2,081) | 115,647 | 94,075 | | |
| Other Sovereign revenue | 12,417 | 16,701 | 634 | 465 | 937 | 862 | (477) | (776) | 13,511 | 17,252 | | |
| Revenue from Crown funding | - | - | 65,222 | 59,360 | 4,653 | 5,405 | (69,875) | (64,765) | - | - | | |
| Total sovereign revenue | 130,586 | 112,857 | 65,856 | 59,825 | 5,590 | 6,267 | (72,874) | (67,622) | 129,158 | 111,327 | | |
| Sales of goods and services | 880 | 172 | 8,765 | 8,025 | 33,156 | 32,520 | (1,142) | (1,315) | 41,659 | 39,402 | | |
| Interest revenue | 2,518 | 2,799 | - | - | 4,468 | 1,346 | (3,939) | (976) | 3,047 | 3,169 | | |
| Rental revenue | 3,377 | 1,929 | - | - | 2,919 | 2,869 | (3,410) | (1,930) | 2,886 | 2,868 | | |
| Aid revenue | 29,902 | 44,449 | 6,154 | 26,668 | 266 | 132 | (2,483) | (24,552) | 33,839 | 46,697 | | |
| Total revenue earned through operations | 36,677 | 49,349 | 14,919 | 34,693 | 40,809 | 36,867 | (10,974) | (28,773) | 81,431 | 92,136 | | |
| Total revenue (excluding gains and minority interest) | 167,263 | 162,206 | 80,775 | 94,518 | 46,399 | 43,134 | (83,848) | (96,395) | 210,589 | 203,463 | | |
| Expenses | | | | | | | | | | | | |
| Personnel expense | - | - | 48,683 | 47,525 | 9,417 | 9,318 | - | 2,018 | 60,118 | 58,904 | | |
| Welfare payments | 15,878 | 15,691 | - | - | - | - | - | - | 15,878 | 15,691 | | |
| Audit Fees | - | - | 26 | 24 | 375 | 402 | (28) | (25) | 373 | 401 | | |
| Changes in provision for doubtful debts | - | - | 109 | 108 | 1,592 | 869 | - | - | 1,701 | 977 | | |
| Depreciation and amortisation | 2,271 | 2,950 | 5,714 | 3,665 | 7,511 | 7,632 | 1 | 77 | 15,497 | 14,324 | | |
| Finance costs | 2,571 | 2,460 | 4 | 10 | 3,678 | 3,538 | (1,488) | (1,470) | 4,765 | 4,538 | | |
| Aid expenses | 27,780 | 42,683 | 5,516 | 9,702 | 18,089 | 19,822 | (2,482) | (24,552) | 30,814 | 27,833 | | |
| Other expenses | 113,969 | 107,490 | 18,712 | 15,891 | 40,662 | 41,581 | (97,968) | (89,542) | 52,802 | 53,661 | | |
| Total expenses (excluding losses) | 162,469 | 171,274 | 78,764 | 76,925 | 40,662 | 41,581 | (99,947) | (113,451) | 181,948 | 176,329 | | |
| Operating balance before gains and losses (OBEGAL) & minority interest | 4,794 | (9,068) | 2,011 | 17,593 | 5,737 | 1,553 | 16,099 | 17,056 | 28,641 | 27,134 | | |
| Other gains / (losses) and minority interest | | | | | | | | | | | | |
| Gain / (loss) on disposal of assets | 31 | 56 | (49) | (37) | (21) | (22) | - | (1) | (39) | (3) | | |
| Foreign exchange gain / (loss) | 4,847 | (10,988) | - | - | 25 | 2,090 | - | - | 4,872 | (8,898) | | |
| Share of profit of associate | - | - | - | - | - | 2,763 | 3,079 | - | 3,079 | 2,763 | | |
| Total other gains / (losses) and minority interest | 4,878 | (10,932) | (49) | (37) | 4 | 4,831 | 3,079 | (1) | 7,912 | (6,138) | | |
| Net surplus | 9,672 | (20,000) | 1,962 | 17,556 | 5,741 | 6,384 | 19,178 | 17,055 | 36,553 | 20,996 | | |

Statement of Segments reports on the three different segments of the Cook Islands Government. This includes Crown Parent, Crown Entities and State Owned Enterprises. A segment is a distinguishable activity or group of activities of an entity for which it is appropriate to separately report financial information for the purpose of evaluating the entity's past performance in achieving its objectives and for making decisions about the future allocation of resources. Inter-Segmental Elimination reports eliminations of any inter-agency revenue, expenses, assets and liabilities. The whole of Government reports on the final consolidated financial performance and position as at 30 June 2016.

These financial statements should be read in conjunction with the accompanying notes and policies



Statement of Segments (Continued)
For the year ended 30 June 2016
In New Zealand Dollars

| | Current Year Actual vs Prior Year Actual | | | | | | | | | | | |
|---|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|---------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | Crown Parent | | Crown Entities | | State Owned Enterprises | | Inter-Segment Elimination | | Whole of Government | | | |
| | Actual 2016 \$000 | Actual 2015 \$000 | Actual 2016 \$000 | Actual 2015 \$000 | Actual 2016 \$000 | Actual 2015 \$000 | Actual 2016 \$000 | Actual 2015 \$000 | Actual 2016 \$000 | Actual 2015 \$000 | Actual 2016 \$000 | Actual 2015 \$000 |
| Assets | | | | | | | | | | | | |
| Current assets | | | | | | | | | | | | |
| Cash and cash equivalents | 12,327 | 7,725 | 7,591 | 5,752 | 13,613 | 20,408 | 5,276 | 17,367 | 38,807 | 51,252 | 38,807 | 51,252 |
| Term deposits | 44,086 | 44,277 | 2,542 | 2,537 | 37,102 | 8,985 | (29,745) | (22,494) | 53,985 | 33,305 | 53,985 | 33,305 |
| Trust accounts | 19,165 | 13,361 | 5,875 | 5,969 | - | (5,779) | (3,715) | (1) | 21,325 | 13,550 | 21,325 | 13,550 |
| Inventory | 1,600 | 1,158 | 1,786 | 2,061 | 5,677 | 5,341 | (1) | - | 9,062 | 8,560 | 9,062 | 8,560 |
| Debtors and other receivables | 45,345 | 44,285 | 40,293 | 37,061 | 9,406 | 6,869 | (70,826) | (62,050) | 24,218 | 26,165 | 24,218 | 26,165 |
| Banking portfolio investments | - | - | - | - | 8,633 | 7,987 | - | - | 8,633 | 7,987 | 8,633 | 7,987 |
| Total current assets | 122,523 | 110,806 | 58,087 | 53,380 | 74,431 | 43,811 | (99,011) | (67,178) | 156,030 | 140,819 | 156,030 | 140,819 |
| Non-current assets | | | | | | | | | | | | |
| Investments in shares and associate | 28,669 | 28,911 | - | - | 8,660 | (21,692) | (28,637) | (6) | 8,692 | 7,213 | 8,692 | 7,213 |
| Banking portfolio investments | - | - | - | - | 56,540 | 47,580 | - | - | 56,540 | 47,580 | 56,540 | 47,580 |
| Investment Assets | - | - | - | - | - | - | 5,711 | - | 5,711 | 5,918 | 5,711 | 5,918 |
| Plant, property and equipment | 38,437 | 22,063 | 35,020 | 60,809 | 86,265 | 167,614 | (36,919) | (106,617) | 122,803 | 137,951 | 122,803 | 137,951 |
| Intangible assets | 233 | - | 352 | 851 | 861 | - | - | 297 | 1,446 | 1,148 | 1,446 | 1,148 |
| Infrastructural assets | 13,825 | 4,321 | 17,001 | 6,738 | 86,038 | - | 31,208 | 106,318 | 148,072 | 117,377 | 148,072 | 117,377 |
| Total non-current assets | 81,164 | 55,295 | 52,373 | 68,398 | 238,364 | 193,502 | (28,637) | (8) | 343,264 | 317,187 | 343,264 | 317,187 |
| Total assets | 203,687 | 166,101 | 110,460 | 121,778 | 312,795 | 237,313 | (127,648) | (67,186) | 499,294 | 458,006 | 499,294 | 458,006 |
| Liabilities | | | | | | | | | | | | |
| Current liabilities | | | | | | | | | | | | |
| Creditors and other payables | 46,324 | 49,158 | 53,108 | 47,193 | 12,633 | 8,468 | (95,524) | (80,608) | 16,541 | 29,058 | 16,541 | 29,058 |
| Employee entitlements | 78 | 121 | 2,375 | 3,739 | 1,082 | 901 | 1 | 1 | 3,536 | 4,762 | 3,536 | 4,762 |
| Trustee liabilities | 19,430 | 13,787 | 8,508 | 8,486 | - | - | (1) | 1 | 27,937 | 22,274 | 27,937 | 22,274 |
| Banking customer deposits | - | - | - | - | 74,183 | 33,663 | (21,605) | - | 52,578 | 33,663 | 52,578 | 33,663 |
| Current borrowings | - | - | - | - | - | - | 6,040 | 5,436 | 6,040 | 5,436 | 6,040 | 5,436 |
| Total current liabilities | 65,832 | 63,066 | 63,991 | 59,418 | 87,898 | 43,032 | (111,089) | (75,170) | 106,632 | 95,193 | 106,632 | 95,193 |
| Non-current liabilities | | | | | | | | | | | | |
| Banking customer deposits | - | - | - | - | 2,190 | 2,957 | - | - | 2,190 | 2,957 | 2,190 | 2,957 |
| Non-current borrowings | 103,392 | 100,727 | - | - | 23,702 | 1,495 | (29,233) | (5,436) | 97,861 | 96,786 | 97,861 | 96,786 |
| Total non-current liabilities | 103,392 | 100,727 | - | - | 25,892 | 4,452 | (29,233) | (5,436) | 100,051 | 99,743 | 100,051 | 99,743 |
| Total liabilities | 169,224 | 163,793 | 63,991 | 59,418 | 113,790 | 47,484 | (140,322) | (80,606) | 206,683 | 194,936 | 206,683 | 194,936 |
| Net assets | 34,463 | 2,308 | 46,469 | 62,360 | 199,005 | 189,829 | 12,674 | 13,470 | 292,611 | 263,070 | 292,611 | 263,070 |
| Equity | | | | | | | | | | | | |
| Capital contributions and retained earnings | 31,617 | (1,733) | 46,466 | 62,360 | 199,005 | 189,829 | 15,523 | 12,612 | 292,611 | 263,070 | 292,611 | 263,070 |
| Total equity | 31,617 | (1,733) | 46,466 | 62,360 | 199,005 | 189,829 | 15,523 | 12,612 | 292,611 | 263,070 | 292,611 | 263,070 |



