



ANNUAL REPORT OF
THE GOVERNMENT OF THE COOK ISLANDS
FOR THE YEAR ENDED 30 JUNE 2013



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STATEMENT OF RESPONSIBILITY

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

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

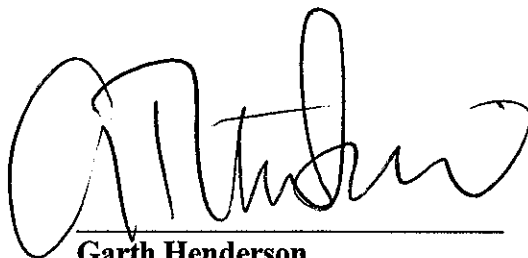
We have taken steps to satisfy ourselves that the financial statements fairly reflect the financial position, operations and cash flows of the Crown for the year ended 30 June 2013 and are consistent with the requirements of the Ministry of Finance and Economic Management Act 1995/96.

In our opinion, subject to the qualifications included within the Report of the Cook Islands Audit Office, these financial statements fairly reflect the financial position, operations and cash flows of the Crown for the year ended 30 June 2013.



Hon. Mark Brown
Minister of Finance

29 July 2016



Garth Henderson
Financial Secretary

29 July 2016



OVERVIEW

Introduction

These financial statements contain the audited results for the year ended 30 June 2013.

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

As the Appropriation Bill only covers ministries and entities funded by the Crown (and does not cover SOEs), there is not a comparative budget that can be included in these financial statements. However, the budgetary information that we have disclosed in the following pages is prepared on an accrual basis and is consistent with the Statement of Fiscal Responsibility included in the Supplementary Budget of 2012/13.

Financial Performance

The table below contains the audited results for the year ended 30 June 2013 and is compared against the budget and prior year audited actual results. The first column 'Crown' is the fully consolidated Government of the Cook Islands (including SOEs) and the second 'Approp' represents only the Ministries and entities funded through the budget appropriation (excluding SOEs).

The following tables and this commentary should be read in conjunction with the financial statements on pages 13 to 63.

Table 1 Statement of Financial Performance

Budget Approp 2013 \$000		Actual			
		Crown 2013 \$000	Approp 2013 \$000	Crown 2012 \$000	Approp 2012 \$000
Revenue and Expenses from Crown Funded Activities					
<i>Revenue</i>					
94,971	Taxation & levies	96,077	98,233	84,718	87,331
5,209	Provision of goods and services	40,049	7,112	39,381	7,039
11,047	Other	13,500	12,144	14,209	11,864
<u>111,227</u>		<u>149,626</u>	<u>117,489</u>	<u>138,308</u>	<u>106,234</u>
<i>Expenses (by functional classification)</i>					
13,276	Welfare and Grants	13,108	13,108	12,778	12,618
42,545	Wages, Salaries, and Employee Benefits	53,914	45,497	53,699	45,488
6,963	Depreciation and Amortisation Expenses	12,374	4,949	11,878	4,623
1,368	Finance Cost	2,445	967	3,129	631
-	Doubtful Debts	2	138	370	7
-	Net(Gain)/Loss on Foreign Exchange	(585)	(419)	1,057	-
-	Audit Fees	283	13	242	12
1,731	Private School Funding	1,716	1,716	1,625	1,625
12,300	Air NZ Subsidy	9,554	9,554	11,829	11,829
35,541	Other Operating Expenses	41,403	33,132	44,250	33,649
<u>113,724</u>		<u>134,214</u>	<u>108,655</u>	<u>140,857</u>	<u>110,482</u>
(2,496)	Net Surplus from Crown Funded Activities	15,412	8,834	(2,549)	(4,248)

Actual Appropriation Compared to Budget Appropriation

A net surplus from Crown funded activities of \$8.8 million at 30 June 2013 showed an increase of \$11.3 million on the 2012/13 budgeted appropriation.

Overall, revenue was \$6.3 million higher than the 2012/13 budget estimates while operating expenditure was lower by \$5.1 million.

Revenue

Taxation and levies revenue was higher than budget by \$3.3 million. This was mainly attributed to the higher than anticipated tax revenues, in particular VAT, company and custom levies.

VAT is a broad based consumption tax levied on all goods and services in the economy and is a fair indication of economic activity. Income tax are the taxes charged on the earnings of companies and individuals. The increase above the estimate budget in both tax types is an indication of increased commercial and economic activity resulting from higher visitor numbers.

Expenses

The decrease of 5.1 million of actual expenditure to the final appropriation was attributable to the following:

- lower than expected welfare payments of \$0.1 million as a result of fewer recipients – particularly old age and destitute benefits. These payments are required under legislation.
- lower depreciation as a result of lower than estimated asset transfers of completed projects from agencies.

Actual Appropriation Compared to Prior Year Expenditure

Revenue

Total Crown revenue of \$117.5 million was higher to previous year (2012). This was a result of a increase of Company Income tax \$8.4 million, Value Added tax of \$2.1 million and Custom Levies of \$4.1 million.

Table 2 Expenses by Output Type

Budget Approp 2013		Actual			
		Crown 2013	Approp 2013	Crown 2012	Approp 2012
	Welfare Benefits, Grants and Transfer Payments				
8,618	Old age benefits	8,268	8,268	8,174	8,080
763	Destitute and infirm benefits	696	696	761	752
180	Parliamentary superannuation benefits	591	591	217	38
1,119	Other Grants	1,046	1,046	691	847
<u>13,276</u>		<u>13,108</u>	<u>13,108</u>	<u>12,778</u>	<u>12,618</u>
	Personnel				
42,545	Salaries and wages	53,914	45,497	53,699	45,488
<u>42,545</u>		<u>53,914</u>	<u>45,497</u>	<u>53,699</u>	<u>45,488</u>
	Depreciation and Amortisation				
3,478	Depreciation on Infrastructure Assets	5,996	2,299	4,634	2,217
3,485	Depreciation on Property, Plant and Equipment	6,326	2,597	7,201	2,363
-	Amortisation on Intangible Assets	52	52	43	43
<u>6,963</u>		<u>12,374</u>	<u>4,948</u>	<u>11,878</u>	<u>4,623</u>
	Finance Costs				
1,368	Interest Expense on Foreign and Domestic Loans	2,445	967	3,129	631
<u>1,368</u>		<u>2,445</u>	<u>967</u>	<u>3,129</u>	<u>631</u>
49,573	Other Operating Expenditure	52,373	44,135	59,373	47,122
<u>113,724</u>	Total Expenses by Output Type	<u>134,214</u>	<u>108,655</u>	<u>140,857</u>	<u>110,482</u>

n/b - these expense categories were not separately classified within the 2012/13 budget.

Expenditure on Appropriation funded activities decreased from \$110.5 million to \$108.7 million on the previous year. This is due to a reduction in payments for Air NZ subsidy. Personnel payments, depreciation and finance costs remained relatively constant to the previous year.

Financial Position

Table 3 Statement of Financial Position

	Crown 2013 \$000	Crown 2012 \$000
Assets		
<i>Current assets</i>		
Cash and Term deposits	79,992	77,624
Trust accounts	10,103	14,831
Inventory	7,760	7,821
Debtors and receivables	28,733	27,932
Property Held for Sale	-	895
Investments	656	1,184
	<u>127,245</u>	<u>130,288</u>
<i>Non-current assets</i>		
Investments	5,583	5,046
Banking investment portfolio	37,991	31,806
Fixed and infrastructural assets	220,386	210,091
	<u>263,960</u>	<u>246,943</u>
Total Assets	<u>391,205</u>	<u>377,231</u>
Liabilities		
<i>Current liabilities</i>		
Creditors and payables	29,354	22,942
Employee entitlements	1,453	1,253
Trustee liabilities	16,899	20,870
Current portion of Banking customer deposits	23,213	22,493
Current portion of Borrowings	3,909	4,364
Customer bonds	732	710
Provision for legal settlement –Current	1,294	1,408
	<u>76,855</u>	<u>74,038</u>
<i>Non-current liabilities</i>		
Banking customer deposits	1,216	1,553
Employee entitlements	94	97
Members of Parliament pension liability	1,583	1,221
Borrowings	76,044	80,314
Provision for legal settlement –Term	3,327	4,765
	<u>82,264</u>	<u>87,952</u>
Total Liabilities	<u>159,120</u>	<u>161,990</u>
Crown Balance	<u>232,085</u>	<u>215,241</u>

Cash and Term Deposits

Cash and term deposits (excluding trust accounts) increased by \$2.4 million over the previous year, predominately due to an improved operating result. There was positive cash flow from operating activities of \$29.1 million however this was offset by the net cash outflows from financing activities of \$5.0 million and investing activities \$21.7 million. The Crown repaid \$5.4 million to various lenders during the year.

