



ANNUAL REPORT OF
THE GOVERNMENT OF THE COOK ISLANDS
FOR THE YEAR ENDED 30 JUNE 2009





PARLIAMENT OF THE COOK ISLANDS

PARLIAMENT PAPER NO. 56

28 May 2012

Speaker of the Parliament
Parliament of the Cook Islands
Nikao
Rarotonga
COOK ISLANDS

Honourable Speaker,

As required under Article 71(2) of the Constitution of the Cook Islands, and pursuant to Section 26 (2) of the Ministry of Finance and Economic Management Act 1995-1996, I have the honour to present to Parliament, the Audited Financial Statements of the Government of the Cook Islands for the year ended 30 June 2009.

Yours Sincerely

A handwritten signature in black ink, appearing to read 'Richard Neves'.

Richard Neves
Financial Secretary

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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 2009 and are consistent with the requirements of the Ministry of Finance and Economic Management Act 1995/96.

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

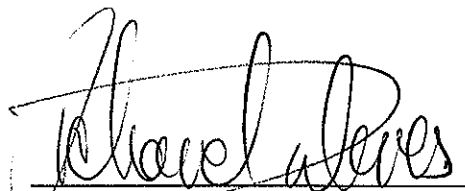
The current Minister of Finance, Hon Mark Brown, was not in the position covered in the period presented in this report. For the 2009 financial year, Hon Sir Terepai Maoate was the Minister of Finance.

In our opinion, subject to the qualifications included within the Report of the Cook Islands Audit Office, these financial statements fairly reflect the financial position, operations and cash flows of the Crown for the year ended 30 June 2009.



Hon. Mark Brown
Minister of Finance

24th May 2012



Richard Neves
Financial Secretary

24th May 2012



OVERVIEW

Introduction

These financial statements contain the audited results for the year ended 30 June 2009.

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.

Crown equity balance at year end totalled \$190.5million, a decrease of \$9.2 million from the 2007/08 financial year of \$199.7 million.

The detailed table below discloses the actuals in two columns, both the year being reported (2008/09) and last year (2007/08). 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).

Financial Performance

Budget Approp 2009 \$000		Actual			
		Crown 2009 \$000	Approp 2009 \$000	Crown 2008 \$000	Approp 2008 \$000
Revenue and Expenses from Crown Funded Activities					
<i>Revenue</i>					
80,963	Taxation & levies	80,122	81,795	78,035	79,650
5,301	Provision of goods and services	36,806	7,289	34,260	6,574
10,942	Other	9,513	8,545	11,235	7,664
<u>97,206</u>		<u>126,441</u>	<u>97,629</u>	<u>123,529</u>	<u>93,888</u>
<i>Expenses (by functional classification)</i>					
11,034	Welfare and Grants	10,815	10,897	8,948	8,948
41,314	Wages, Salaries, and Employee Benefits	50,430	43,611	48,829	41,426
2,397	Depreciation and Amortisation Expenses	10,367	4,064	10,619	4,446
944	Finance Cost	2,497	958	2,043	506
-	Doubtful Debts	423	149	721	73
-	Net(Gain)/Loss on Foreign Exchange	1,252	1,500	3,445	707
-	Audit Fees	308	11	241	12
1,656	Private School Funding	1,630	1,630	1,356	356
-	Air NZ Subsidy	2,982	2,982	3,036	3,036
39852	Other Operating Expenses	54,507	35,053	42,520	32,505
<u>97,197</u>		<u>135,211</u>	<u>100,855</u>	<u>121,758</u>	<u>97,015</u>
<u>9</u>	Net Surplus from Crown Funded Activities	<u>(8,770)</u>	<u>(3,226)</u>	<u>1,771</u>	<u>(3,127)</u>

The Statement of Financial Performance (pages 22 and 23) shows that the Crown had an overall operating balance (deficit) of \$7.5million, made up of \$8.8 million deficit from Crown operating activities and an aid surplus of \$1.3 million. As shown in note 10, the Aid Activities surplus is

because aid is of a capital nature and increases the property, plant and equipment line in the Statement of Financial Position.