These financial statements should be read in conjunction with the accompanying notes and policies

Statement of Segments (Continued)
For the year ended 30 June 2016
In New Zealand Dollars

| | Current Year Actual vs Estimated Actuals (Budget 2016) | | | | | | | | | |
|---|--|-------------------------|---|-------------------------|--|-------------------------|--|-------------------------|--|-------------------------|
| | Crown Parent Actual 2016 \$000 | Budget 2016 \$000 | Crown Entities Actual 2016 \$000 | Budget 2016 \$000 | State Owned Enterprises Actual 2016 \$000 | Budget 2016 \$000 | Inter-Segment Elimination Actual 2016 \$000 | Budget 2016 \$000 | Whole of Government Actual 2016 \$000 | Budget 2016 \$000 |
| Revenue | | | | | | | | | | |
| Taxation revenue | 118,169 | 102,914 | - | - | - | - | - | 115,647 | 102,914 | |
| Other Sovereign revenue | 12,417 | 17,932 | 634 | - | 937 | - | (477) | 13,511 | 17,932 | |
| Revenue from Crown funding | - | - | 65,222 | 70,850 | 4,653 | 3,846 | (69,875) | - | - | |
| Total sovereign revenue | 130,586 | 120,846 | 65,856 | 70,850 | 5,590 | 3,846 | (72,874) | 129,158 | 120,846 | |
| Sales of goods and services | 880 | - | 8,765 | 5,720 | 33,156 | 2,020 | (1,142) | 41,659 | 5,720 | |
| Interest revenue | 2,518 | 1,885 | - | - | 4,468 | - | (3,939) | 3,047 | 1,885 | |
| Rental revenue | 3,377 | - | - | - | 2,919 | - | (3,410) | 2,886 | - | |
| Aid revenue | 29,902 | 49,115 | 6,154 | - | 266 | - | (2,483) | 33,839 | 49,115 | |
| Total revenue earned through operations | 36,677 | 51,000 | 14,919 | 5,720 | 40,809 | 2,020 | (10,974) | 81,431 | 56,720 | |
| Total revenue (excluding gains and minority interest) | 167,263 | 171,846 | 80,775 | 76,570 | 46,399 | 5,866 | (83,848) | 210,589 | 177,566 | |
| Expenses | | | | | | | | | | |
| Personnel expense | - | 1,820 | 48,683 | 48,541 | 9,417 | - | 2,018 | 60,118 | 50,361 | |
| Welfare payments | 15,878 | 16,798 | - | - | - | - | - | 15,878 | 16,798 | |
| Audit Fees | - | - | 26 | - | 375 | - | (28) | 373 | - | |
| Changes in provision for doubtful debts | - | - | 109 | - | 1,592 | - | - | 1,701 | - | |
| Depreciation and amortisation | 2,271 | 5,373 | 5,714 | 3,774 | 7,511 | - | 1 | 15,497 | 9,147 | |
| Finance costs | 2,571 | 2,285 | 4 | - | 3,678 | - | (1,488) | 4,765 | 2,285 | |
| Aid expenses | 27,780 | 49,115 | 5,516 | - | - | - | (2,482) | 30,814 | 49,115 | |
| Other expenses | 113,969 | 35,976 | 18,712 | 18,535 | 18,089 | - | (97,968) | 52,802 | 54,511 | |
| Total expenses (excluding losses) | 162,469 | 111,367 | 78,764 | 70,850 | 40,662 | - | (99,947) | 181,948 | 182,217 | |
| Operating balance before gains and losses (OBEGAL) & minority interest | 4,794 | 60,479 | 2,011 | 5,720 | 5,737 | 5,866 | 16,099 | 28,641 | (4,651) | |
| Other gains / (losses) and minority interest | | | | | | | | | | |
| Gain / (loss) on disposal of assets | 31 | - | (49) | - | (21) | - | - | (39) | - | |
| Foreign exchange gain / (loss) | 4,847 | - | - | - | 25 | - | - | 4,872 | - | |
| Share of profit of associate | - | - | - | - | - | - | 3,079 | 3,079 | - | |
| Total other gains / (losses) and minority interest | 4,878 | - | (49) | - | 4 | - | 3,079 | 7,912 | - | |
| Net surplus | 9,672 | 60,479 | 1,962 | 5,720 | 5,741 | 5,866 | 19,178 | 36,553 | (4,651) | |

Source of budget figures: Cook Islands Government Budget Estimates 2015/2016 Book 1 - Schedule 17.1 Statement of Financial Performance
Budget figures for State Owned Enterprises are not included in the above comparison as currently SOEs were not included in the preparation of the Government Budget Estimate 2015/2016.

The difference between the net surplus reported in schedule 11 of \$1,55 and the above reported loss of (\$6,936) is the result of inter-segment eliminations.
Refer to the Fiscal Overview section for explanations on significant variances to the budget.



Statement of Borrowings
For the year ended 30 June 2016
In New Zealand Dollars

| | Loan start date | Loan end date | Loan currency | Original loan amount \$'000 | Interest rate | 2016 \$'000 | 2015 \$'000 |
|---|-----------------|---------------|---------------|-----------------------------|---------------|---------------|---------------|
| External borrowings | | | | | | | |
| Asian Development Bank | | | | | | | |
| <i>Loans guaranteed by New Zealand Government</i> | | | | | | | |
| 1. First multi project loan - 461 | Nov-80 | Aug-20 | USD | 1,000 | 1.00% | 471 | 597 |
| 2. First Cook Islands Development Bank project loan - 567 | Jul-82 | Apr-22 | USD | 1,500 | 1.00% | 461 | 557 |
| 3. Second multi project loan - 849 | Dec-87 | Aug-27 | SDR | 2,150 | 1.00% | 1,827 | 2,058 |
| 4. Outer Islands telecommunications project loan - 1031 | Oct-90 | Aug-30 | SDR | 2,578 | 1.00% | 4,402 | 4,877 |
| 5. Second Cook Islands Development Bank loan - 1155 | Mar-92 | Dec-31 | SDR | 1,085 | 1.00% | 1,114 | 1,229 |
| Total loans guaranteed by New Zealand Government | | | | | | 8,275 | 9,318 |
| <i>Unguaranteed loans</i> | | | | | | | |
| 6. TCI Emergency Loan - 1171 | Aug-92 | Jun-32 | SDR | 349 | 1.00% | 384 | 423 |
| 7. Pearl Loan (1994) - 1309 | Dec-94 | Aug-34 | SDR | 272 | 1.00% | 434 | 474 |
| 8. Education development- 1317 | Feb-95 | Aug-34 | SDR | 1,852 | 1.00% | 2,644 | 2,889 |
| 9. Third Cook Islands Development Bank loan- 1380 | Jan-96 | Sep-35 | SDR | 1,977 | 1.00% | 2,252 | 2,424 |
| 10. Economic Restructuring loan - 1466 | Sep-96 | Sep-36 | SDR | 3,430 | 1.00% | 5,042 | 5,356 |
| 11. Cyclone Rehabilitation Project loan - 1588 | Jan-97 | Jan-38 | SDR | 583 | 1.00% | 836 | 898 |
| 12. Waste Management loan - 1832 | Dec-01 | Jun-33 | SDR | 1,695 | 1.50% | 2,225 | 2,442 |
| 13. Cyclone Emergency Assistance loan- 2174 | Jun-05 | Jan-45 | SDR | 1,895 | 1.00% | 3,452 | 3,651 |
| 14. (SF) Avatiu Ports Development Loan - 2473 | Sep-09 | Nov-40 | SDR | 4,524 | 1.50% | 8,968 | 9,295 |
| 15. (OCF) Avatiu Ports Development Project Loan - 2472 | Sep-09 | Nov-33 | NZD | 8,697 | 5.77% | 9,598 | 9,796 |
| 16. (SF) Economic Recovery Support Program Loan - 2565 | Jan-10 | Oct-24 | NZD | 11,053 | 2.52% | 8,541 | 9,546 |
| 17. (OCF) Avatiu Ports Development Project Loan- 2739 | Dec-11 | Nov-35 | NZD | 5,290 | 2.64% | 5,278 | 5,323 |
| 18. (OCF) Avatiu Ports Development Project Loan- 2946 | Dec-12 | Oct-27 | NZD | 11,053 | 2.75% | 6,948 | 7,250 |
| 19. (OCF) Avatiu Ports Development Project Loan- 3913 | | | | | | 643 | - |
| Total unguaranteed loans | | | | | | 57,245 | 59,767 |
| Total Asian Development Bank borrowings | | | | | | 65,520 | 69,085 |
| Caisse Francaise de Development | | | | | | | |
| 1. Northern Group Solarisation Project Loan | Jan-99 | Sep-18 | EUR | 1,159 | 0.75% | 243 | 211 |
| 2. Rarotonga Water Supply & Electrification Loan | Jan-99 | Sep-18 | EUR | 10,270 | 1.75% | 1,235 | 1,766 |
| Total Caisse Francaise de Development borrowings | | | | | | 1,478 | 1,977 |



These financial statements should be read in conjunction with the accompanying notes and policies

Statement of Borrowings (Continued)
For the year ended 30 June 2016
In New Zealand Dollars

| | Loan start date | Loan end date | Loan currency | Original loan amount \$'000 | Interest rate | 2016 \$'000 | 2015 \$'000 |
|--|-----------------|---------------|---------------|-----------------------------|---------------|----------------|----------------|
| Export - Import Bank of China | | | | | | | |
| 1. Indoor Sports Stadium & Upgrade of Existing Sports Facilities | Aug-08 | Aug-28 | RMB | 74,100 | 1.80% | 11,696 | 13,834 |
| 2. Rarotonga Water Ring Main Upgrade Loan | Dec-12 | Dec-32 | RMB | 118,000 | 2.00% | 24,699 | 15,831 |
| Total Export - Import Bank of China borrowings | | | | | | 36,395 | 29,665 |
| New Zealand Government | | | | | | | |
| 1. NZ Government Superannuation Fund Loan | Jan-98 | Jan-03 | NZD | 5,561 | 3.00% | - | - |
| Total New Zealand Government borrowings | | | | | | - | - |
| Total external borrowings | | | | | | 103,393 | 100,727 |
| Local borrowings | | | | | | | |
| Australia and New Zealand Banking Corporation | | | | | | | |
| 1. Airport Authority Loan | | | NZD | 8,100 | 5.99% | 508 | 1,495 |
| Total Australia and New Zealand Banking Corporation | | | | | | 508 | 1,495 |
| Total local borrowings | | | | | | 508 | 1,495 |
| Total borrowings | | | | | | 103,901 | 102,222 |

Total borrowings above includes both the Cook Islands Government and state owned enterprise loans. 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.
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.