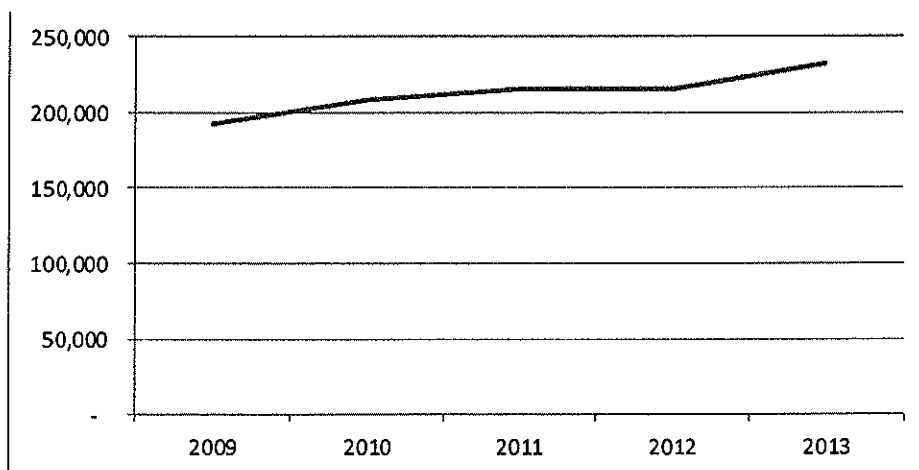
All components of the movements in cash are detailed in the Statement of Cash Flows.

Crown Balance

The Crown equity balance (sometimes referred to as Net Worth) has increased from \$215.2 million to \$232.1 million.

	Actual 2009	Actual 2010	Actual 2011	Actual 2012	Actual 2013
Property, Plant & Equipment	181,432	197,411	192,152	210,091	220,386
Financial Assets	101,716	114,357	123,706	126,341	128,743
Other Assets	29,511	29,520	40,045	40,799	42,076
Total Assets	312,659	341,288	355,903	377,231	391,205
Borrowings	68,127	77,910	70,998	84,678	79,953
Other liabilities	52,252	54,969	69,270	77,312	79,167
Total Liabilities	120,379	132,879	140,268	161,990	159,120
Net Worth	192,280	208,409	215,635	215,241	232,085

Chart 2 Crown Equity Balance Years 2009-2013



Inventory

Inventory balances remained unchanged from prior year of \$7.8 million in 2012/13.

Debtors and Receivables

The debtors and receivables balances increased from \$27.9 million to \$28.7 million. This was due to an increase of the recognition of tax accruals on a subsequent receipt basis from \$12.7 million in the previous year to \$14.7 million in 2012/13.

Investments

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

Banking Investment Portfolio

These are in relation to all loans provided by the Bank of the Cook Islands. The loan portfolio primarily comprises of housing, pearl, tourism and business development loans. Interest rates of 9.5% -16.50% (2012: of 9.5% -16.50%) are applicable on consumer loans.

Creditors and Payables

The Crown shows an increase in creditors and payables of \$6.4 million from \$22.9 million in 2012/13 to \$29.3 million this year. This was driven by an increase in the trade creditors, accruals and provisions.

Employee Entitlements

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

Borrowings

The Crown's borrowings decreased from \$84.7 million (including local domestic borrowings) to \$80.0 million as at 30 June 2013. Overall, debt of \$5.4 million was repaid during the year to various lenders and in addition to this there was a unrealised foreign exchange loss of \$0.7 million. These movements are detailed in the Statement of Borrowings pages 36-41.

Members of Parliament Pension Liability

Legislation was passed by Parliament in 2003 to incorporate the Members of Parliament pension scheme into the Cook Islands National Superannuation Fund. This liability follows a three year actuarial valuation period. The 2007 valuation was reviewed by Melville Jessup Weaver Limited, a New Zealand firm of actuaries to \$1.6 million as at 30 June 2013. The next valuation is scheduled for 30 June 2016.

Development Partner Funding

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

The financial statement disclosures on page 24 reflect the aid income and expenditure administered by the Aid Management Division (AMD) of the Ministry of Finance and Economic Management (MFEM) in addition to those development partner funds managed directly by other Government agencies. There was a surplus of \$1.4 million for 2012/13.



INDEPENDENT AUDITOR'S REPORT

TO THE FINANCIAL SECRETARY AND THE COOK ISLANDS GOVERNMENT

Report on the Cook Islands Government's Financial Statements

We have audited the accompanying financial statements of Cook Islands Government on pages 6 to 63. The financial statements comprise of the statement of financial position as at 30 June 2013, the statement of financial performance, the statement of changes in net assets/ equity, the statement of comparison of budgets and actuals, the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Financial Secretary's Responsibility for the Financial Statements

The Financial Secretary is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (IPSAS), and for such internal control as the Financial Secretary determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

We are the appointed auditor of Cook Islands Government under Article 71(1) of the Cook Islands Constitution

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAI) 1000 – 2999 series. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

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

Basis for Qualified Opinion

1. Property, plant and equipment, Infrastructure assets, Capital work in progress, Accumulated depreciation and Depreciation expense

Due to a lack of effective internal controls and insufficient reliable financial records, we were unable to confirm, or verify by alternate means, the valuation, existence and completeness of property plant and equipment, infrastructure assets and capital work in progress reported by the Cook Islands Government at \$98.8m, \$100.8m and \$20.3m respectively. Any misstatement of these carrying values would have a consequential effect on the related depreciation expense of \$12.4m.

2. Inventory

Due to a lack of effective internal controls and insufficient reliable inventory records held by Infrastructure Cook Islands, Ministry of Health and Cook Islands Pearl Authority, we were unable to verify the valuation and existence of inventory with a carrying value of \$1.7m out of total recorded inventory of \$7.5m.

3. Lease Commitments

The Cook Islands Government Property Corporation, a subsidiary of the Crown, has incomplete records relating to its future commitments on its land leases. Consequently, the Government of the Cook Islands's disclosure of lease commitments is incomplete. This is a departure from *IPSAS 13 Leases*, which requires full disclosure of all current and non-current lease commitments.

4. Other Expenses

We were unable to obtain reliable supporting documents to verify \$9.5m in consolidating journal entries to 'other expenses' account. The purpose of the journals were to align opening retained earnings to the closing retained earnings balance from prior year. As a consequence we were unable to confirm the occurrence and accuracy of the final reported other expenses balance for the year of \$49.5m.

5. Accounts payables

Due to the lack of relevant and reliable supporting documents to verify 'accounts payables' held by Infrastructure Cook Islands, we were unable to confirm the valuation and existence of the reported balance of \$1.0m. Consequently, accounts payables reported by the Cook Islands Government at \$4.6m was also qualified.

6. Sundry creditors and accruals


Due to the lack of relevant and reliable supporting documents to verify 'sundry creditors and accruals' held by Infrastructure Cook Islands, we were unable to confirm the valuation and



Qualified Opinion

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects the financial position of the Cook Islands Government as at 30 June 2013 and the financial performance and cash flows for the year then ended in accordance with International Public Sector Accounting Standards.

Our audit was completed on **29 July 2016** and our opinion is expressed as at that date.


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



Schedule of Crown Entities

Reporting Entity as at 30 June 2013

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

Table 5 Schedule of Crown Entities

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

BASIS OF PREPARATION

Reporting Entity

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

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

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

The primary objective of the Crown is to provide goods or services for the social benefit of all Cook Islands citizens and permanent residents living in the Cook Islands. The achievement of social responsibility is paramount to the making of a financial return.

Statement of Compliance

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

Measurement Base

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

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

Reporting Period

The reporting period is the year ended 30 June 2013. These financial statements were authorised for issue on, July 2016.