This compares to a surplus of \$2.7million for 2007/08, which included a crown activity surplus of \$5.1million, net foreign exchange loss of \$3.4 million and an operating surplus of \$1.0 million from Aid Activities.

Actual Appropriation Compared to Budget Appropriation

The 2008/09 Appropriation actual made a net operating deficit of \$3.2 million compared to an operating budget surplus of \$0.009 million on Crown funded activities. Contributing to the variance was overspending across a variety of functional areas (\$3.6m).

This was offset somewhat by collection of revenue above budget (\$0.4m)

Revenue

The total revenue was above budget by \$0.4 million.

Trading revenue (provision of goods and services) was above budget by \$2.0 million. This is due mainly to the \$1.1m from the Financial Supervisory Commission which was budgeted in Other Income.

Investment income was \$0.5m above that budgeted due to better than expected interest revenue on funds (\$1.2m) and equity-accounted earnings from associates which is not budgeted for (\$2.4m).

Expenses

The Crown's total expenses were over budget by \$3.7 million.

The expenditure was under budget mainly in Other Operating Expenses (\$5.7m). Offsetting this was the over spending in Wages and Salaries.

Actual Appropriation Compared to Prior Year Appropriation

Revenue

The Crown's tax revenues showed an increase of \$1.7 million from the previous year resulting primarily from an increase in Individual Income Tax (\$3.4 million). Offsetting these increase was a decrease in VAT (\$0.9 million), and Company Tax (\$1.3 million).

Expenses by Output Type

Budget Approp 2009 \$000		Actual			
		Crown 2009 \$000	Approp 2009 \$000	Crown 2008 \$000	Approp 2008 \$000
	Welfare Benefits, Grants and Transfer Payments				
6,502	Old age benefits	6,603	6603	4,645	4,647
2,826	Child benefits	3,062	3062	3,091	3,091
598	Destitute and infirm benefits	660	660	584	584
245	Parliamentary superannuation benefits	229	311	249	249
160	Student Grants	160	160	161	161
242	Other Grants	101	101	218	218
<u>10,573</u>		<u>10,815</u>	<u>10,897</u>	<u>8,948</u>	<u>8,950</u>
	Personnel				
41,314	Salaries and wages	48,618	43,181	47,117	39,769
-	Employee superannuation subsidy	1,812	1140	1,712	1,657
<u>41,314</u>		<u>50,430</u>	<u>44,321</u>	<u>48,829</u>	<u>41,426</u>
	Depreciation and Amortisation				
2,397	Depreciation on Infrastructure Assets	3,773	1,845	4,347	1,817
3,210	Depreciation on Property, Plant and Equipment	6,557	2,182	6,266	2,623
-	Amortisation on Intangible Assets	37	37	6	6
<u>5,607</u>		<u>10,367</u>	<u>4,064</u>	<u>10,619</u>	<u>4,446</u>
	Finance Costs				
831	Interest Expense on Foreign-Sourced Loans	822	822	524	351
113	Interest Expense on Domestic Loans	1,675	136	1,519	154
<u>944</u>		<u>2,497</u>	<u>958</u>	<u>2,043</u>	<u>506</u>
38,759	Other Operating Expenditure	61,102	42,124	51,319	41,688
<u>97,197</u>	Total Expenses by Output Type	<u>135,211</u>	<u>102,364</u>	<u>121,758</u>	<u>97,016</u>

n/b - these expense categories were not separately classified within the 2008/09 budget.

Expenditure on Appropriation Funded Activities has increased from \$97.0 million to \$102.3 million on the previous year. Transfer payments to beneficiaries have shown an increase (\$2.0 million) on the previous year. This is primarily due to an increase in old age benefits paid.

Personnel costs have increased from \$41.4 million to \$44.3million.

Aid

Funds received from various donors 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 aid is accounted for as property, plant and equipment within the Statement of Financial Position with a corresponding increase in the Aid revenue in the Financial Performance. Other expenditure funded by aid is included within the Statement of Financial Performance.