These financial statements should be read in conjunction with the accompanying notes and policies



Statement of Borrowings (Continued)
For the year ended 30 June 2016

In New Zealand Dollars

| | 2017 \$000 | 2018 \$000 | 2019 \$000 | 2020 \$000 | 2021 to 2025 \$000 | 2026 and after \$000 | Total \$000 |
|---|---------------|---------------|---------------|---------------|-----------------------|-------------------------|----------------|
| Maturity profile as at 30 June 2016 | | | | | | | |
| External borrowings | | | | | | | |
| Asian Development Bank | 3,821 | 4,399 | 4,399 | 4,399 | 21,995 | 26,506 | 65,519 |
| Caisse Francaise de Development | 915 | 563 | - | - | - | - | 1,478 |
| Export -Import Bank of China | 795 | 795 | 795 | 795 | 3,975 | 29,240 | 36,395 |
| Total external borrowings | 5,531 | 5,757 | 5,194 | 5,194 | 25,970 | 55,746 | 103,392 |
| Local borrowings | | | | | | | |
| Australia and New Zealand Banking Corporation | 509 | - | - | - | - | - | 509 |
| Total local borrowings | 509 | - | - | - | - | - | 509 |
| Total borrowings | 6,040 | 5,757 | 5,194 | 5,194 | 25,970 | 55,746 | 103,901 |

| | 2016 \$000 | 2017 \$000 | 2018 \$000 | 2019 \$000 | 2020 to 2024 \$000 | 2025 and after \$000 | Total \$000 |
|---|---------------|---------------|---------------|---------------|-----------------------|-------------------------|----------------|
| Maturity profile as at 30 June 2015 | | | | | | | |
| External borrowings | | | | | | | |
| Asian Development Bank | 2,231 | 3,821 | 4,399 | 4,399 | 21,995 | 32,240 | 69,085 |
| Caisse Francaise de Development | 915 | 915 | 147 | - | - | - | 1,977 |
| Export -Import Bank of China | 795 | 795 | 795 | 795 | 3,975 | 22,510 | 29,665 |
| Total external borrowings | 3,941 | 5,531 | 5,341 | 5,194 | 25,970 | 54,750 | 100,727 |
| Local borrowings | | | | | | | |
| Australia and New Zealand Banking Corporation | 1,495 | - | - | - | - | - | 1,495 |
| Total local borrowings | 1,495 | - | - | - | - | - | 1,495 |
| Total borrowings | 5,436 | 5,531 | 5,341 | 5,194 | 25,970 | 54,750 | 102,222 |



These financial statements should be read in conjunction with the accompanying notes and policies

Statement of Borrowings (Continued)
For the year ended 30 June 2016
In New Zealand Dollars

| | 1 July 2015 \$000 | Additional loan \$000 | Loan repayment \$000 | Currency alignment \$000 | 30 June 2016 \$000 |
|---|-------------------------|-----------------------------|----------------------------|--------------------------------|--------------------------|
| Movements during the year ended 30 June 2016 | | | | | |
| External borrowings | | | | | |
| Asian Development Bank | 69,085 | 643 | (2,915) | (1,293) | 65,520 |
| Caisse Francaise de Development | 1,977 | - | (542) | 43 | 1,478 |
| Export -Import Bank of China | 29,665 | 10,524 | (1,026) | (2,769) | 36,394 |
| Total external borrowings | 100,727 | 11,167 | (4,483) | (4,019) | 103,392 |
| Local borrowings | | | | | |
| Australia and New Zealand Banking Corporation | 1,495 | - | (986) | - | 509 |
| Total local borrowings | 1,495 | - | (986) | - | 509 |
| Total borrowings | 102,222 | 11,167 | (5,469) | (4,019) | 103,901 |

| | 1 July 2014 \$000 | Additional loan \$000 | Loan repayment \$000 | Currency alignment \$000 | 30 June 2015 \$000 |
|---|-------------------------|-----------------------------|----------------------------|--------------------------------|--------------------------|
| Movements during the year ended 30 June 2015 | | | | | |
| External borrowings | | | | | |
| Asian Development Bank | 65,956 | - | (2,354) | 5,483 | 69,085 |
| Caisse Francaise de Development | 2,525 | - | (515) | (33) | 1,977 |
| Export -Import Bank of China | 19,254 | 5,270 | (896) | 6,037 | 29,665 |
| Total external borrowings | 87,735 | 5,270 | (3,765) | 11,487 | 100,727 |
| Local borrowings | | | | | |
| Australia and New Zealand Banking Corporation | - | 2,409 | (914) | - | 1,495 |
| Total local borrowings | - | 2,409 | (914) | - | 1,495 |
| Total borrowings | 87,735 | 7,679 | (4,679) | 11,487 | 102,222 |

These financial statements should be read in conjunction with the accompanying notes and policies



Statement of Borrowings (Continued)
For the year ended 30 June 2016
In New Zealand Dollars

| | United States Dollar | | Euro | | New Zealand Dollar | | Chinese Yuan | | Total |
|---|----------------------|--------------|--------------|--------------|--------------------|---------------|---------------|---------------|----------------|
| | USD \$000 | | EUR \$000 | | NZD \$000 | | RMB \$000 | | |
| Currency analysis as at 30 June 2016 | | | | | | | | | |
| External borrowings | | | | | | | | | |
| Asian Development Bank | 35,153 | - | - | - | 30,366 | - | - | - | 65,519 |
| Caisse Francaise de Development | - | 1,478 | - | - | - | - | - | - | 1,478 |
| New Zealand Government | - | - | - | - | - | - | - | - | - |
| Export -Import Bank of China | - | - | - | - | - | - | 36,395 | - | 36,395 |
| Total external borrowings | 35,153 | 1,478 | 1,478 | 1,478 | 30,366 | 36,395 | 36,395 | 36,395 | 103,392 |
| Local borrowings | | | | | | | | | |
| Australia and New Zealand Banking Corporation | - | - | - | - | 509 | - | - | - | 509 |
| Total local borrowings | - | - | - | - | 509 | - | - | - | 509 |
| Total borrowings | 35,153 | 1,478 | 1,478 | 1,478 | 30,875 | 36,395 | 36,395 | 36,395 | 103,901 |

| | United States Dollar | | Euro | | New Zealand Dollar | | Chinese Yuan | | Total |
|---|----------------------|--------------|--------------|--------------|--------------------|---------------|---------------|---------------|----------------|
| | USD \$000 | | EUR \$000 | | NZD \$000 | | RMB \$000 | | |
| Currency analysis as at 30 June 2015 | | | | | | | | | |
| External borrowings | | | | | | | | | |
| Asian Development Bank | 37,170 | - | - | - | 31,915 | - | - | - | 69,085 |
| Caisse Francaise de Development | - | 1,977 | - | - | - | - | - | - | 1,977 |
| Export -Import Bank of China | - | - | - | - | - | - | 29,665 | - | 29,665 |
| Total external borrowings | 37,170 | 1,977 | 1,977 | 1,977 | 31,915 | 29,665 | 29,665 | 29,665 | 100,727 |
| Local borrowings | | | | | | | | | |
| Australia and New Zealand Banking Corporation | - | - | - | - | 1,495 | - | - | - | 1,495 |
| Total local borrowings | - | - | - | - | 1,495 | - | - | - | 1,495 |
| Total borrowings | 37,170 | 1,977 | 1,977 | 1,977 | 33,410 | 29,665 | 29,665 | 29,665 | 102,222 |

Many of the loans from the Asian Development Bank are denominated in Special Drawing Rights (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 Cooks 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 approximately 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 rate.