SIGNIFICANT ACCOUNTING POLICIES

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

Recent Standards

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

List of IPSASs Issued		Effective for periods beginning on or after	Crown accounting period
IPSAS 28	Financial Instruments: Presentation	January 1, 2013	2013-2014
IPSAS 29	Financial Instruments: Recognition & measurement	January 1, 2013	2013-2014
IPSAS 30	Financial Instruments: Disclosures	January 1, 2013	2013-2014

These new standards have been issued but are not effective for the Crown for the 2012/13 period.

Basis of Consolidation

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

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

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

Associate

The Crown's associate investment is accounted for in the group financial statements using the equity method. An associate is an entity over which the Crown has significant influence where the entity is neither a subsidiary nor an interest in a joint venture. Investment in an associate is initially recognised at cost and the carrying amount is increased or decreased to recognise the Crown's share of the surplus or deficit after the date of acquisition. When the Crown transacts with an associate, all surplus and deficits related to the Crown are eliminated. Distributions received from an associate reduce the carrying value of the investment in the Crown Financial Statements.

Revenue

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

Revenue Levied Through the Crown's Sovereign Power

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

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

Revenue Earned Through Operations

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

Interest Income

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

Fines

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

Investment Income

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

Gains

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

Dividends

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

Aid (Development Partner) Revenue

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

Expenses

General

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

Welfare Benefits

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

Grants and Subsidies

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

Losses

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

Borrowing Costs

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

Foreign Currencies

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

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

Aid Expenses

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

Depreciation

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

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

Office and computer equipment	3 – 4 years
Motor vehicles	5 years
Furniture and fittings	4 – 10 years
Plant and Equipment	5 - 15years
Buildings and improvements	10 - 40 years
Coastal protection	25 years
Power distribution network	20 years
Road network	30 years
Water network	15 years
Airport runways	15 – 100 years
Harbour and ports structures	10 – 20 years
Waste management facilities	15 years
Plant and Equipment Tools	4 – 5 years
Marine Equipment	5 years
Leased Land and Leasehold improvements	Term of the lease
Specialised Buildings and Other Buildings	15 years

Non-Current Assets

Plant, Property, and Equipment

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

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

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

Disposals

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

Impairment

If the estimated recoverable amount of a cash generating asset or estimated recoverable service amount for a non-cash generating asset is less than its carrying amount, the asset is written down to lower amount and an impairment loss is recognised in the Statement of Financial Performance.

Additions

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

Work in Progress

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

Infrastructure Assets

Infrastructure assets are recorded at cost less accumulated depreciation.

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

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

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

Intangible Assets

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

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

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

Intangible Assets (continued)

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

Software, databases	3 - 5 years
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Cash and Cash Equivalents

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

Receivables and Advances including Debtors and Other Receivables

Receivables and advances are initially recorded at fair value.

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

Tax receivables have been calculated on a subsequent receipt basis. All tax revenue received in the years subsequent to 30 June 2013 have been disclosed as tax receivables at year end.

Inventories

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

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

Investments

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

Banking portfolio investments

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

Provision for doubtful debts

Provision is made for taxation debt where recovery is considered doubtful.

Provision is made for banking portfolio Investments (specific loans) where recovery is considered doubtful or they have become non-performing. The accounting policy relating to measuring the impairment of loans and advances requires the Bank to assess impairment at least at each reporting date. The credit provisions raised represent management's best estimate of the losses incurred in the loan portfolio at balance date based on their experienced judgement and in accordance with the Financial Supervisory Commission's (FSC) guidelines. The use of such judgements and reasonable estimates is considered by management to be an essential part of the process and does not impact on reliability. Management regularly reviews and adjusts the estimates and methodologies as improved analysis becomes available. Changes in these assumptions and methodologies could have a direct impact on the level of provision and impairment. There is no general provision against banking portfolio Investments.

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

Aid (Development Partner) Assets

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

Liabilities

Borrowings

Borrowing liabilities are accounted for at amortised cost on the Statement of Financial Position. Changes accounting for foreign currency movements 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 actuarial value of the Crown's liability for pension payments. There are no pension liabilities accruing to the Crown as a result of Government employees' membership of the Government Superannuation Fund (New Zealand).

Employee Entitlements

These include annual leave earned but not yet taken at balance date and long service (bonus) leave. Long service bonus is paid out on the completion of three years continuous service within the Government. The bonus is equivalent to a fortnight pay of the employee and is provided for on a pro-rata basis in the statements of financial position. Annual leave and long service leave are

Employee Entitlements (continued)

expected to be settled within 12 months of balance date, are classified as current liability. All other employee entitlements are classified as a non-current liability.

Other Liabilities

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

Aid Liabilities

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

Cash Flow

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

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

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

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

The direct cash flow method has been applied.

Leases

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

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

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

Commitments

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

Contingent Liabilities

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

Changes in Accounting Policies

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

Statement of Financial Performance

As at 30 June 2013

	Note	2013 \$000	2012 \$000
Crown Revenue and Expenses			
REVENUE			
Operating revenue			
Taxation	(1)	96,077	84,718
Fees, fines, penalties, and licenses	(2)	2,598	2,600
Total operating revenue		98,674	87,317
Other Crown revenue			
Investment income	(3)	4,717	5,371
Other Crown income	(4)	6,187	6,239
Total other Crown revenue		10,903	11,610
Provision of goods and services		40,049	39,381
Total Crown revenue		149,626	138,308
EXPENSES			
Personnel and employee benefits	(5)	53,913	53,699
Welfare and grants	(6)	13,108	12,778
Audit Fees		283	242
Impairment of Plant, Property, and Equipment / Inventory		2,940	224
Net (gain) / loss on foreign exchange		(585)	1,057
Provision for legal settlement TOA	(26)	(817)	(687)
Changes in provision for doubtful debts		2	370
Depreciation and amortisation	(7)	12,374	11,879
Finance costs	(8)	3,159	3,129
Other expenses	(9)	49,838	58,166
Total Crown-funded operating expenses		134,214	140,857
Total Crown surplus / (deficit) before aid funded activities		15,412	(2,549)
Aid (Development Partner) Funded Activities			
Aid (Development Partner) revenue	(10)	31,116	27,821
Aid (Development Partner) expenses	(10)	29,685	25,724
Net surplus from aid funded activities		1,431	2,097
Total Crown surplus / (deficit)		16,844	(452)

The accompanying notes are an integral part of these financial statement

Statement of Changes in Net Assets / Equity

For the Year Ended 30 June 2013

	General Reserves	Accumulated Surpluses / (Deficits)	Total Net Assets / Equity
	\$000	\$000	\$000
Balance at 30 June, 2012 brought forward	1,958	213,284	215,241
Changes in net assets / equity for 2013:			
Net surplus / (deficit) for the year	-	16,844	16,844
Total recognised revenue and expense for the year	-	16,844	16,844
Balance as at 30 June, 2013 carried forward	1,958	230,128	232,085
Balance at 30 June, 2011 brought forward	1,958	213,678	215,635
Changes in accounting polices/ prior period errors	-	58	58
Restated Balance	1,958	213,736	215,693
Changes in net assets / equity for 2012:			
Net surplus / (deficit) for the year	-	(452)	(452)
Total recognised revenue and expense for the year	-	(452)	(452)
Revaluation Reserves	-	-	-
Balance as at 30 June, 2012 carried forward	1,958	213,284	215,241

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

The accompanying notes are an integral part of these financial statement

Statement of Financial Position

As at 30 June 2013

	Note	2013 \$000	2012 \$000
Assets			
Current assets			
Cash	(11)	21,358	26,830
Term deposits	(11)	58,634	50,794
Trust accounts	(11)	10,103	14,831
Inventory	(12)	7,760	7,821
Debtors and other receivables	(13)	28,733	27,932
Property Held for Sale	(13)	-	896
Current portion of banking portfolio investments	(15)	656	1,184
		<u>127,245</u>	<u>130,288</u>
Non-current assets			
Investments in shares and associate	(14)	5,583	5,046
Banking portfolio investments	(15)	37,991	31,806
Plant, property, and equipment	(16)	117,261	135,640
Intangible assets	(17)	453	365
Infrastructural assets	(18)	102,672	74,086
		<u>263,960</u>	<u>246,943</u>
Total Assets		391,205	377,231
Liabilities			
Current liabilities			
Creditors and other payables	(20)	29,354	22,942
Employee entitlements	(21)	1,453	1,253
Trustee liabilities	(22)	16,899	20,870
Current portion of banking customer deposits	(23)	23,213	22,493
Current portion of borrowings		3,909	4,364
Customer bonds		732	710
Provision for legal settlement TOA-Current	(26)	1,294	1,408
		<u>76,855</u>	<u>74,038</u>
Non-current liabilities			
Non-current portion of banking customer deposits	(23)	1,216	1,553
Employee entitlements	(21)	94	97
Members of Parliament pension liability	(25)	1,583	1,221
Non-current portion of borrowings		76,044	80,314
Provision for legal settlement TOA-Term	(26)	3,327	4,765
		<u>82,264</u>	<u>87,952</u>
Total Liabilities		159,120	161,990
Net Assets		232,085	215,241
Crown Balance		232,085	215,241