The actual shown in the financial statements reflect the aid income and expenditure handled by the Ministry of Finance and Economic Management plus some of that managed directly by the relevant Government agency. There was a aid-funded surplus of \$1.3 million for 2008/2009.

Financial Position

	Crown 2009 \$000	Crown 2008 \$000
Assets		
<i>Current assets</i>		
Cash and Term deposits	63,914	69,225
Trust accounts	5,694	7,088
Inventory	4,026	4,322
Debtors and receivables	20,564	19,165
Investments	6,753	6,698
Other Assets	-	-
	<u>100,951</u>	<u>106,498</u>
<i>Non-current assets</i>		
Investments	4,921	4,863
Banking investment portfolio	24,400	20,335
Fixed and infrastructural assets	181,430	158,276
Term Deposits	955	713
	<u>211,706</u>	<u>184,187</u>
Total Assets	<u>312,657</u>	<u>290,685</u>
Liabilities		
<i>Current liabilities</i>		
Creditors and payables	11,473	10,051
Employee entitlements	1,454	1,460
Trustee liabilities	8,348	6,595
Current portion of Banking customer deposits	20,212	20,656
Current portion of Borrowings	2,894	2531
Customer bonds	566	462
Provision for legal settlement—Current	1,750	-
	<u>46,697</u>	<u>41,754</u>
<i>Non-current liabilities</i>		
Banking customer deposits	1,810	943
Employee entitlements	127	-
Members of Parliament pension liability	2,027	2,028
Borrowings	65,233	46,229
Provision for legal settlement—Term	4,485	-
	<u>73,682</u>	<u>49,200</u>
Total Liabilities	<u>120,379</u>	<u>90,954</u>
Crown Balance	<u>192,278</u>	<u>199,731</u>

Crown Balance

The Crown Balance has reduced from \$200 million to \$192 million.

Cash and Term Deposits

Cash and term deposits (excluding trust accounts) have decreased by \$5 million over the previous year. There was positive cash flow from operating activities (\$11.9 million) and financing activities (\$14.1 million) however this was offset by the net cash outflows from investing activities (\$31.1million).

The Crown has repaid \$2.8 million to various lenders.

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

Inventory

Inventory balances have decreased from \$4.3 million to \$4.0 million this current financial year. Decreases are attributed to diesel and fuel held as stock by Te Aponga.

Debtors and Receivables

The debtors and receivables balances have increased to \$20.5 million (up \$1.4 million). Contributors to this increase were a increase in taxes receivable (\$1.5million), parallel to increases in accounts receivable (\$1.2m) and prepayments (\$2.4million). Offsetting this was a decrease in interest receivable (\$0.3 million) and dividend receivable (\$1.8m)

Investments

Included in Investments is the Crown's small shareholding in the ADB and the Pacific Forum Line. Also included in Investments is the investment in Shares of Associate which represents the Crown's 40% stake in Telecom Cook Islands Ltd held through Crown's 100% owned subsidiary, Cook Islands Telecommunication Holdings Ltd.

Banking Investment Portfolio

These are in relation to the Bank of the Cook Islands and are composed of the loans given by the Bank. The loan portfolio primarily comprises of housing, pearl, tourism and business development loans. Interest rates 14.50% -17.50% (2008: 14.50%-17.50%) are applicable on consumer loans.

Creditors and Payables

The Crown shows an increase in creditors and payables (\$1.5 million) from \$10 million in 2007/08 to \$11.5 million this year. This was driven by an increase in the creditors, accruals and provisions (\$1.3 million).

Payables owing by Government from 1995 and 1996 which were unpaid due to the economic crisis of that period are down to only \$146,000. This is now only one creditor, the International Civil Aviation Organization who agreed in 1999 to a non interest bearing payment schedule over 20 years.

Employee Entitlements

The sick leave provision relates to the period prior to 1996 and is only paid when the employee retires or leaves the Public Service.

Borrowings

The borrowings have increased from the 2007/08 figure of \$48.8million (including local domestic borrowings) to \$68.1 million as at balance date.