These financial statements should be read in conjunction with the accompanying notes and policies



Statement of Borrowings (Continued)
For the year ended 30 June 2016

In New Zealand Dollars

Fair value of borrowings

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

The table below shows the estimated fair value of borrowings. For disclosure purposes, borrowing values disclosed below are not the same as reported in the Statement of Financial Position and in the above segments of the Statement of Borrowings. Fair value has been calculated based on the net present value of the expected future cash flows, discounted at market interest rates.

| | 2016 Fair Value \$'000 | 2015 Fair Value \$'000 |
|---|------------------------------|------------------------------|
| External borrowings | | |
| Asian Development Bank | | |
| 1. First multi project loan - 461 | 433 | 525 |
| 2. First Cook Islands Development Bank project loan - 567 | 151 | 173 |
| 3. Second multi project loan - 849 | 1,466 | 1,568 |
| 4. Outer Islands telecommunications project loan - 1031 | 3,412 | 3,474 |
| 5. Second Cook Islands Development Bank loan - 1155 | 730 | 766 |
| 6. TCI Emergency Loan - 1171 | 251 | 256 |
| 7. Pearl Loan (1994) - 1309 | 257 | 261 |
| 8. Education development- 1317 | 1,566 | 1,595 |
| 9. Third Cook Islands Development Bank loan- 1380 | 1,277 | 1,288 |
| 10. Economic restructuring loan - 1466 | 2,503 | 2,458 |
| 11. Cyclone Rehabilitation Project loan - 1588 | 413 | 408 |
| 12. Waste Management loan - 1832 | 1,253 | 1,511 |
| 13. Cyclone Emergency Assistance loan- 2174 | 1,173 | 1,195 |
| 14. (SF) Avatiu Ports Development Loan - 2473 | 5,493 | 4,905 |
| 15. (OCF) Avatiu Ports Development Project Loan - 2472 | 10,543 | 10,703 |
| 16. (SF) Economic Recovery Support Program Loan - 2565 | 6,880 | 7,678 |
| 17. (OCF) Avatiu Ports Development Project Loan- 2739 | 3,568 | 3,568 |
| 18. (OCF) Avatiu Ports Development Project Loan- 2946 | 6,559 | 6,559 |
| Total Asian Development Bank borrowings | 47,928 | 48,891 |

These financial statements should be read in conjunction with the accompanying notes and policies



Statement of Borrowings (Continued)
For the year ended 30 June 2016
In New Zealand Dollars

| | 2016 Fair Value \$000 | 2015 Fair Value \$000 |
|---|-----------------------------|-----------------------------|
| Caisse Francaise de Development | | |
| 1. Northern Group Solarisation Project Loan | 192 | 192 |
| 2. Rarotonga Water Supply & Electrification Loan | 1,176 | 1,693 |
| Total Caisse Francaise de Development borrowings | 1,368 | 1,885 |
| Export -Import Bank of China | | |
| 1. Indoor Sports Stadium Project, Repairs and Upgrade of Existing Sports Facilities | 8,565 | 10,145 |
| 2. Rarotonga Water Ring Main Upgrade Loan | 7,494 | 8,355 |
| Total Export -Import Bank of China borrowings | 16,059 | 18,500 |
| New Zealand Government | | |
| 1. NZ Government Superannuation Fund Loan | - | - |
| Total New Zealand Government borrowings | - | - |
| Total external borrowings | 65,355 | 69,276 |
| Local borrowings | | |
| Australia and New Zealand Banking Corporation | | |
| 1. Airport Authority Loan | 509 | 1,495 |
| Total Australia and New Zealand Banking Corporation | 509 | 1,495 |
| Total local borrowings | 509 | 1,495 |
| Total borrowings | 65,864 | 70,771 |



These financial statements should be read in conjunction with the accompanying notes and policies

Statement of Commitments
For the year ended 30 June 2016
In New Zealand Dollars

| | 2016 | 2015 |
|---|---------------|---------------|
| | \$000 | \$000 |
| Commitments by type | | |
| Lease commitments | 6,391 | 6,620 |
| Capital expenditure | 25,000 | 25,000 |
| Undisbursed bank loan facilities (Bank of the Cook Islands) | 2,564 | 4,775 |
| Total quantifiable commitments | 33,955 | 36,395 |
| Lease commitments by term | | |
| One year or less | - | - |
| From one to two years | 232 | 367 |
| From two to five years | 931 | 794 |
| Over five years | 5,228 | 5,459 |
| Total lease commitments | 6,391 | 6,620 |

Lease commitments

The above listing of lease commitments excludes the commitments held by the Cook Islands Government Property Corporation.

The Cook Islands Government 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.

Capital expenditure

Focus on Southern Group and Raratonga under a new Renewable Energy program was committed in FY2015/16. The project estimated at NZD \$25.0 million, will have a loan component of NZD \$13.0 million and will be administrated by the Asian Development Bank to complete the transformation of electricity generation from diesel to solar power from the Southern Cook Islands and selected projects on Rarotonga.

There was no funds committed for future capital expenditure as at 30 June 2016.

Due to the above limitation with lease and capital commitments, the audit report of these financial statements is qualified in this regard.

Undisbursed bank loan facilities

Bank of the Cook Islands (BCI) has committed to lending a number of loans in the future that have not yet been drawn down.

These financial statements should be read in conjunction with the accompanying notes and policies

Statement of Contingent Liabilities**For the year ended 30 June 2016***In New Zealand Dollars*

| | 2016 | 2015 |
|--|--------------|--------------|
| | \$000 | \$000 |
| Uncalled capital - Asian Development Bank | 1,689 | 1,741 |
| Legal proceedings | 4,356 | 4,356 |
| Total quantifiable contingent liabilities | 6,045 | 6,097 |

Uncalled capital

Asian Development Bank - Cook Islands Government Property Corporation owns 88 uncalled shares with a par value of US\$13,500 each. Using the USD rate of 0.7034, this equates to \$1,688,939 in NZD (2015: \$1,741,425 at 0.6822).

Legal Proceedings

A \$270,000 claim has been lodged in regards to negligence against Infrastructure Cook Islands 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 \$4,000,000 claim for damages against the Attorney General during the case Operation Slush.

These financial statements should be read in conjunction with the accompanying notes and policies



Statement of Accounting Policies
For the year ended 30 June 2016

Basis of preparation

Reporting entity

These financial statements are for the Government of the Cook Islands (Crown). This consists of: Crown parent + Crown entities (45) + State owned enterprises (13) = Cook Islands Government

A schedule of the entities included in these financial statements is detailed on page 23.

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 2016. These financial statements were authorised for issue on 20 December 2019.

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 current development of new standards at the IPSAS Board. No new standards have been issued for the 2015/16 period by the board.

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.

These policies should be read in conjunction with the financial statements and accompanying notes

Statement of Accounting Policies (continued)
For the year ended 30 June 2016

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 in 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. |
| Departure Tax | Departure tax is included in the cost of airfares charged by Airlines to its customers. Recognition is when these are then paid by the Airlines to the Crown. |
| 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. |

Revenue earned through operations

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

Interest income

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

Fines

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

Investment income

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

These policies should be read in conjunction with the financial statements and accompanying notes



Statement of Accounting Policies (continued)
For the year ended 30 June 2016

Gains

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

Dividends

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

Aid (Development Partner) revenue

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

Expenses

General

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

Welfare benefits

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

Grants and subsidies

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

Losses

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

Borrowing Costs

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

Foreign currencies

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

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

Aid expenses

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

These policies should be read in conjunction with the financial statements and accompanying notes



Statement of Accounting Policies (continued)
For the year ended 30 June 2016

Depreciation

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

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

| Asset type | Useful life |
|---|-------------------|
| Office and computer equipment | 3 – 4 years |
| Motor vehicles | 5 years |
| Furniture and fittings | 4 – 10 years |
| Plant and equipment | 5 - 15 years |
| 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

Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated depreciation.

The cost of property, plant 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.

When an item of property, plant 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.

These policies should be read in conjunction with the financial statements and accompanying notes

Statement of Accounting Policies (continued)
For the year ended 30 June 2016

Additions

The cost of an item of property, plant 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.

Infrastructure assets are accounted for the same way as property, plant and equipment

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:

| Asset Type | Useful Life |
|---------------------|-------------|
| Software, databases | 3 - 5 years |

Cash and cash equivalents

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

Debtors and other receivables

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.

These policies should be read in conjunction with the financial statements and accompanying notes



Statement of Accounting Policies (continued)
For the year ended 30 June 2016

Debtors and other receivables (continued)

Tax receivables have been calculated on a subsequent receipt bases. All tax revenue received in the years subsequent to 30 June 2016 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.

These policies should be read in conjunction with the financial statements and accompanying notes



Statement of Accounting Policies (continued)
For the year ended 30 June 2016

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).

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.

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.

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.

These policies should be read in conjunction with the financial statements and accompanying notes

Statement of Accounting Policies (continued)
For the year ended 30 June 2016

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 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.

These policies should be read in conjunction with the financial statements and accompanying notes

Notes to the Financial Statements
For the year ended 30 June 2016

| | Budget 2016 \$000 | Actual 2016 \$000 | Actual 2015 \$000 |
|--|-------------------------|-------------------------|-------------------------|
| Note 1: Taxation revenue | | | |
| Direct taxation | | | |
| Individual income tax | 22,201 | 22,964 | 19,016 |
| Company income tax | 10,625 | 12,363 | 6,792 |
| Withholding tax | - | 1,246 | 2,226 |
| Total direct taxation | 32,826 | 36,573 | 28,034 |
| Indirect taxation | | | |
| Value added tax | 50,316 | 58,011 | 47,359 |
| Customs levies | 11,956 | 12,374 | 10,536 |
| Departure tax | 7,816 | 8,689 | 8,146 |
| Total indirect taxation | 70,088 | 79,074 | 66,041 |
| Total taxation revenue | 102,914 | 115,647 | 94,075 |
| <i>Source of budget figures: Cook Islands Government Budget Estimates 2015/2016 Book 1 - Schedule 17.5 Revenue Levied on Behalf of the Crown</i> | | | |
| Note 2: Other sovereign revenue | | | |
| Fees, fines, penalties and licenses | | | |
| Registration fees | 1,388 | 1,923 | 1,761 |
| Road transport licensing | 1,060 | 952 | 1,184 |
| Court fines | 50 | 49 | 50 |
| Other fees, fines and levies | - | 46 | 1,274 |
| Total fees, fines, penalties and licenses | 2,498 | 2,970 | 4,269 |
| Other Crown revenue | | | |
| Currency and numismatic revenue | 4,338 | 600 | 501 |
| Fisheries licenses | 9,787 | 7,714 | 10,887 |
| Tattsлото income | 120 | 185 | 142 |
| Other | 1,189 | 2,042 | 1,453 |
| Total other Crown revenue | 15,434 | 10,541 | 12,983 |
| Total other sovereign revenue | 17,932 | 13,511 | 17,252 |
| <i>Source of budget figures: Cook Islands Government Budget Estimates 2015/2016 Book 1 - Schedule 7 Revenue on Behalf of Crown (ROBOC)</i> | | | |
| Note 3: Sales of goods and services | | | |
| Crown parent | | | |
| Sales of goods | - | 880 | 172 |
| Total Crown parent sales of goods | - | 880 | 172 |
| Crown entities | | | |
| Sales of goods | | 291 | 229 |
| Rendering of services | 5,720 | 8,380 | 7,654 |
| Total Crown entities sales of goods and services | 5,720 | 8,671 | 7,883 |
| <i>Source of budget figures: Cook Islands Government Budget Estimates 2015/2016 Book 1 - Schedule 17.1 Statement of Financial Performance</i> | | | |
| State owned enterprises (SOEs) | | | |
| Airport landing fees | | 4,432 | 4,138 |
| Electricity sales | | 16,917 | 17,739 |
| Fees and interest on banking portfolio assets | | 8,016 | 5,810 |
| Port services | | 2,743 | 2,688 |
| Other | | - | 972 |
| Total State owned enterprises sales of goods and services | | 32,108 | 31,347 |
| Total sales of goods and services | | 41,659 | 39,402 |