The accompanying notes are an integral part of these financial statement

Statement of Cash Flows

For the Year Ended 30 June 2013

	Note	2013 \$000	2012 \$000
Cash Flows From Operating Activities			
Cash was provided from:			
Taxation		94,691	88,887
Compulsory Fees, Fines and Levies		2,598	2,600
Provision of Goods and Services		39,604	34,517
Other Crown activities		5,267	4,974
Interest on advances and bank funds		(18)	161
Net Aid Receipt		1,431	2,097
Income from Associates		1,395	1,601
		<u>144,966</u>	<u>134,836</u>
Cash was applied to:			
Produce outputs			
- Social welfare benefits and education grants		12,516	12,562
- Parliamentary superannuation		591	217
- Personnel		53,632	53,918
- Banking Portfolio Investments		5,657	2,514
- Other supplier payments		45,225	55,074
		<u>117,623</u>	<u>124,284</u>
Realised foreign exchange gain/(loss)		(1,251)	(249)
Debt servicing		(461)	3,206
		<u>115,910</u>	<u>127,241</u>
Net Cash Inflows / (Outflows) From Operating Activities		29,057	7,596
Cash Flows From Investing Activities			
Cash was provided from:			
Proceeds from sale of fixed assets		100,296	514
Interest received from investments		3,151	4,027
		<u>103,447</u>	<u>4,541</u>
Cash was applied to:			
Purchase of fixed assets		125,904	30,498
Net increase in trustee accounts		(756)	(5,332)
		<u>125,148</u>	<u>25,166</u>
Net Cash Inflows/(Outflows) From Investing Activities		(21,701)	(20,625)

The accompanying notes are an integral part of these financial statements

Statement of Cash Flows (continued)

For the Year Ended 30 June 2013

	Note	2013 \$000	2012 \$000
Cash Flows From Financing Activities			
Cash was provided from:			
Drawdown of loans		-	14,942
Inflow to client deposit accounts		384	(388)
Customs bonds received		21	34
		<u>405</u>	<u>14,588</u>
Cash was applied to:			
Loan repayments			
- Locally-sourced debt		2,333	422
- Foreign-sourced debt		3,057	2,146
		<u>5,390</u>	<u>2,568</u>
Net Cash Inflows/(Outflows) From Financing Activities		(4,986)	12,020
Net increase in cash held		2,370	(1,010)
Add opening cash and deposits		77,624	78,634
Closing Cash and Deposits		79,993	77,624
Cash and Deposits Comprise			
Cash	(11)	21,358	26,830
Short term deposits	(11)	58,634	50,794
Closing Cash and Deposits		79,993	77,624

The accompanying notes are an integral part of these financial statements

Statement of Cash Flows (continued)

For the Year Ended 30 June 2013

	Note	2013 \$000	2012 \$000
Reconciliation of Crown Overall Operating Balance to Cash Flows From Operations			
Crown Overall Operating Balance		16,844	(452)
		16,844	(452)
Add / (less) non cash items			
- Depreciation		12,374	11,879
- Diminution of the value of fixed assets			
- Change in Provision for doubtful debts		164	(90)
- Impairment on PPE		2,940	224
- Unrealised Foreign Exchange Movement		(666)	1,057
- Prior Year Adjustment		9,383	(4,996)
- Asset Revaluation		-	(58)
		24,195	8,016
Add / (less) movements in working capital			
- (increase) / decrease in taxes receivable		(1,966)	4,830
- (increase) / decrease in accounts receivable		3,007	(4,493)
- (increase) / decrease in dividend receivable		(171)	257
- (increase) / decrease in interest receivable		(18)	161
- (increase) / decrease in prepayments		(1,816)	(370)
- (increase) / decrease in inventory		61	(888)
- (increase) / decrease in other current assets		(4,761)	(896)
- increase / (decrease) in amounts due to employees		(281)	219
- increase / (decrease) in interest accrued		(464)	78
- increase / (decrease) in tax refund liability		416	(571)
- increase / (decrease) in customer deposits		(405)	354
- increase / (decrease) in banking portfolio investments		(5,657)	(2,514)
- increase / (decrease) in creditors		5,813	5,057
- increase / (decrease) in investments in shares and associates		537	164
- increase / (decrease) in provision for legal settlement TOA		(1,552)	(1,357)
- increase / (decrease) in foreign borrowings		(4,725)	-
		(11,982)	32
Net Cash Inflows/(Outflows) from Operating Activities		29,057	7,596

The accompanying notes are an integral part of these financial statements

Statement of Comparison of Budget and Actual (continued)

	2012/13 Budget Original	2012/13 Budget Final	2012/13 Crown Actual
	\$000	\$000	\$000
<u>Operating Revenue</u>			
Taxation Revenue	94,871	94,971	98,233
Other Crown Revenue	6,601	6,780	8,401
Trading Revenue	5,209	5,209	7,112
Interest on Loans to Subsidiaries	203	203	-
Dividends	2,100	2,240	2,060
Interest on Balances	1,824	1,824	2,053
Total Operating Revenue	110,808	111,227	117,859
<u>Operating Expenditure</u>			
Ministry Outputs	61,497	61,533	64,831
Personnel	42,545	42,545	43,525
Operating	15,467	15,503	18,573
Depreciation	3,485	3,485	2,733
Payments on Behalf of the Crown (for Operating Expenses)	43,182	42,389	37,945
Airport Authority	1,704	1,704	2,495
Airport Authority- OI Airport Upgrades- Feasibility Studies	206	206	-
Airport Authority- Upgrade Government VIP Lounge	330	330	-
Bank of the Cook Islands	181	181	180
Ports Authority - Infrastructure	200	200	-
Te Aponga Uira	350	350	29
Debt Servicing Interest	993	1,368	967
Building Maintenance	1,800	1,800	1,800
Crown Infrastructure Depreciation	3,478	3,478	2,209
Disaster/ Contingency Operating Expenses	100	184	164
Total Operating Expenses	114,021	113,723	110,619
Fiscal Operating Surplus/(Shortfall)	(3,213)	(2,496)	7,240

The budget and the accounting bases differ. The financial statements for the whole of government are prepared on the accrual basis using a classification based on nature of expenses in the statement of financial performance. The financial statements are consolidated statements that include all controlled entities, including State Owned Enterprises for the fiscal period 1 July 2012 to 30 June 2013. The financial statements differ from the budget which deals only with the general government sector which excludes government business enterprises and certain other non-market government entities.

Statement of Comparison of Budget and Actual (continued)

The original budget was approved by legislative action on 1 July 2012 and a Supplementary appropriation was approved on 20th February, 2013. The Appropriation Amendment Bill amended the 30th June, 2013 budget from \$179 million to \$190 million. A significant change in this appropriation relates to expenditure of Chinese loans.

The comparison of budget to actual on page 32 relates to those entities that are listed on Schedule 1(a) and 1(b) of the supplementary budget issued on 20 February 2013. The actual expenditure/ trading revenue of those entities have been taken from the audited financial statements of those respective entities at 30 June 2013.