Overall, debt of \$3.2 million was repaid during the year to various lenders and in addition to this there was a unfavourable unrealised foreign exchange movement of \$2.0 million. These movements are detailed in the Statement of Borrowings pages 31-36.

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. An actuarial calculation of the outstanding benefits was carried out in 2008, to adjust the provision to reflect its true and fair value.

The liability was revalued at \$2.0 million in December 2007 by Melville Jessup Weaver Limited, a firm of actuaries from New Zealand. (Refer to Note 23)



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AUDIT REPORT

TO THE READERS OF THE FINANCIAL STATEMENTS OF THE COOK ISLANDS GOVERNMENT FOR THE YEAR ENDED 30 JUNE 2009

We have audited the financial statements on pages 14 to 57. The financial statements provide information about the past financial performance of the Cook Islands Government and its financial position as at 30 June 2009. This information is stated in accordance with the accounting policies set out on pages 14 to 21.

Responsibilities of the Cook Islands Government

Section 28(2) of the Ministry of Finance and Economic Management Act 1995-96 requires the Cook Islands Government to prepare financial statements in accordance with GAAP, as approved by the International Federation of Accountants as applicable to governments and their agencies, which fairly present the financial position, borrowings and commitments of the Cook Islands Government as at 30 June 2009, and the results of its operations and cash flows for the year ended 30 June 2009.

Auditor's Responsibilities

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

Basis of Opinion

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

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

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

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



Basis for Qualified Opinion

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

Three Ministries (BTIB, Cultural Development and Tourism) and five Outer Island Administrations (Atiu, Mangaia, Manihiki, Mititaro and Rakahanga) had insufficient financial records and internal controls to enable us to verify the existence and accuracy of operating expenditure of \$2.138m. Total operating expenditure is reported at \$52.794m.

A misstatement in this balance will have a consequential effect on the net surplus and retained earnings for the year.

2. Inventory – scope limitation and non compliance

Due to insufficient records and weak internal controls we were unable to verify the valuation and completeness of inventory to the value of \$1.738m held by three Ministries (Aitutaki Power Supply, Health and Infrastructure and Planning) and five Outer Island Administrations (Manihiki, Mauke, Mititaro, Pukapuka & Nassau and Rakahanga).

Total inventory is reported at \$4.026m.

3. Property, Plant, Equipment and Infrastructure Assets – scope limitation and non compliance with GAAP

Due to lack of appropriate internal controls and insufficient audit evidence, we were unable to confirm or verify by alternate means, the valuation, existence and completeness of property plant and equipment (including capital work in progress) and infrastructure assets of nine Ministries (Aitutaki Power Supply, BTIB, Education, Health, HRD, Internal Affairs, Infrastructure and Planning, Marines & Tourism) and five Outer Island Administrations (Aitutaki, Atiu, Mangaia, Mauke & Mititaro) amounting to \$12.780m.

Due to weak internal controls and lacking asset information we were unable to confirm the condition, completeness and valuation of Crown Parent property plant and equipment of \$1.495m and infrastructure assets of \$10.283m

Further, included in total reported property, plant, equipment and infrastructure assets is \$71.685m and \$59.003m respectively relating to the State Owned Enterprises. As disclosed in the CIIC Group financial statements, this may not be a complete presentation of assets and certain assets have been disclosed at nil value. We have been unable to verify the valuation and completeness of these assets by other means.

Total reported property, plant and equipment is \$111.978m and infrastructure assets are reported at \$69.452m.

Any misstatement of these balances would have a consequential effect on the depreciation expense of \$10.365m charged to the statement of financial performance.



4. Borrowings Disclosure – non compliance with GAAP

Total borrowings are reported at \$68.127m. *IPSAS 15 Financial Instruments: Disclosure and Presentation* requires for each class of financial asset and financial liability an enterprise should disclose information about fair value. When it is not practicable within constraints of timeliness or cost to determine the fair value of a financial asset or financial liability with sufficient reliability, that fact should be disclosed together with information about the principal characteristics of the underlying financial instrument that are pertinent to its fair value. No such disclosure has been made. In this regard, the financial statements do not comply with Generally Accepted Accounting Practice.