* There are no budget figures for revenue generated by SOEs as they are not included in the preparation of the Government Budget Estimate 2015/2016

These notes should be read in conjunction with the financial statements and policies

Notes to the Financial Statements (continued)
For the year ended 30 June 2016

| | Budget 2016 \$000 | Actual 2016 \$000 | Actual 2015 \$000 |
|--|-------------------------|-------------------------|-------------------------|
| Note 4: Personnel expense | | | |
| Gross salaries and wages - Crown Entities | 48,541 | 47,422 | 46,383 |
| Gross salaries and wages - State Owned Enterprise | - | 9,417 | 9,318 |
| Gross salaries and wages - Head of Ministries | - | 1,261 | 1,142 |
| Gross salaries and wages - Members of Parliament | 1,820 | 2,018 | 2,061 |
| Total personnel expense | 50,361 | 60,118 | 58,904 |
| <i>Source of budget figures: Cook Islands Government Budget Estimates 2015/2016 Book 1</i> | | | |
| Note 5: Welfare payments | | | |
| Old age benefits | 12,479 | 11,843 | 11,540 |
| Child benefits | 2,701 | 2,714 | 2,767 |
| Destitute and infirm benefits | 396 | 673 | 690 |
| Special assistance benefits | 100 | 88 | 82 |
| Power subsidies | 87 | 69 | 72 |
| Other | 1,035 | 491 | 540 |
| Total welfare payments | 16,798 | 15,878 | 15,691 |
| <i>Source of budget figures: Cook Islands Government Budget Estimates 2015/2016 Book 1 - Table 8.26 Old Age Welfare Funds</i> | | | |
| Note 6: Finance costs | | | |
| Interest expenses on foreign-sourced loans | 2,285 | 2,571 | 2,468 |
| Interest expenses on domestic loans | - | 2,194 | 2,070 |
| Total finance costs | 2,285 | 4,765 | 4,538 |
| <i>Source of budget figures: Cook Islands Government Budget Estimates 2015/2016 Book 1 - Schedule 11 Statement of Financial Performance</i> | | | |
| Note 7: Other expenses | | | |
| Payments on behalf of the Crown | | | |
| Private school funding | 2,147 | 2,147 | 1,983 |
| Tertiary training institutions | 760 | 760 | 760 |
| Air New Zealand underwrite | 12,000 | 5,920 | 9,764 |
| Tourism marketing | 5,100 | 100 | 2,250 |
| Patient referrals and pharmaceutical supplies | 1,218 | 1,568 | 1,599 |
| Te Maeva Nui cost | 236 | 519 | 969 |
| Members of Parliament travel cost | 529 | 538 | 663 |
| National superannuation fund | 269 | 269 | 434 |
| Community cleaning program (Vaka maintenance) | 400 | 394 | 390 |
| International subscriptions | 552 | 472 | 514 |
| Self Government Golden Anniversary | 250 | 638 | - |
| Other expenses | 12,515 | 6,566 | 1,629 |
| Unsubstantiated consolidated eliminating entries | - | (9,292) | (2,720) |
| Total payments on behalf of the Crown | 35,976 | 10,599 | 18,235 |
| <i>Source of budget figures: Cook Islands Government Budget Estimates 2015/2016 Book 1 - Section 8.11 Payments on Behalf of the Crown(POBOC)</i> | | | |
| Other operating expenses | | | |
| Fuel and oil | | 8,092 | 10,375 |
| Communications | | 1,508 | 1,470 |
| Repairs and maintenance | | 13,804 | 5,413 |
| Office supplies and consumables | | 1,173 | 1,118 |
| Professional services | | 1,550 | 1,348 |
| Advertising and marketing | | 2,341 | 2,495 |
| Insurance | | 1,131 | 1,214 |
| Travel costs | | 1,544 | 934 |
| Rentals and operating lease costs | | 454 | 217 |
| Other expenses | | 10,606 | 10,842 |
| Total other operating expenses | | 42,203 | 35,426 |
| Total other expenses | | 52,802 | 53,661 |

These notes should be read in conjunction with the financial statements and policies

Notes to the Financial Statements (continued)
For the year ended 30 June 2016

| | Budget 2016 \$000 | Actual 2016 \$000 | Actual 2015 \$000 |
|--------------------------------------|-------------------------|-------------------------|-------------------------|
| Note 8: Aid funded activities | | | |
| Aid revenue | | | |
| New Zealand Aid Assistance | 18,405 | 18,040 | 23,392 |
| China Aid Assistance | 6,481 | 1,244 | 8,972 |
| Australia Aid Assistance | 747 | 498 | 8,645 |
| European Union Assistance | 9,155 | 603 | 958 |
| United Nations Aid Assistance | 1,682 | 411 | 1,503 |
| Japan Aid Assistance | 6,232 | 7,876 | - |
| Other Aid Assistance | 6,413 | 5,167 | 3,227 |
| Total Aid revenue | 49,115 | 33,839 | 46,697 |

Source of budget figures: Cook Islands Government Budget Estimates 2015/2016 Book 1 - Table 15.2
Official Development Assistance Budget by Development Partner

| | | | |
|--|---------------|---------------|---------------|
| Aid expenses | | | |
| Public sector reform | 2,228 | 5,642 | 2,201 |
| Human resource development and education | 71 | 1,252 | 3,604 |
| Outer Islands development | 9,915 | 4,918 | 7,481 |
| Health development | 445 | 680 | 1,173 |
| Tourism development | - | - | 2,694 |
| Economic development | 20,484 | 2,507 | 3,595 |
| Other sectors | 1,492 | 691 | 258 |
| Water and sanitation | 5,889 | 4,144 | 1,712 |
| Environmental protection | 7,933 | 5,784 | 2,954 |
| Housing and community amenities | - | 175 | 1,008 |
| Social protection | - | 1,233 | 1,153 |
| Public order | 658 | 3,788 | - |
| Total Aid expenses | 49,115 | 30,814 | 27,833 |

| | | | |
|--|---------------|---------------|---------------|
| Aid capital expenses | | | |
| Aid funded property, plant and equipment | | 3,025 | 18,864 |
| Total Aid capital expenses | - | 3,025 | 18,864 |
| Total Aid expenditure | 49,115 | 33,839 | 46,697 |

Source of budget figures: Cook Islands Government Budget Estimates 2015/2016 Book 1 - Table 15.3
Official Development Assistance Budget by Sector

| | | | |
|--|--|--------------|---------------|
| Breakdown of Aid funded property, plant and equipment | | | |
| Te Kukupa patrol boat refit | | - | 8,573 |
| Donated heavy machinery | | 1,244 | 8,972 |
| Other assets | | 1,781 | 1,319 |
| Total Aid funded property, plant and equipment | | 3,025 | 18,864 |

The aid assets disclosed above are not a complete presentation of all assets falling under the ownership and/or control of the Crown from aid funding during or in the previous year.

Due to the above limitation, the audit report of these financial statements is qualified in this regard.

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.

Development partner expenditure of a capital nature is accounted for as plant, property, and equipment within the 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 financial statements is consistent with funding received and expended by the Crown.

These notes should be read in conjunction with the financial statements and policies



Notes to the Financial Statements (continued)
For the year ended 30 June 2016

| | 2016 | 2015 |
|--|---------------|---------------|
| | \$000 | \$000 |
| Note 9: Cash and cash equivalents | | |
| Cash on hand | 1,185 | 1,165 |
| Cash at bank | 37,622 | 50,087 |
| Total cash and cash equivalents | 38,807 | 51,252 |
| Term Deposits | | |
| Less than 12 months | 53,985 | 31,172 |
| Over 12 months | - | 2,133 |
| Total term deposits | 53,985 | 33,305 |

Short term deposits are made for varying periods, depending on the immediate cash requirements of the Crown and earn interest at the respective short term deposit rates. Interest rates range from 2.51% to 4.50% (2015: 0.15% to 4.5%)

Loan Repayment Fund (LRF)

Included in the above term deposits are funds that have been quarantined for the repayment of borrowings as per LRF Act 2014.

| | 2016 | 2015 |
|---|---------------|---------------|
| | \$000 | \$000 |
| Loan repayment funds | | |
| Loan repayment funds | 16,687 | 16,641 |
| Total loan repayment funds | 16,687 | 16,641 |
| Note 10: Inventory | | |
| Inventory held of use | | |
| Diesel and oil for electricity generation | 6,034 | 5,235 |
| Bitumen and spare parts | 424 | 750 |
| Pharmaceuticals and hospital Supplies | 456 | 748 |
| Other | 70 | 87 |
| Total inventory held for use | 6,984 | 6,820 |
| Inventory held for sale | | |
| Numismatic coins | 1,600 | 1,158 |
| Pearls | 416 | 523 |
| Other | 62 | 59 |
| Total inventory held for sale | 2,078 | 1,740 |
| Provision for obsolete stock | - | - |
| Total inventory | 9,062 | 8,560 |