Statement of Comparison of Budget and Actuals (continued)

For the year ended 30 June 2013

	2012/13 Net Appropriation Budget Original \$000	2012/13 Net Appropriation Budget Final \$000	2012/13 Net Expenditure Actual \$000	2012/13 Trading Revenue Actual \$000
Agriculture	878	878	852	61
Audit (PERCA)	1,023	1,023	887	4
Crown Law	615	615	604	1
Cultural Development	862	862	783	177
Business Trade Investment Board	679	679	655	-
Education	9,957	9,957	9,882	-
Environment (Tu'anga Taporoporo)	1,025	1,025	945	23
Finance and Economic Management	3,070	3,090	3,310	711
Financial Intelligent Unit	-	-	-	-
Financial Services Development Authority	433	433	446	-
Foreign Affairs and Immigration	1,629	1,645	1,671	12
Head of State	210	210	190	-
Health	10,092	10,092	9,903	404
Human Resource Development	-	-	-	-
Internal Affairs	1,147	1,147	1,102	4
Justice	1,875	1,875	1,997	497
Marine Resources	1,265	1,265	1,242	15
Ombudsman	239	239	239	-
Parliamentary Services	599	599	625	7
Pearl Authority	482	482	626	-
Police	3,589	3,589	3,395	83
Prime Ministers Office	1,116	1,116	1,108	-
Public Service Commission	419	419	410	-
Transport	676	676	650	33
Tourism Corporation	4,179	4,179	3,993	270
Infrastructure and Planning	2,444	2,444	2,564	233
Aitutaki	1,518	1,518	1,432	54
Aitutaki Power Supply	2,213	2,213	2,146	1,908
Atiu	1,194	1,194	1,231	301
Mangaia	1,557	1,557	1,592	405
Manihiki	822	822	1,022	250
Mauke	933	933	950	104
Mitiaro	577	577	547	65
Palmerston	349	349	366	24
Penrhyn	593	593	565	54
Pukapuka-Nassau	966	966	1,005	56
Rakahanga	481	481	461	34
Prime Minister's Support Office	375	375	384	-
Deputy Prime Minister's Office	310	310	281	-
Minister 1	285	285	284	-
Minister 2	205	205	193	-
Minister 3	205	205	205	-
Minister 4	205	205	192	-
Office of the Leader of the Opposition	205	205	188	-
Appropriation	61,497	61,533	61,123	5,789

Statement of Segments

As at 30 June 2013

	Crown Parent		Crown Entities		Stated Owned Enterprises		Inter-Segment Eliminations		Total Government	
	2013 \$000	2012 \$000	2013 \$000	2012 \$000	2013 \$000	2012 \$000	2013 \$000	2012 \$000	2013 \$000	2012 \$000
Revenue										
Taxation revenue	98,233	87,331	-	-	-	-	(2,156)	(2,613)	96,077	84,718
Revenue from Crown funding	-	-	58,989	61,631	4,124	3,175	(63,113)	(64,806)	-	-
Sales of goods and services	17	272	7,222	6,883	34,008	33,889	(1,198)	(1,663)	40,049	39,381
Interest revenue and dividends	4,112	4,670	31	58	1,067	1,228	(2,060)	(1,930)	3,151	4,027
Other revenue	25,909	23,320	13,390	10,881	4,546	2,900	(1,554)	(135)	42,290	36,966
Total Revenue	128,271	115,593	79,632	79,453	43,744	41,192	(70,080)	(71,146)	181,567	165,092
Expenses										
Transfer payments and subsidies	66,273	67,979	-	-	-	-	(64,384)	(67,979)	1,889	-
Personnel expenses	1,108	19	44,390	45,469	8,417	8,211	-	-	53,914	53,699
Welfare and grants	13,118	12,629	-	-	-	-	-	-	13,118	12,629
Interest expenses	967	631	18	15	1,478	1,759	-	(24)	2,462	2,381
Depreciation expenses	2,209	2,033	2,740	2,590	7,425	7,054	-	201	12,374	11,879
Other operating expenses	46,571	48,082	28,797	27,597	24,864	20,082	(19,266)	(10,806)	80,966	84,956
Total Expenses	130,245	131,373	75,945	75,672	42,184	37,106	(83,651)	(78,608)	164,723	165,544
Operating Balance	(1,974)	(15,781)	3,687	3,781	1,560	4,086	13,571	7,462	16,844	(452)
Assets										
Cash and equivalents	62,373	61,432	12,157	11,600	36,349	33,231	(20,783)	(13,808)	90,096	92,455
Debtors and other receivables	22,274	20,348	4,490	4,683	5,760	6,687	(3,791)	(4,042)	28,733	27,676
Property, plant and equipment	12,694	14,818	36,659	30,840	176,502	173,138	(11,597)	(13,323)	214,258	205,473
Other assets	47,300	47,515	27,931	23,534	56,741	49,694	(73,854)	(69,116)	58,118	51,627
Total Assets	144,640	144,113	81,238	70,657	275,352	262,750	(110,025)	(100,288)	391,205	377,231
Liabilities										
Creditors and other payables	14,548	10,472	8,004	5,561	4,840	8,448	7,630	(191)	35,022	24,291
Borrowings	76,396	78,787	-	-	26,763	23,585	(23,205)	(17,694)	79,953	84,679
Banking customer deposits	-	-	-	-	34,123	32,378	(9,694)	(8,332)	24,429	24,046
Other liabilities	41,146	40,664	38,861	36,903	24,302	18,454	(84,593)	(67,045)	19,715	28,975
Total Liabilities	132,090	129,923	46,865	42,464	90,027	82,865	(109,861)	(93,262)	159,120	161,990
Net Worth	12,551	14,189	34,373	28,194	185,325	179,885	(164)	(7,026)	232,085	215,241

The accompanying notes are an integral part of these financial statements



Statement of Commitments

As at 30 June 2013

	2013	2012
	\$000	\$000
By Type		
Lease commitments (excluding CIG Property Corporation)	1,437	1,289
Undisbursed bank loan facilities (Bank of the Cook Islands)	1,575	1,216
Capital Expenditure-Crown Parent	-	-
Capital Expenditure	24,200	24,200
Total Quantifiable Commitments	27,212	26,705
Lease Commitments by Term		
One year or less	100	57
From one to two years	100	57
From two to five years	232	172
Over five years	25,205	25,203
Total Lease Commitments (excluding CIG Property Corporation)	25,637	25,489

Lease Commitments

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

Undisbursed Bank Loan Facilities

Bank of the Cook Islands (BCI) has committed to lending a number of loans in the future that has not yet been drawn down. As at 30 June 2013, these undrawn loans totaled \$1,575,154 (2012: \$1,215,905).

Capital and Operating Expenditure

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

There was no funds committed for future capital expenditure as at 30 June 2013 (2012: Nil)

There are no other financial or contractual commitments at balance date (2012: Nil)

The accompanying notes are an integral part of these financial statements

Statement of Contingent Liabilities

As at 30 June 2013

	2013	2012
	\$000	\$000
Uncalled Capital - Asian Development Bank	1,526	1,510
Legal proceedings	1,425	1,332
Total Quantifiable Contingent Liabilities	2,951	2,842

Uncalled Capital

Asian Development Bank – Cook Islands Property Corporation owns 88 uncalled shares with a par value of US\$13,500 each. Using the USD rate of 0.7785, this equates to \$1,526,012 in NZD (2012: \$1,510,297 at 0.7866).