5. Lease Commitments – scope limitation

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

6. Tax Revenue and Receivable – scope limitation

We were unable to confirm the accuracy and completeness of tax revenue accruals, and related receivables reported. Failure to produce year end reports from the Revenue Management System resulted in an estimation of the accrual. Tax revenue is reported at \$77.591m and taxes receivable are reported at \$14.098m.


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

Qualified Opinion

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

- comply with International Public Sector Accounting Standards; and
- fairly present in all material respects, the financial position, borrowings and commitments of the Cook Islands Government as at 30 June 2009 and its financial performance and cash flows for the year ended on that date.

Our audit was completed on 24 May 2012 and our qualified opinion is expressed as at that date.


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



Schedule of Crown Entities

Reporting Entity as at 30 June 2009

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:

<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 of Culture Minister of Environment, Natural Heritage and Infrastructure Minister of Foreign Affairs, Immigration, Youth & Sports and Transport Minister of Justice Office of the Leader of the Opposition Head of State Financial Supervisory Commission Business Trade Investment Board Financial Intelligence Unit 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 .This consists of:

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

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

Statement of Compliance

These financial statements have been prepared in accordance with the Ministry of Finance and Economic Management Act 1995-96 and with the International Public Sector Accounting Standards issued by the International Public Sector Accounting Standards Board (IPSASB).

Measurement Base

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

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

Reporting Period

The reporting period is the year ended 30 June 2009.

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 IPSASB. These include:

STATEMENT OF ACCOUNTING POLICIES

List of IPSASs Issued		Effective for periods beginning on or after	Crown accounting period
IPSAS 24	Presentation of Budget Information in Financial Statements	January 1, 2009	2009-2010
IPSAS 25	Employee Benefits	January 1, 2011	2011-2012
IPSAS 26	Impairment of Cash generating assets	April 1, 2009	2009-2010
IPSAS 27	Agriculture	April 1, 2011	2011-2012
IPSAS 28	Financial Instruments: Presentation	January 1, 2013	2013-2014
IPSAS 29	Financial Instruments: Recognition & measurement	January 1, 2013	2013-2014
IPSAS 30	Financial Instruments: Disclosures	January 1, 2013	2013-2014
IPSAS 31	Intangibles Assets	April 1, 2011	2011-2012

These new standards have been issued but not effective for the Crown for the 2008/09 period. Moreover, Crown has yet to determine the effects of these new standards to its financial reporting and will need to take considerations of these new standards in future years.

Basis of Consolidation

The Government Ministries, Public Enterprises and Other Authorities (including State Owned Enterprises (SOEs)) comprising the reporting entity are consolidated involving addition of like items of assets, liabilities, 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

An associate is an entity over which the Crown has significant influence where the entity is neither a subsidiary nor a interest in a joint venture. Investment in an associate is 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.

STATEMENT OF ACCOUNTING POLICIES

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 an asset are met.

Revenue Type	Revenue Recognition Point
Individual Income Tax	When an individual earns income that is subject to PAYE or provisional tax. This also includes withholding taxes.
Company Income Tax	When the corporate community earns taxable income.
Value Added Tax	When the liability to the Crown is incurred. For example, the liability arising from sales in June being paid in July however recognised as revenue in June.
Customs levies	When goods liable to duty are assessed, except for Oil Companies which are accounted for when the liability to the Crown is incurred.
Departure Tax	When departure tax coupons are purchased.
Other Revenue	When the debt to the Crown arises.

Revenue Earned Through Operations

Revenue from sales of goods is recognised when the product is sold to the customer.

Fines

Fines are economic benefits or services potential 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 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 Revenue

Revenue is recognised when donor funds are expensed on approved projects.