These notes should be read in conjunction with the financial statements and policies

Notes to the Financial Statements (continued)
For the year ended 30 June 2016

| | 2016 \$000 | 2015 \$000 |
|---|----------------|----------------|
| Note 11: Debtors and other receivables | | |
| Taxes receivable | 8,932 | 10,515 |
| Accounts receivable | 11,599 | 11,952 |
| Prepayments | 661 | 2,246 |
| Interest receivable | 318 | 361 |
| Accrued revenue | 2,736 | 1,456 |
| Dividends receivable | - | 736 |
| Aid receivable | 1,216 | 966 |
| Total debtors and other receivables (gross) | 25,462 | 28,232 |
| Provision for doubtful debts | (1,244) | (2,067) |
| Total debtors and other receivables (net) | 24,218 | 26,165 |
| Movements in the provision for uncollectibility of accounts receivables are as follows: | | |
| Balance at 1 July | (2,067) | (1,226) |
| Additional provisions made during the year | (1,701) | (977) |
| Receivables written off during the year | - | 136 |
| Provisions reversed during the year | 2,524 | - |
| Balance at 30 June | (1,244) | (2,067) |
| Note 12: Investments in shares and associates | | |
| Investment in shares | | |
| Asian Development Bank | 161 | 161 |
| Total investments in shares | 161 | 161 |
| Share of net assets of associate | | |
| Carrying amount at beginning of year | 7,052 | 5,889 |
| Equity accounted earnings of associate | 3,079 | 2,763 |
| Dividends from associate | (1,600) | (1,600) |
| Total share of net assets of associate | 8,531 | 7,052 |
| Total investments in shares and associate | 8,692 | 7,213 |

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

Investment in associates comprises of Telecom Cook Islands Limited which is incorporated in the Cook Islands and provides telecommunication services to the Cook Islands. The Crown's interest in Telecom Cook Islands Limited is held by Cook Islands Telecommunication Holdings Limited.

The Crown has 40% ownership in Telecom Cook Islands.

| Telecom Cook Islands | 2016 \$000 | 2015 \$000 |
|-----------------------|---------------|---------------|
| Total assets | 31,211 | 27,565 |
| Total liabilities | 9,644 | 8,314 |
| Total income | 26,939 | 36,131 |
| Total profit / (loss) | 8,317 | 11,026 |

During the year, the associate changed their balance date from 30 June to 31 December.

The audited financial statements for 2015 is for 18 months period ended 31 December 2015.

On 23 February 2015 Spark New Zealand sold their 60% interest in Telecom Cook Islands Limited to Teleraro Ltd, Bluesky's Cook Islands subsidiary. There is no change in the Crown's 40% share held by Cook Islands Telecommunications Holdings Ltd. The investee is now trading as Bluesky.

These notes should be read in conjunction with the financial statements and policies

Notes to the Financial Statements (continued)
For the year ended 30 June 2016

| | 2016 \$000 | 2015 \$000 |
|--|---------------|---------------|
| Note 13: Banking portfolio investments (held by Bank of the Cook Islands) | | |
| Summary of loans portfolio by industry sector | | |
| Agriculture | 22 | 52 |
| Fishing | - | - |
| Pearls | 3 | 2 |
| Consumer | 9,423 | 9,018 |
| Business | 17,560 | 13,963 |
| Housing | 33,252 | 28,416 |
| Staff | 2,540 | 2,279 |
| Tourism | 7,885 | 6,318 |
| Hire purchase loans | 5 | 28 |
| Total banking portfolio investments (gross) | 70,690 | 60,076 |
| Summary of loans portfolio by maturity | | |
| Current banking portfolio investments | 8,633 | 7,987 |
| Non-current banking portfolio investments | 62,057 | 52,089 |
| Total banking portfolio investments (gross) | 70,690 | 60,076 |
| Current banking portfolio investments | | |
| Current banking portfolio investments | 8,633 | 7,987 |
| Provision for bad and doubtful loans | - | - |
| Net current banking portfolio investments | 8,633 | 7,987 |
| Non-current banking portfolio investments | | |
| Non-current banking portfolio investments | 62,057 | 52,089 |
| Provision for bad and doubtful loans | (5,517) | (4,509) |
| Net non-current banking portfolio investments | 56,540 | 47,580 |
| Total banking portfolio investments (net) | 65,173 | 55,567 |

All loans have been made at varying interest rates, terms and securities. Loans attract the following interest rates:

- Housing 4.04% to 15.49% (2015: 4.54% to 15.99%)
- Development (including business) 7.75% to 20.50% (2015: 7.75% to 20.50%)
- Consumer 9.50% to 20.50% (2015: 9.50% to 20.50%)
- Government 10.50% (2015: 10.50%)

These notes should be read in conjunction with the financial statements and policies

Notes to the Financial Statements (continued)
For the year ended 30 June 2016

Note 14: Property, plant, and equipment
Breakdown of property, plant and equipment and further information
Movement for each class of property, plant and equipment are as follows:

| | Computer Equipment | Furniture & Fittings | Motor Vehicles | Plant & Equipment | Buildings | Land | Work in Progress | Unexplained Movements | Total |
|---|-----------------------|-------------------------|-------------------|----------------------|---------------|---------------|---------------------|--------------------------|----------------|
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| Cost | | | | | | | | | |
| Balance as at 1 July 2014 | 7,485 | 3,407 | 10,797 | 41,120 | 78,387 | 12,939 | 36,990 | 1,191 | 192,316 |
| Opening balance adjustments | (1,181) | 2 | 216 | 9,076 | 758 | - | 8,788 | (1,191) | 16,468 |
| Adjusted balance 1 July 2014 | 6,304 | 3,409 | 11,013 | 50,196 | 79,145 | 12,939 | 45,778 | - | 208,784 |
| Additions | 756 | 213 | 1,034 | 17,707 | 757 | 262 | 10,328 | - | 31,057 |
| Disposals | 136 | 90 | 599 | 512 | 8 | - | 23,404 | - | 24,749 |
| Transfers | - | - | - | 2 | - | - | - | - | 2 |
| Unexplained movements | - | - | - | - | - | - | - | (257) | (257) |
| Balance as at 30 June 2015 | 6,924 | 3,532 | 11,448 | 67,393 | 79,894 | 13,201 | 32,702 | (257) | 214,837 |
| Accumulated depreciation and impairment losses | | | | | | | | | |
| Balance as at 1 July 2014 | 6,382 | 2,055 | 9,125 | 21,623 | 24,498 | 14 | 1,146 | (667) | 64,176 |
| Opening balance adjustments | (1,465) | 215 | (288) | 9,424 | (951) | 87 | (1,093) | 667 | 6,596 |
| Adjusted accumulated balance 1 July 2014 | 4,917 | 2,270 | 8,837 | 31,047 | 23,547 | 101 | 53 | - | 70,772 |
| Depreciation | 692 | 183 | 642 | 3,599 | 2,397 | 14 | - | (212) | 7,315 |
| Accumulated depreciation on disposals | 127 | 53 | 585 | 496 | 8 | - | - | - | 1,269 |
| Transfers | 3 | 9 | 62 | - | (24) | - | - | - | 50 |
| Unexplained movements | - | - | - | 18 | - | - | - | - | 18 |
| Balance as at 30 June 2015 | 5,485 | 2,409 | 8,956 | 34,168 | 25,912 | 115 | 53 | (212) | 76,886 |
| Carrying amount | | | | | | | | | |
| As at 30 June 2015 | 1,439 | 1,123 | 2,492 | 33,225 | 53,982 | 13,086 | 32,649 | (45) | 137,951 |
| Cost | | | | | | | | | |
| Balance as at 1 July 2015 | 6,924 | 3,532 | 11,448 | 67,393 | 79,894 | 13,201 | 32,702 | (257) | 214,837 |
| Opening balance adjustments | (82) | 38 | (53) | (298) | 84 | - | (1,328) | 257 | - |
| Adjusted balance 1 July 2015 | 6,842 | 3,570 | 11,395 | 67,095 | 79,978 | 13,201 | 31,374 | - | 214,837 |
| Additions | 1,263 | 315 | 1,489 | 11,296 | 200 | 2,129 | 7,176 | - | 23,868 |
| Disposals | 560 | 130 | 474 | 2,798 | - | - | 31,520 | - | 35,482 |
| Transfers | 39 | 28 | 183 | 537 | 501 | - | - | - | 1,288 |
| Balance as at 30 June 2016 | 7,584 | 3,783 | 12,593 | 76,130 | 80,679 | 15,330 | 7,030 | - | 204,511 |
| Accumulated depreciation and impairment losses | | | | | | | | | |
| Balance as at 1 July 2015 | 5,485 | 2,409 | 8,956 | 34,168 | 25,912 | 115 | 53 | (212) | 76,886 |
| Opening balance adjustments | (100) | 20 | (141) | (81) | (367) | - | (49) | 300 | (418) |
| Adjusted accumulated balance 1 July 2015 | 5,385 | 2,429 | 8,815 | 34,087 | 25,545 | 115 | 4 | - | 76,468 |
| Depreciation | 667 | 238 | 824 | 4,431 | 2,508 | 18 | - | (214) | 8,472 |
| Accumulated depreciation on disposals | 496 | 116 | 406 | 2,606 | - | - | - | - | 3,624 |
| Transfers | 41 | 7 | 33 | 171 | 140 | - | - | - | 392 |
| Balance as at 30 June 2016 | 5,597 | 2,558 | 9,266 | 36,083 | 28,193 | 133 | 4 | (214) | 81,708 |
| Carrying amount | | | | | | | | | |
| As at 30 June 2016 | 1,987 | 1,225 | 3,327 | 40,047 | 52,486 | 15,197 | 7,026 | 214 | 122,803 |

Ownership and completeness of assets

These assets disclosed in these financial statements are not a complete presentation of all assets falling under the ownership and/or control of the Crown. These assets presented are included on the basis of the current understanding of the entities at the time the financial statements were prepared.