Legal Proceedings

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

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

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

The accompanying notes are an integral part of these financial statements

Statement of Borrowings

As at 30 June 2013

	Note	2013 \$000	2012 \$000
External Debt			
Asian Development Bank		58,582	60,264
Caisse Francaise de Developpement		3,323	3,714
NZ Government Superannuation Fund		439	1,359
Export -Import Bank of China		14,051	13,450
Total External Debt		76,395	78,787
Local Debt			
Westpac Banking Corporation		3,558	5,891
Total Local Debt		3,558	5,891
Total Borrowings		79,953	84,678

The accompanying notes are an integral part of these financial statements

Statement of Borrowings (continued)

As at 30 June 2013

	2013	2012
	\$000	\$000

The terms of the component loans of external debts are:

Asian Development Bank		
Economic restructuring loan (1996) - 1466	5,273	5,387
First multi project loan (1980) - 461	766	867
Second multi project loan (1987) - 849	2,242	2,393
First Cook Islands Development Bank project loan (1982) - 567	674	747
Second Cook Islands Development Bank loan (1992) - 1155	1,294	1,362
Third Cook Islands Development Bank loan (1996) - 1380	2,388	2,441
Outer Islands telecommunications project loan (1990) - 1031	5,172	5,460
Education development (1994) - 1317	2,887	2,953
Waste Management loan (2001 - 2005) - 1832	2,548	2,672
Cyclone Rehabilitation Project loan (1997) - 1588	883	892
Cyclone Emergency Assistance loan (2006) - 2174	3,430	3,425
TCI Emergency Loan (1992) - 1171	445	467
Pearl Loan (1994) - 1309	474	485
(SF) Avatiu Ports Development Loan (2009) - 2473	7,740	7,364
(OCF) Avatiu Ports Development Project Loan (2009) - 2472	10,058	10,636
(SF) Economic Recovery Support Program Loan (2010) - 2565	12,310	12,713
	58,582	60,264
<ul style="list-style-type: none"> - Repayable over 40 years from date of initial drawdown (year of initial drawdown beside each loan) - All loans have an interest rate of 1% - Loans totalling \$17.5 million up to and including 1992 are secured by New Zealand Government guarantee, loans issued after this date are unsecured 		

Caisse Francaise de Development		
Northern Group Solarisation Project Loan (1999)	338	377
Rarotonga Water Supply & Electrification Loan (1999)	2,986	3,337
	3,323	3,714
<ul style="list-style-type: none"> - Repayable over 12 years from date of initial drawdown - All Loans have an interest rate of 0.75% and 1.75% respectively 		

Export-Import Bank of China		
Indoor Sports Stadium Project, Repairs and Upgrade of Existing Sports Facilities,	14,051	13,450
	14,051	13,450
<ul style="list-style-type: none"> - Repayable over 20 years from date of initial drawdown - Loans have an interest rate of 2%, Management Fee of 1% and a Commitment Fee of 0.75% 		

The accompanying notes are an integral part of these financial statement

Statement of Borrowings (continued)

As at 30 June 2013

	2013	2012
	\$000	\$000

The terms of the component loans of external debts are:

NZ Government Superannuation Fund		
- Repayable over 15 years from 1998	439	1,359
- Interest rate of 3%		
- Unsecured		

ANZ Bank Loan	3,558	5,891
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The Airport Authority borrowed from ANZ Bank the amount of \$8.1 million to refinance its loan held with the Westpac Bank and to assist with capital expenditure programs. The loan was not fully drawn at balance date.

The ANZ Bank loan has a 5 year term and a variable interest rate is applicable at 5.99% per annum. The loan is repayable by monthly instalments of \$68,309 which is inclusive of interest and is based on a 15 year amortisation term with ballon payment in financial years 2015/16 and 2016/17.

The accompanying notes are an integral part of these financial statements

Statement of Borrowings (continued)

As at 30 June 2013

Maturity Profile as at 30 June 2013

	2013/14	2014/15	2015/16	2016/17	2017/18 - 2021/22	2022/23 and after	Total book value
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
External Debt							
Asian Development Bank	2,047	2,086	2,231	3,821	19,361	29,035	58,582
Caisse Francaise de Development	915	915	915	578	-	-	3,323
NZ Government Superannuation Fund	439	-	-	-	-	-	439
EXIM Bank China Concessional Loan	-	-	544	544	2,720	10,243	14,051
Total External Debt	3,401	3,001	3,690	4,943	22,081	39,278	76,395
Local Debt							
ANZ Banking Group Limited	508	540	1,180	1,330	-	-	3,558
Total Local Debt	508	540	1,180	1,330	-	-	3,558
Total Borrowings	3,909	3,541	4,870	6,273	22,081	39,278	79,953

Maturity Profile as at 30 June 2012

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

The accompanying notes are an integral part of these financial statements

Statement of Borrowings (continued)

As at 30 June 2013

Movements during the year ended 30 June 2013

	As at 1 July 2012	Increases / additions	Decreases / repayments	Currency realignment	As at 30 June 2013
External Debt	\$000	\$000	\$000	\$000	\$000
Asian Development Bank	60,264	-	(1,574)	(108)	58,582
Caisse Francaise de Development	3,714	-	(564)	173	3,323
NZ Government Superannuation Fund	1,359	-	(920)	-	439
EXIM Bank China Concessional Loan	13,450	-	-	601	14,051
Total External Debt	78,787	-	(3,057)	666	76,395
Local Debt					
ANZ Banking Group Limited	5,891	-	(2,333)	-	3,558
Total Local Debt	5,891	-	(2,333)	-	3,558
Total Borrowings	84,678	-	(5,390)	666	79,953

Movements during the year ended 30 June 2012

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

The accompanying notes are an integral part of these financial statements

Statement of Borrowings (continued)

As at 30 June 2013

Currency Analysis as at 30 June 2013

	Currency in which loan denominated/repayable				Total
	United States dollars	Euros	New Zealand dollars	Chinese Yuan	
	\$000	\$000	\$000	\$000	\$000
External Debt					
Asian Development Bank	58,582	-	-	-	58,582
Caisse Francaise de Development	-	3,323	-	-	3,323
NZ Government Superannuation Fund	-	-	439	-	439
EXIM Bank China Concessional Loan	-	-	-	14,051	14,051
Total External Debt	58,582	3,323	439	14,051	76,395
Local Debt					
ANZ Banking Group Limited	-	-	3,558	-	3,558
Total Local Debt	-	-	3,558	-	3,558
Total Borrowings	58,582	3,323	3,997	14,051	79,953

Currency Analysis as at 30 June 2012

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

The accompanying notes are an integral part of these financial statements

Notes to the Financial Statements

As at 30 June 2013

	2013 \$000	2012 \$000
Note 1: Taxation		
Direct Taxation		
Individual income tax	21,618	23,269
Company income tax	13,832	5,482
Total Direct Taxation	35,450	28,751
Indirect Taxation		
Value added tax	37,038	34,975
Customs levies	15,459	11,391
Departure tax	6,007	6,238
Withholding Tax	2,122	3,363
Total Indirect Taxation	60,626	55,967
Total Taxation	96,077	84,718

Note 2: Fees, Fines, Penalties, and Licenses

Registration fees	1,153	1,137
Road transport licensing	1,335	1,382
Court fines	77	45
Other fees, fines and levies	34	36
Total Compulsory Fees, Fines and Levies	2,598	2,600

Note 3: Investment Income

Interest on bank deposits	3,151	4,027
Equity accounted earnings of Associate (see Note 14)	1,566	1,344
Total Investment Income	4,717	5,371

Note 4: Other Crown Income

Currency and numismatic revenue	400	439
Fisheries licenses	4,877	4,363
Tattslotto Income	163	158
Net Gain on disposal of assets	508	35
Other	239	1,244
Total Other Crown Income	6,187	6,239

Notes to the Financial Statements (continued)

As at 30 June 2013

	2013	2012
	\$000	\$000

Note 5: Personnel Expenses

Wages and salaries	53,913	53,699
Total Personnel Expenses	53,913	53,699

Note 6: Welfare and Grants

Old age benefits	8,365	8,174
Child benefits	2,537	2,935
Destitute and infirm benefits	705	761
Special assistance benefits	544	284
Power subsidies	80	124
Parliamentary pension beneficiary payments	591	217
Student grants	285	283
Total Welfare and Grants	13,108	12,778

Note 7: Depreciation and Amortisation

Depreciation on infrastructure assets	5,996	4,635
Depreciation on plant, property, and equipment	6,331	7,201
Amortisation on intangible assets	47	43
Total Depreciation and Amortisation	12,374	11,879

Note 8: Finance Costs

Interest expenses on foreign-sourced loans	967	629
Interest expenses on domestic loans	1,478	1,736
TOA interest expenses (note 26)	714	763
Total Finance Costs	3,159	3,129

Notes to the Financial Statements (continued)

As at 30 June 2013

	2013	2012
	\$000	\$000
Note 9: Other Expenses		
Private school funding	1,716	1,625
Air New Zealand Underwrite	9,554	11,829
Fuel and oil	13,267	13,728
Communications	873	918
Repairs and maintenance	6,985	3,848
Office supplies and consumables	1,056	970
Professional services	1,351	1,085
Travel	1,480	1,876
Advertising and marketing	1,413	2,457
Insurance	1,024	975
Tertiary Training Institutions	439	474
National Superannuation Fund	313	298
Community Cleaning Program (Vaka Maintenance)	449	449
Medical and hospital expenses	915	1,255
Cyclone Recovery	-	445
Outer Island Tourism Marketing	2,000	2,040
International Subscriptions	515	529
Rentals and operating lease costs	92	187
Other expenses	6,396	13,178
Total Other Expenses	49,838	58,166

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2013

	2013	2012
	\$000	\$000

Note 10: Aid (Development Partner) Funded Activities

Aid (Development Partner) Contributions

New Zealand Aid	23,820	23,003
European Union Assistance	91	204
United Nations Aid Assistance	1,369	1,191
Other Aid Assistance	5,835	3,423
Total Donor Aid Contributions	31,116	27,821

Aid (Development Partner) Expenses

Public sector reform	810	15
Private sector development	253	-
Human Resource development	4,150	3,070
Outer Islands development	1,760	1,392
Health development	2,400	2,256
Education Development	2,875	1,985
Tourism Development	7,538	3,349
Water and Sanitation	2,294	-
Other Aid Expenses	7,604	13,658
Total Aid Expenses	29,685	25,724

Funds received from various development partners are treated as trustee liabilities until expended on approved projects at which stage the funding is included within the Statement of Financial Performance as Crown income.