Expenses

General

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

STATEMENT OF ACCOUNTING POLICIES

Welfare Benefits

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

Grants and Subsidies

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

Losses

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

Foreign Currencies

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

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

Aid Expenses

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

Depreciation

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

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

Office and computer equipment	3 – 4 years
Motor vehicles	5 years
Furniture and fittings	4 – 10 years
Plant and Equipment	5-15years
Buildings and improvements	10 years
Coastal protection	25 years
Power distribution network	20 years
Roading network	30 years
Water network	15 years
Airport runways	15 – 100 years
Harbour and ports structures	10 – 20 years
Waste management facilities	15 years

STATEMENT OF ACCOUNTING POLICIES

Non-Current Assets

Plant, Property, and Equipment

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

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

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

Disposals

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

Additions

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

Work in Progress

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

Infrastructure Assets

Infrastructure assets are recorded at cost less accumulated depreciation.

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

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

Infrastructure assets include: roading 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.

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

STATEMENT OF ACCOUNTING POLICIES

Intangible Assets

Intangible assets are software acquisition costs.

Intangible assets are recorded at cost less accumulated amortisation.

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

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

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

Software, databases	3 - 5 years
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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.

Receivables and Advances including Debtors and Other Receivables

Receivables and advances are recorded at cost.

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

Inventories

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

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

Investments

Investments in associate are accounted in the consolidated financial statements using the equity method. That is, 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 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.

STATEMENT OF ACCOUNTING POLICIES

Provision for doubtful debts

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

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

Provision for doubtful debts(continued)

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

Aid Assets

Donor funds are deposited into bank accounts until expensed on approved assets.

Liabilities

Borrowings

Borrowing liabilities are accounted for at amortised cost. Any changes are recognised in the Statement of Financial Performance.

Pension Liabilities

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

Employee Entitlements

These include salaries and wages accrued up to balance date, annual level earned but not yet taken at balance date. A long service bonus is paid out on the completion of 3 years continuous service within the Government. The bonus is equivalent to a fortnight pay of the employee.

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.

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 for Crown. Included in the cash flow statements are financing activities which are activities that result in the change of size and composition of the contributed capital and borrowings of the Crown.

STATEMENT OF ACCOUNTING POLICIES

Cash Flow (*continued*)

Investing activities are the acquisition and disposal of long term assets and other investments and operating activities identifies how much the Crown received from its actual operations.

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

Leases

Finance leases transfer, to the Crown as lessee, substantially all the risks and rewards incidental on the ownership of a leased 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. 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

IPSAS 17 allows a choice of accounting models for an entire class of property, plant and equipment. The Crown has changed the accounting policy from the cost to revaluation model for the following classes of assets:

- Power network
- Harbors & ports
- Airports

These assets are now carried at revalued amounts which is the fair value at revaluation date less subsequent depreciation and impairment losses.

The change in policy has no effect on the 2008/09 financial statements.

Restatements of comparatives (IPSAS 1). In order to enhance presentation of the Crown financial statements, added disclosures and or classifications have been made in 2008/09 periods. Comparatives have been re-stated where applicable.

Statement of Financial Performance

For the Year Ended 30 June 2009

	Note	2009 \$000	2008 \$000
Crown Revenue and Expenses			
REVENUE			
Operating revenue			
Taxation	(1)	77,591	75,822
Fees, fines, penalties, and licenses	(2)	2,531	2,213
Total operating revenue		80,122	78,035
Other Crown revenue			
Investment income	(3)	5,974	7,907
Other Crown income	(4)	3,539	3,327
Total other Crown revenue		9,513	11,234
Provision of goods and services		36,806	34,260
Total Crown revenue		126,441	123,529
EXPENSES			
Personnel and employee benefits	(5)	50,430	48,829
Welfare and grants	(6)	10,815	8,948
Audit fees		308	241
Impairment of inventory or plant, property, and equipment		490	12
Net (gain) / loss on foreign exchange		1,252	3,445
Litigation settlements		5	2
Provision for legal settlement	(26)	6,235	-
Changes in provision for doubtful debts		423	721
Depreciation and amortisation	(7)	10,367	10,619
Finance costs	(8)	2,497	2,043
Other expenses	(9)	52,389	46,898
Total Crown-funded operating expenses		135,211	121,758
Total Crown surplus / (deficit) before aid funded activities		(8,770)	1,771

The accompanying notes are an integral part of these financial statements

Statement of Financial Performance (cont.)