The audit report of these financial statements is qualified in this regard.

Entities valuation

Certain historical fixed assets under the control of the Crown have been included in the Statement of Financial Position based on valuations performed by the entities or have been recorded in the financial statements at nil value. This is due to loss of accounting records.

This treatment is a departure from IPSAS 17 Property, plant and equipment which notes an appraisal of an asset is normally undertaken by a member of the valuation profession, who holds a recognised and relevant professional qualification. The audit report of these financial statements is qualified in this regard.

The audit report of these financial statements is qualified in this regard.

These notes should be read in conjunction with the financial statements and policies

Financial Statements of the Government of the Cook Islands



Notes to the Financial Statements (continued)
For the Year Ended 30 June 2016

Note 15: Infrastructure assets
Breakdown of infrastructure assets and further information
Movement for each class of infrastructure assets are as follows:

| | Reading | Power Network | Harbour & Ports | Airport | Coastal Protection | Water Management | Waste Management | Work in Progress | Unexplained Movements | Total |
|---|---------------|---------------|-----------------|---------------|--------------------|------------------|------------------|------------------|-----------------------|----------------|
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| Cost | | | | | | | | | | |
| Balance as at 1 July 2014 | 5,152 | 10,098 | 31,656 | 52,056 | 929 | 1,968 | 3,214 | 3,882 | 723 | 109,658 |
| Opening balance adjustments | (240) | 7,700 | (21,003) | 26 | - | 708 | 173 | 9,890 | (723) | (3,469) |
| Adjusted balance 1 July 2014 | 4,912 | 17,798 | 10,653 | 52,082 | 929 | 2,676 | 3,387 | 13,772 | - | 106,189 |
| Additions | - | 3,882 | 23,328 | - | - | - | - | 12,860 | - | 40,070 |
| Disposals | - | - | - | - | - | - | - | - | - | - |
| Transfers | - | - | - | - | - | - | - | - | - | - |
| Balance as at 30 June 2015 | 4,912 | 21,680 | 33,961 | 52,082 | 929 | 2,676 | 3,387 | 26,632 | - | 146,259 |
| Accumulated depreciation and impairment losses | | | | | | | | | | |
| Balance as at 1 July 2014 | 2,029 | 215 | 1,449 | 4,712 | 584 | 472 | 290 | 114 | (3,136) | 6,729 |
| Opening balance adjustments | (428) | 10,277 | 257 | 18 | 1 | 998 | 173 | (22) | 3,136 | 14,410 |
| Adjusted accumulated balance 1 July 2014 | 1,601 | 10,492 | 1,706 | 4,730 | 585 | 1,470 | 463 | 92 | - | 21,139 |
| Depreciation | 1,853 | 818 | 874 | 1,585 | 37 | 398 | 294 | 82 | 601 | 6,542 |
| Accumulated depreciation on disposals | - | - | - | - | - | - | - | 8 | - | 8 |
| Transfers | - | - | (2) | 7 | - | - | - | - | 1,204 | 1,209 |
| Balance as at 30 June 2015 | 3,454 | 11,310 | 2,578 | 6,322 | 622 | 1,868 | 757 | 166 | 1,805 | 28,882 |
| Carrying amount | | | | | | | | | | |
| As at 30 June 2015 | 1,458 | 10,370 | 31,383 | 45,760 | 307 | 808 | 2,630 | 26,466 | (1,805) | 117,377 |
| Cost | | | | | | | | | | |
| Balance as at 1 July 2015 | 4,912 | 21,680 | 33,961 | 52,082 | 929 | 2,676 | 3,387 | 26,632 | - | 146,259 |
| Opening balance adjustments | - | 868 | 823 | - | - | (715) | - | 211 | - | 1,187 |
| Adjusted balance 1 July 2015 | 4,912 | 22,548 | 34,784 | 52,082 | 929 | 1,961 | 3,387 | 26,843 | - | 147,446 |
| Additions | 15,356 | 864 | 131 | - | - | 2,493 | 1,679 | 8,398 | - | 28,921 |
| Disposals | 130 | - | - | - | - | - | - | 628 | - | 758 |
| Transfers | 1,940 | 1,003 | 5,889 | 222 | - | 475 | - | (557) | - | 8,972 |
| Unexplained movements | - | - | - | - | - | - | - | - | (2,571) | (2,571) |
| Balance as at 30 June 2016 | 22,078 | 24,415 | 40,804 | 52,304 | 929 | 4,929 | 5,066 | 34,056 | (2,571) | 182,010 |
| Accumulated depreciation and impairment losses | | | | | | | | | | |
| Balance as at 1 July 2015 | 3,454 | 11,310 | 2,578 | 6,322 | 622 | 1,868 | 757 | 166 | 1,805 | 28,882 |
| Opening balance adjustments | - | 50 | 641 | 1 | - | (532) | - | 138 | (1,805) | (1,507) |
| Adjusted accumulated balance 1 July 2015 | 3,454 | 11,360 | 3,219 | 6,323 | 622 | 1,336 | 757 | 304 | - | 27,375 |
| Depreciation | 1,210 | 791 | 1,486 | 1,615 | 37 | 461 | 294 | 12 | 442 | 6,348 |
| Transfers | 66 | 13 | 210 | 7 | - | 59 | - | (140) | - | 215 |
| Accumulated depreciation on disposals | - | - | - | - | - | - | - | - | - | - |
| Balance as at 30 June 2016 | 4,730 | 12,164 | 4,915 | 7,945 | 659 | 1,856 | 1,051 | 176 | 442 | 33,938 |
| Carrying amount | | | | | | | | | | |
| As at 30 June 2016 | 17,348 | 12,251 | 35,889 | 44,359 | 270 | 3,073 | 4,015 | 33,880 | (3,013) | 148,072 |



Notes to the Financial Statements (continued)
For the Year Ended 30 June 2016

Note 16: Intangible assets
Breakdown of intangible assets and further information
Movement for each class of intangible assets are as follows:

| | Purchased Software \$000 | Developed Software \$000 | Naming Rights \$000 | Unexplained Movements \$000 | Total \$000 |
|---|-----------------------------|-----------------------------|------------------------|--------------------------------|----------------|
| Cost | | | | | |
| Balance as at 1 July 2014 | 516 | 249 | 109 | - | 874 |
| Opening balance adjustments | 2,435 | - | - | - | 2,435 |
| Adjusted balance 1 July 2014 | 2,951 | 249 | 109 | - | 3,309 |
| Additions | 623 | - | - | - | 623 |
| Disposals | - | - | - | - | - |
| Unexplained movements | - | - | - | - | - |
| Balance as at 30 June 2015 | 3,574 | 249 | 109 | - | 3,932 |
| Accumulated amortisation and impairment losses | | | | | |
| Balance as at 1 July 2014 | 298 | 249 | 109 | - | 656 |
| Opening balance adjustments | 1,873 | - | - | - | 1,873 |
| Adjusted accumulated balance 1 July 2014 | 2,171 | 249 | 109 | - | 2,529 |
| Amortisation expense | 255 | - | - | - | 255 |
| Accumulated amortisation on disposals | - | - | - | - | - |
| Balance as at 30 June 2015 | 2,426 | 249 | 109 | - | 2,784 |
| Carrying amount | 1,148 | - | - | - | 1,148 |
| As at 30 June 2015 | | | | | |
| Cost | | | | | |
| Balance as at 1 July 2015 | 3,574 | 249 | 109 | - | 3,932 |
| Opening balance adjustments | (474) | - | - | - | (474) |
| Adjusted balance 1 July 2015 | 3,100 | 249 | 109 | - | 3,458 |
| Additions | 811 | - | - | - | 811 |
| Disposals | 12 | - | - | - | 12 |
| Asset Transfers | - | - | - | - | - |
| Balance as at 30 June 2016 | 3,899 | 249 | 109 | - | 4,257 |
| Accumulated amortisation and impairment losses | | | | | |
| Balance as at 1 July 2015 | 2,426 | 249 | 109 | - | 2,784 |
| Opening balance adjustments | (423) | - | - | - | (423) |
| Adjusted accumulated balance 1 July 2015 | 2,003 | 249 | 109 | - | 2,361 |
| Amortisation expense | 463 | - | - | - | 463 |
| Accumulated amortisation on disposals | 13 | - | - | - | 13 |
| Balance as at 30 June 2016 | 2,493 | 249 | 109 | - | 2,851 |
| Carrying amount | 1,446 | - | - | - | 1,446 |
| As at 30 June 2016 | | | | | |



Notes to the Financial Statements (continued)
For the year ended 30 June 2016

Note 17: Investment Property

| | 2016 | 2015 |
|--------------------------------------|--------------|--------------|
| | \$000 | \$000 |
| Opening Balance 1 July | 5,918 | 6,036 |
| Additions | 7 | 94 |
| Disposals | - | - |
| Depreciation | (214) | (212) |
| Closing Balance as at 30 June | 5,711 | 5,918 |

Investment property includes buildings and premises owned by the Airport Authority, Ports Authority, and Cook Islands Property Corporation (NZ) Limited for which rental income is earned.