Development partner funded expenditure of a capital nature is accounted for as property, plant and equipment within the Crown's Statement of Financial Position. Other expenditure funded through aid is included within the Statement of Financial Performance. In many cases, the various development partners expend the aid funding direct with suppliers of goods and services. The treatment of this spending within the Crown's financial statements is consistent with funding received and expended by the Crown.

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2013

	2013 \$000	2012 \$000
Note 11: Cash and Equivalents		
Cash		
Crown entities accounts	14,648	20,976
Crown public accounts		
Australia and New Zealand Banking Group Limited	1,218	1,311
Westpac Banking Corporation	4,757	4,255
Taxation imprest accounts	355	222
Other Bank accounts	380	66
Total Cash	21,358	26,830

Term Deposits		
Loan repayment reserves	1,152	1,115
Crown public account term deposits	34,040	29,696
Crown entities term deposits	23,442	19,983
Total Term Deposits	58,634	50,794

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

Trust Accounts		
Customs bond account	132	261
Workers compensation account	1,370	1,303
Insurance deposits account	35	33
Law Trust account	286	281
Land Trust deposits	1,356	1,313
General Aid accounts	4,210	10,931
Other Trust Fund	2,715	708
Total Trust Accounts	10,103	14,831

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2013

	2013	2012
	\$000	\$000
Note 12: Inventory		
<u>Inventory Held of Use</u>		
Electricity - Diesel	1,863	1,894
Infrastructure and Planning - Bitumen	844	1,039
Health - Pharmaceuticals and hospital supplies	463	728
Outer Islands - Various supplies	-	2
Education - School supplies	74	67
	<u>3,244</u>	<u>3,730</u>
<u>Inventory Held for Sale</u>		
Electricity - Trading Stock	3,796	3,467
Numismatic - Coin Stocks	229	315
Cultural Development - Books and tapes	97	58
Pearls	384	437
Parliamentary Services - Legislation materials	10	9
Total held for sale	<u>4,516</u>	<u>4,286</u>
Provision for Obsolete Stock	-	(195)
Total Inventory	<u>7,760</u>	<u>7,821</u>

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

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2013

	2013	2012
	\$000	\$000
Note 13: Debtors and Receivables		
Taxes receivable	14,726	12,760
Accounts receivable	10,838	12,497
Prepayments	3,238	1,422
Interest receivable	338	320
Accrued revenue	1,582	2,929
Dividends receivable	854	683
	<u>31,576</u>	<u>30,611</u>
Provision for doubtful debts	(2,842)	(2,679)
Total Debtors and Receivables	28,733	27,932

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2013

	2013	2012
	\$000	\$000
Note 14: Investments in Shares and Associates		
Investment in Shares		
Asian Development Bank	161	137
Pacific Forum Line Limited	-	26
Total Investments in Shares	161	163
Share of Net Assets of Associate		
Carrying amount at beginning of year	4,883	4,719
Equity accounted earnings of Associate	1,566	1,344
Dividends from Associate	(1,027)	(1,180)
Total Share of Net Assets of Associate	5,422	4,883
Total Investments in Shares & Associate	5,583	5,046

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

At 30 June 2013 investments in associates comprises:	Percentage Interest	Balance Date
Telecom Cook Islands Limited	40%	30 June

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

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2013

	2013 \$000	2012 \$000
Note 15: Banking Portfolio Investments		
Current	704	1,282
Provision for bad and doubtful loans - current	<u>(48)</u>	<u>(98)</u>
	656	1,184
Term	40,758	34,438
Provision for bad and doubtful loans - term	<u>(2,767)</u>	<u>(2,632)</u>
	37,991	31,806
Total Banking Portfolio Investments	38,647	32,990

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

Housing loans attract interest rates in the range of 6.40% - 16.25% (2012: 8.50% - 16.50%) whereas 8.85% - 13.00 % (2012: 8.50% - 16.50%) applies to developmental (including business) loans.

Interest rates in the range of 9.50% - 16.50% (2012: 9.50% - 16.50%) are applicable on consumer loans.

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2013

Note 16a: Property, Plant, and Equipment 2013

Category	Opening Cost	Additions	Disposals	Closing Cost	Opening Accum Depn	Depn	Accum Depn on Disposals	Closing Accum Depn	Net Book Value
Office and computer equipment	6,538	1,089	288	7,339	5,252	616	200	5,668	1,671
Furniture and fittings	2,616	389	205	2,800	1,842	164	32	1,974	826
Motor vehicles	10,261	1,264	555	10,970	7,923	804	517	8,210	2,760
Plant and equipment	47,380	4,652	11,832	40,201	21,062	2,036	3,017	20,082	20,119
Buildings and improvements	77,687	2,271	(1,317)	81,275	18,994	2,463	391	21,066	60,209
Land	12,151	926	-	13,077	71	14	-	85	12,992
Work in progress	34,396	8,391	23,142	19,644	244	234	(480)	958	18,685
Total Property, Plant & Equipment	191,029	18,981	34,704	175,305	55,388	6,331	3,676	58,043	117,261

Note 16b: Property, Plant, and Equipment 2012

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

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2013

Note 17a: Intangible Assets 2013

Category	Opening Cost	Additions	Disposals	Closing Cost	Opening Accum Amort	Amortisation	Accum Amort on Disposals	Closing Accum Amortisation	Net Book Value
Purchased software	521	33	53	501	171	37	46	162	340
Developed software	249	-	-	249	235	10	-	245	4
Naming Rights	-	109	-	109	-	-	-	-	109
Total Intangible Assets	769	142	53	858	406	47	46	408	453

Note 17b: Intangible Assets 2012

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



Notes to the Financial Statements (continued)

For the Year Ended 30 June 2013

Note 18a: Infrastructure Assets 2013

Category	Opening Cost	Additions	Disposals	Closing Cost	Opening Accum Depn	Depn	Accum Depn on Disposals	Closing Accum Depreciation	Net Book Value
Roading	19,514	5,148	17,675	6,987	14,221	1,451	14,237	1,435	5,552
Power network	10,760	2,395	3,057	10,098	1,125	1,510	2,420	215	9,883
Harbours and ports	6,428	27,102	1,894	31,636	799	634	-	1,433	30,203
Airports	46,746	5,043	-	51,789	9,266	1,578	7,724	3,120	48,669
Coastal protection	929	-	-	929	510	37	-	547	381
Water	13,471	1,536	13,039	1,968	11,376	520	11,502	394	1,574
Waste management	5,484	2,709	5,484	2,709	2,133	266	2,270	129	2,580
Work in progress	10,184	304	6,632	3,856	-	-	(27)	27	3,829
Total Infrastructure Assets	113,516	44,238	47,780	109,974	39,431	5,996	38,126	7,302	102,672

Note 18b: Infrastructure Assets 2012

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



Notes to the Financial Statements (continued)

For the Year Ended 30 June 2013

Note 19: Related Parties

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

Related parties of the Government include:

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

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

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

	2013	2012
	\$000	\$000
Aggregate remuneration	540	540
Number of persons	6	6

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

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

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2013

	2013	2012
	\$000	\$000
Note 20: Creditors and Other Payables		
Accounts Payable Accrued from Current Year		
Creditors, accruals and provisions	26,953	21,492
Payroll accruals	1,436	1,353
Interest accrued	464	-
Taxation refunds payable	420	4
Total Accounts Payable Accrued from Current Year	29,273	22,849
Accounts Payable Accrued prior to 1 July 1996		
Creditors, accruals and provisions	81	91
	81	91
Total Creditors, Accruals and Provisions	29,354	22,940

Note 21: Employee Entitlements

Provision for annual leave	1,345	1,143
Provision for sick leave	102	108
Provision for long service bonus	7	2
Total Current Employee Entitlements	1,453	1,253
Non-Current		
Provision for long service bonus	94	97
Total Non-Current Employee Entitlements	94	97
Total Employee Entitlements	1,548	1,350

Under the previous Public Services Act, sick leave entitlements for Government employees could accumulate from year to year. This legislation was repealed in 1996. Therefore the provision for sick leave includes only those entitlements accruing up to that date which have not been paid to employees at 30 June 2013. This liability will be paid to employees when they leave Government service.