For the Year Ended 30 June 2009

	Note	2009 \$000	2008 \$000
Aid Funded Activities			
Aid revenue	(10)	7,235	8,406
Aid expenses	(10)	5,918	7,430
Net surplus from aid funded activities		1,317	976
Total Crown surplus / (deficit) for the period		(7,453)	2,747

The accompanying notes are an integral part of these financial statements

Statement of Changes in Net Assets / Equity

For the Year Ended 30 June 2009

	General Reserves	Revaluation Reserves	Accumulated Surpluses / (Deficits)	Total Net Assets / Equity
	\$000	\$000	\$000	\$000
Balance at 30 June, 2008 brought forward	1,134	-	198,597	199,731
Changes in net assets / equity for 2009:				
Net surplus / (deficit) for the year	-	-	(7,453)	(7,453)
Total recognised revenue and expense for the year	-	-	(7,453)	(7,453)
Transfers to Trust Fund Reserve	405	-	(405)	-
Balance as at 30 June, 2009 carried forward	<u>1,539</u>	<u>-</u>	<u>190,739</u>	<u>192,278</u>
Balance as at 30 June, 2007	686	36,077	160,221	196,984
Changes in accounting policy		(36,077)	36,077	-
Restated balance as at 30 June, 2007	<u>686</u>	<u>-</u>	<u>196,298</u>	<u>196,984</u>
Changes in net assets / equity for 2008:				
Net surplus / (deficit) for the year	-	-	2,747	2,747
Total recognised revenue and expense for the year	-	-	2,747	2,747
Transfers to Trust Fund Reserve	448	-	(448)	-
Balance as at 30 June, 2008 carried forward	<u>1,134</u>	<u>-</u>	<u>198,597</u>	<u>199,731</u>

The accompanying notes should be read in conjunction with these financial statements

Statement of Financial Position

As at 30 June 2009

	Note	2009 \$000	2008 \$000
Assets			
Current assets			
Cash	(11)	14,120	15,690
Term deposits	(11)	49,794	53,535
Trust accounts	(11)	5,694	7,088
Inventory	(12)	4,026	4,322
Debtors and other receivables	(13)	20,564	19,165
Current portion of banking portfolio investments	(15)	6,753	6,698
		<u>100,951</u>	<u>106,498</u>
Non-current assets			
Term deposits		955	713
Investments in shares and associate	(14)	4,912	4,854
Banking portfolio investments	(15)	24,400	20,335
Other investments		9	9
Plant, property, and equipment	(16)	111,915	86,948
Intangible assets	(17)	63	94
Infrastructural assets	(18)	69,452	71,234
		<u>211,706</u>	<u>184,187</u>
Total Assets		312,657	290,685
Liabilities			
Current liabilities			
Creditors and other payables	(19)	11,473	10,050
Employee entitlements	(20)	1,454	1,460
Trustee liabilities	(21)	8,348	6,595
Current portion of banking customer deposits	(22)	20,212	20,656
Current portion of borrowings		2,894	2,531
Customer bonds		566	462
Provision for legal settlement-Current	(26)	1,750	-
		<u>46,697</u>	<u>41,754</u>
Non-current liabilities			
Non-current portion of banking customer deposits	(22)	1,810	943
Employee entitlements	(20)	127	-
Members of Parliament pension liability	(23)	2,027	2,028
Non-current portion of borrowings		65,233	46,229
Provision for legal settlement-Term	(26)	4,485	-
		<u>73,682</u>	<u>49,200</u>
Total Liabilities		120,379	90,954
Net Assets		192,278	199,731
Crown Balance		192,278	199,731