Note 18: 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:

- * Ministers 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

| | 2016 | 2015 |
|------------------------|---------|---------|
| Aggregate remuneration | 540,000 | 540,000 |
| Number of persons | 6 | 6 |

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

Other transactions with these related parties can include the employment of Minister's spouses, children and dependants by a Government entity, including ministerial offices, departments, Crown entities and State-owned enterprises, receipt 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 2016

| | 2016 | 2015 |
|--|---------------|---------------|
| | \$000 | \$000 |
| Note 19: Creditors and other payables | | |
| Creditors, accruals and provisions | 12,415 | 19,909 |
| Customer bonds | 876 | 806 |
| Provision for legal settlement | 1,557 | 2,458 |
| Members of Parliament pension liability | 1,286 | 1,583 |
| Taxation refunds payable | - | 1,140 |
| Other creditors and payables | 407 | 3,162 |
| Total creditors and other payables | 16,541 | 29,058 |
| Note 20: Employee entitlements | | |
| Current employee entitlements | | |
| Provision for annual leave | 3,536 | 4,762 |
| Total current employee entitlements | 3,536 | 4,762 |
| Note 21: Trustee liabilities | | |
| Aid funding liabilities | 19,473 | 15,315 |
| Land trust liability | 4,730 | 4,731 |
| Workers compensation liability | 1,530 | 1,526 |
| Law trust liability | 286 | 286 |
| Customs bond trust liability | 111 | 132 |
| Insurance trust liability | 38 | 37 |
| Other trust liabilities | 1,728 | 207 |
| Immigration trust liability | 41 | 40 |
| Total trustee liabilities | 27,937 | 22,274 |
| Trust Accounts | | |
| Aid trust accounts | 14,997 | 9,441 |
| Land trust account | 4,303 | 2,128 |
| Workers compensation account | 1,590 | 1,526 |
| Law trust account | 286 | 286 |
| Customs bond account | 111 | 132 |
| Insurance deposits account | 38 | 37 |
| Total trust accounts | 21,325 | 13,550 |

Aid funding liabilities

The Aid funding liabilities relates to aid funding received from donors which have not yet been expensed on approved aid projects.

Land trust liability

The land trust liability is held by the Ministry of Justice for the administration of a land trust account where payments are received from lessees and are paid to the land owners. Unclaimed deposits are held by the Crown.

Workers compensation liability

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.

These notes should be read in conjunction with the financial statements and policies

Notes to the Financial Statements (continued)
For the Year Ended 30 June 2016

| | 2016 | 2015 |
|--|---------------|---------------|
| Note 22: Banking customer deposits (held by the Bank of the Cook Islands) | | |
| Current customer deposits less than 12 months | 52,578 | 33,663 |
| Customer deposits between 12 to 24 months | 2,190 | 2,957 |
| Total banking customer deposits | 54,768 | 36,620 |

Banking customer deposits are held by the Bank of the Cook Islands yielding interest rates between 1.40% and 4.76% (2014: 1.40% and 4.76%), and are unsecured.

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

Note 23: Statement of specific fiscal risks (foreign currencies)

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

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

Ongoing risks to the Crown debt liability is the value of the NZD against major trading currencies. This has been mitigated by the set up of the Loan Repayment Fund Act 2014 legislated to quarantine funds aimed at covering debts and a buffer for exchange rate shocks.

| | 2016 | 2015 |
|-----------------------|--------|--------|
| Euros | 0.6262 | 0.6093 |
| United States dollars | 0.7034 | 0.6822 |
| Chinese Yuan | 4.6377 | 4.2346 |

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

Notes to the Financial Statements (continued)
For the Year Ended 30 June 2016

Note 24: Subsequent events

Te Mato Vai – Rarotonga water upgrade

The Cook Islands Government embarked on a multimillion dollar upgrade of the water supply system on Rarotonga, with the goal of “delivering potable water, reliably, to all properties connected to the existing water supply network”, originally by 2015. In order to achieve its target, the Cook Islands Government formed “Te Mato Vai” – the Cook Islands Water Partnership with the Governments of the People’s Republic of China and New Zealand. Funding for the Water Supply Upgrade has been provided through a combination of Cook Islands budget funding, a Chinese Government loan and grant assistance from New Zealand Government.

The project is divided into two stages – Stage 1 being the replacement of the ring main; Stage 2 being the refurbishment of intakes and provision of storage, filtration and trunk mains.

Stage 1 of the project is complete.

Stage 2 of the project is currently in progress and is expected to be completed in June 2020. Stage 2 will establish a new pipe network and significant upgrades to 10 of the islands’ 12 water intake sites, introducing new treatment and storage facilities to manage demand more effectively.

Current status of the project as at November 2019:

| | |
|---|-----------------------|
| New Zealand Aid | \$39.2 million |
| Chinese Government loan | \$27.8 million |
| Cook Islands Government | \$22.6 million |
| Total Budget for the project: | \$89.6 million |
| Percentage complete: | |
| Stage 1: Ring main replacement: | 100% |
| Stage 2: Upgrade of the 10 water intakes: | 80% |
| Total amount spent on project: | \$68.3 million |

Apex Agencies Limited (Toa Petroleum) profit guarantee final payment

The Apex Agencies Limited profit guarantee is a court ordered payment for a profit guarantee to Apex Agencies Limited in accordance with the terms of the legal settlement agreement. The agreement requires Government amongst other things to guarantee making up the balance if Apex Agencies’ profit falls below \$1.2 million per annum. The Government made the last and final payment in December 2017.

Manatua cable

In early April 2017, an agreement between the Governments of the Cook Islands, Niue, French Polynesia and Samoa was signed to facilitate the design, construction and operation and maintenance of a regional submarine cable system that will connect these countries. In October 2018, all four Consortium members signed a Construction and Maintenance Agreement and Supply Contract. The Supply Contract has been awarded to Tyco Electronics Subsea Communications LLC. The Supply Contract is for the design, manufacture, installation, integration, testing and commissioning of the Manatua Cable System and the provision of long term technical support and maintenance of the System.

Avarua Cable Limited is the Manatua Consortium member for the Cook Islands. The Government of New Zealand has granted NZ \$15.0 million to support the project, and a Grant Funding Agreement (GFA) was signed for the disbursement of the funds in April 2018. The Asian Development Bank has approved a loan allocation of up to US \$15.0 million, equivalent to NZ \$21.3 million. As of October 2018 a revised work plan has been put together which details key milestones to be achieved as part of the Manatua Submarine Cable project with budgeted costing and will be utilised as a guide for the release of funds from the GFA and the ADB Loan.

Current status of the project as at November 2019:

| | |
|---------------------------------------|-----------------------|
| New Zealand Aid | \$15.0 million |
| ADB Loan | \$21.3 million |
| Total Budget for the project: | \$36.3 million |
| Percentage complete: | 1% |
| Total amount spent on project: | \$0.4 million |

These notes should be read in conjunction with the financial statements and policies

Note 24: Subsequent events (continued)

Minimum wages and salary adjustment

In April 2014 the minimum wage in the Cook Islands was increased from \$5.00 an hour to \$6.00 an hour. This was further increased to \$6.25 in the 2015/16 financial year, \$7.00 in 2016/17 and \$7.25 in July 2018. The minimum wage rate was further increased to \$7.60 in July 2019.

Tereora College Redevelopment Project

The Tereora College redevelopment project was a gift from the New Zealand Government marking the Cook Islands 50 years of self governance. The construction contract was awarded to Landholdings Ltd and construction started in October 2016. The redevelopment of Tereora College responds to demands for modern and flexible infrastructure that will support innovative learning. The redevelopment plan involved three stages; Stage 1 being the technologies, student research and administration centres, Stage 2 being the academic centre and Stage 3 being the performing arts centre.

Current status of the project as at November 2019:

| | |
|---------------------------------------|----------------|
| New Zealand Aid | \$12.0 million |
| Total Budget for the project: | \$12.0 million |
| Percentage complete: | 100% |
| Total amount spent on project: | \$13.8 million |

Apii Nikao Rebuild

Apii Nikao School was destroyed by a fire in 2013.

The Chinese Government provided a grant to the Cook Islands for the Apii Nikao School rebuild.

China Civil Engineering Construction Corporation was awarded the construction contract in April 2017. Construction started in May 2017 and was completed a year later, May 2018

The rebuild project comprised of three classroom blocks covering approximately 5,200m². The buildings feature flexible learning spaces which include large learning areas for each grade and break-out spaces for individual or smaller group learning. These flexible spaces support innovative learning principles promoted in New Zealand schools.

Water tanks, solar panels for power generation, and a pillared-concrete fencing system have been installed to make the school more resilient to climate change and to reduce its carbon footprint.

Current status of the project as at November 2019:

| | |
|---------------------------------------|----------------|
| Chinese Aid | \$11.8 million |
| Total Budget for the project: | \$11.8 million |
| Percentage complete: | 100% |
| Total amount spent on project: | \$11.8 million |

Tax Amnesty

The Government granted a tax amnesty period from 1 August to 31 December 2017. This was later extended to 31 March 2018. The aim was to address the large amount of tax debt owed by taxpayers and reported in the Crown Statement of Financial Position. It was also to encourage individuals and businesses not registered for tax, to get registered.

The Tax Amnesty was a limited-time opportunity for all taxpayers to clear their outstanding tax or come to a working arrangement with the local tax authorities to repay all outstanding tax.

There were three ways to benefit from the Tax Amnesty;

1. A remission or write off of all additional tax owed.
2. A write off of any turnover tax still owing
3. A waiver from prosecution for any disclosure of evaded income and a 20% penalty only will be charged.

For the duration of the Amnesty, Government has experienced an increase in tax revenue collected implying that taxpayers are taking advantage of this opportunity. As at 30 June 2018, \$22.6 million in taxes due was forgiven and thus written off as a result of the tax amnesty initiative.

These notes should be read in conjunction with the financial statements and policies

Note 24: Subsequent events (continued)

Southern Group Renewable Energy Project

The Southern Group Renewable Energy Project is the second phase in the Cook Islands pursuit to delivering renewable energy to all islands by 2020 by building solar powered plants. The first phase was the Northern Group Renewable Energy Project which involved the following islands: Manihiki, Pukapuka & Nassau, Palmerston, Penrhyn and Rakahanga. The Southern Group Renewable Energy Project includes the following islands: Mauke, Mitiaro, Mangaia, Atiu, Aitutaki and Rarotonga.

The project is funded by the following parties; Asian Development Bank, European Union, Global Environment Fund and Green Climate Fund.

Current status of the project as at November 2019:

| | |
|---------------------------------------|-----------------------|
| Asian Development Bank | \$13.0 million |
| European Union | \$17.0 million |
| Global Environment Fund | \$12.1 million |
| Green Climate Fund | \$18.3 million |
| Total Budget for the project: | \$60.4 million |
| Percentage complete: | 99% |
| Total amount spent on project: | \$27.2 million |