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2013

	2013	2012
	\$000	\$000
Note 22: Trustee Liabilities		
Aid funding liabilities	10,207	14,867
Land Trust Deposits Liability	3,425	3,269
Workers compensation	1,370	1,303
Law Trust liability	286	281
Immigration deposits	40	40
Customs bond account	132	261
Insurance deposits	35	33
Other Trust Fund	1,404	815
Total Trustee Liabilities	16,899	20,870

Land Trust Deposits Liability

The Justice Land Trust is held at the Ministry of Justice banked at the Bank of the Cook Islands for the administration of a Land Trust Account where payments are received from lessees and are paid to the land owners. The balance is held by the Crown.

Workers Compensation

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

Law Trust Liability

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

Immigration Deposits

These are bonds paid by foreign employees or employers of foreign employees as a security for these foreign workers. If any problem arises with regards to these workers, this money can be used to pay

for outward travel arrangement for the employees. The amount is calculated and is equivalent to a one way outward travel ticket to the employees country of origin at the time of the deposit.

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2013

Other Trust Fund

Other trust fund of \$1,403,772 (2012: \$815,037) is funding received which has not been spent at 30 June 2013 on approved projects and are held within the Crown (or other Crown agency) trust bank account. This is made up of unspent funding from aid donors of \$23,704 (2012: \$1,279) for EU funding \$53,940 (2012: \$55,807) for the fertiliser rolling fund and \$1,197,366 (2012, \$629,189) on other and \$128,762 (2012: \$128,762) for International Unclaimed monies.

Customs Bond

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

	2013	2012
	\$000	\$000

Note 23: Banking Customer Deposits

Current	23,213	22,493
Term: One to two years	1,216	1,553
Total Banking Customer Deposits	24,429	24,046

Customer deposits yield interest rates between 1.40% and 4.76% (2012: 1.33% and 4.63%) and are unsecured.

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2013

Note 24: Borrowings

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

Total Borrowings can be split into sovereign guaranteed and non-sovereign guaranteed debt. This split reflects the fact that borrowings by SOEs are not explicitly guaranteed by Government. In the financial year 30 June 2013, non-sovereign guaranteed debt is represented by the Airport Authority's loan from ANZ Bank, Rarotonga, Cook Islands. This loan of \$3.6 million has a 5 year term and is secured by registered mortgage debenture over the assets and undertakings of the Airport Authority.

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

Fair value has been calculated based on the net present value of the expected future cash flows:

		2013	2012
		\$000	\$000
New Zealand Govt Super Fund	NZD	439	906
Restructured French Loans	EUR	2,916	3,171
China - Multi-Functional Indoor Sports Stadium	CNY	10,163	9,548
ADB 461 (SF) Multi Project	SDR	646	727
ADB 849 (SF) 2nd Multi-Project	SDR	1,539	1,669
ADB 1155 (SF) 2nd CIDB Project	SDR	781	846
ADB 1171 (SF) Emerg. Telecom Rehab Proj	SDR	265	288
ADB 1317 (SF) Educ'n Dev Project	SDR	1,611	1,687
ADB 1380 (SF) 3rd CIDB Project	SDR	1,278	1,345
ADB 1466 (SF) Economic Restructure Program	SDR	2,724	2,879
ADB 1588 (SF) Cyclone Emergency Rehab Proj	SDR	440	467
ADB 1832 (SF) Waste Mgt Project	SDR	1,484	1,612
ADB 2174 (SF) Cyclone Emergency Assist Proj	SDR	1,282	1,344
ADB 2565 OCR Economic Recovery Support Program SubProg 1	USD	9,283	10,138
ADB 2472 (OCR) Avatiu Port Development Project	USD	7,478	6,959
ADB 2473 (SF) Avatiu Ports Development	SDR	3,553	3,543
ADB 567 (SF) CIDB Project	SDR	535	594
ADB 1309 (SF) Pearl Industry Dev. Proj	SDR	264	277
ADB 1031 (SF) Outer Islands Telecom Project	SDR	3,283	3,551
Airport Authority ANZ Loan	NZD	3,558	5,891
		<u>53,525</u>	<u>57,441</u>

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2013

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

Note 25: Members of Parliament Pension Liability

The Cook Islands Government Superannuation Scheme of Members of Parliament provided under the Legislative Assembly Members' Superannuation Act 1976 was most recently assessed in January 2014 by Melville Jessup Weaver Limited, a firm of actuaries from New Zealand, as at 30 June 2013. This resulted in a revaluation of the liability by \$0.362 million, increasing it from \$1.221 million to \$1.583 million. The valuation is conducted every three years. The liability relates to past and current contributions made by members and employers contributions.

Actuarial Assumptions

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

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

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

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

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2013

This list of former MPs and MPs' widows, which currently comprises 20 retirees (2012: 20), will each receive a pension for the rest of their lives. This pension was received by the 2003 legislation and is a maximum of \$10,000 per annum.

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

	2013	2012
	\$000	\$000
At 1 July	1,221	1,599
Payments during the year	(183)	(179)
Prior Year Adjustment	-	(198)
At 30 June	<u>1,039</u>	<u>1,221</u>

Note 26: Provision for Legal Settlement

Apex Agencies Limited (TOA Petroleum)

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

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

The settlement payment of \$1.75 million was paid in the 2009-10 financial year and the beginning of the EBITDA support was appropriated in that same financial year. A provision has been recorded for the 2012-13 financial year.

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2013

Provision for Toa settlement	2013 \$000	2012 \$000
At 1 July	6,173	7,530
Acquisition of subsidiary	-	-
Arising during the year	(817)	
Utilised	(1,449)	(1,433)
Unused amounts reversed	-	687
Unwinding & discount rate adjustment	714	763
At 30 June	<u>4,621</u>	<u>6,173</u>
Current	1,294	1,408
Non-current	<u>3,327</u>	<u>4,765</u>
	<u>4,621</u>	<u>6,173</u>

The crown has recognised a provision for the Apex Agencies Limited (TOA Petroleum) EBITDA guarantee to the value of \$4,621,485 (2012:\$6,172,961). This reflects the present value of future obligations according to 3 years of subsequent knowledge that we have of actual EBITDA results and discount rate of 3 per cent. Government appropriates \$1.5 million p.a. and actual cash flows to the date of the signing of these financial statements have either met or fallen short of these appropriations.

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2013

Note 27: Statement of Specific Fiscal Risks (Foreign Currencies)

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

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

Exchange rates used in these financial statements are:

	30 June 2013	30 June 2012
Euros *	0.5973	0.6323
United States dollars *	0.7785	0.7866
Chinese Yuan *	4.7867	5.0008

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

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2013

Note 28: Subsequent Events

Avatea School Fire

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

Tereora College Redevelopment Project

In April 2016 Government adopted the Tereora College Redevelopment Plan as a guide to infrastructure investment at the College over the next 10 to 15 years. The redevelopment goal is to provide the infrastructure required to support the delivery of the Education Master Plan and Tereora College Learning Charter.

New Zealand is providing \$11.5 million to complete stage 1, which includes a Technology Centre and a Research/Academic Library/ Student Services/Administration Centre. Government is exploring funding opportunities for stages 2 (Academic Learning Centre) and stage 3 (Performing Arts Centre).

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