The accompanying notes are an integral part of these financial statements

Statement of Cash Flows

For the Year Ended 30 June 2009

	Note	2009 \$000	2008 \$000
Cash Flows From Operating Activities			
Cash was provided from:			
Taxation		77,811	78,934
Compulsory Fees, Fines and Levies		2,531	2,212
Provision of Goods and Services		35,186	32,771
Other Crown activities		1,146	3,881
Interest on advances and bank funds		280	4,987
Net Aid Receipt		1,317	4,018
Income from Associates		4,248	2,600
		<u>122,519</u>	<u>129,403</u>
Cash was applied to:			
Produce outputs			
- Social welfare benefits and education grants		10,715	8,700
- Parliamentary superannuation		101	249
- Personnel		48,215	47,566
- Employee superannuation subsidy		1,812	1,712
- Other supplier payments		51,049	49,839
		<u>111,892</u>	<u>108,065</u>
Realised foreign exchange gain/(loss)		(748)	(283)
Debt servicing		2,873	2,092
		<u>114,017</u>	<u>109,874</u>
Net Cash Inflows / (Outflows) From Operating Activities		8,502	19,529
Cash Flows From Investing Activities			
Cash was provided from:			
Repayments of advances from			
- Telecom Cook Islands Limited		-	-
Proceeds from sale of fixed assets		614	1,081
Funds transferred into Reserve Trust Fund		-	-
Interest received from investments		3,516	69
		<u>4,130</u>	<u>1,150</u>
Cash was applied to:			
Purchase of fixed assets		34,623	10,081
Purchase of Investments		242	(270)
Net increase in trustee accounts		(3,148)	821
Net Increase in Banking Portfolio Investments		4,120	4,600
		<u>35,838</u>	<u>15,232</u>
Net Cash Inflows/(Outflows) From Investing Activities		(31,708)	(14,082)

The accompanying notes are an integral part of these financial statements

Statement of Cash Flows (continued)

For the Year Ended 30 June 2009

	Note	2009 \$000	2008 \$000
Cash Flows From Financing Activities			
Cash was provided from:			
Drawdown of loans		20,545	1,073
Inflow to client deposit accounts		422	1,049
Customs bonds received		105	69
		<u>21,072</u>	<u>2,191</u>
Cash was applied to:			
Loan repayments			
- Locally-sourced debt		439	1,334
- Foreign-sourced debt		2,738	1,439
		<u>3,177</u>	<u>2,773</u>
Net Cash Inflows/(Outflows) From Financing Activities		17,894	(582)
Net increase in cash held		(5,311)	4,865
Add opening cash and deposits		69,225	64,360
Closing Cash and Deposits		63,914	69,225
Cash and Deposits Comprise			
Cash	(7)	14,120	15,690
Short term deposits	(7)	49,794	53,535
Closing Cash and Deposits		63,914	69,225

The accompanying notes are an integral part of these financial statements

Statement of Cash Flows (continued)

For the Year Ended 30 June 2009

	Note	2009 \$000	2008 \$000
Reconciliation of Crown Overall Operating Balance to Cash Flows From Operations			
Crown Overall Operating Balance		(7,453)	2,747
Unrealised foreign exchange movements		-	3,607
		(7,453)	6,354
Add / (less) non cash items			
- Depreciation		10,367	10,620
- Change in Provision for doubtful debts		1,600	(565)
- Loss (gain) on sale of fixed assets		-	(275)
- Other		(3,185)	(0)
		8,782	9,779
Add / (less) movements in working capital			
- (increase) / decrease in taxes receivable		(1,480)	4,925
- (increase)/ decrease in accounts receivable		198	(303)
- (increase)/ decrease in dividend receivable		1,790	-
- (increase)/ decrease in interest receivable		280	23
- (increase)/ decrease in prepayments		(2,393)	153
- (increase) / decrease in inventory		296	(1,953)
- increase / (decrease) in amounts due to employees		403	(450)
- increase/ (decrease) in interest accrued		(376)	(76)
- increase/ (decrease) in tax refund liability		100	(1,249)
- increase/ (decrease) in customer deposits		422	-
- increase / (decrease) in creditors		1,700	2,324
- increase / (decrease) in Provision for legal settlement TOA		6,235	-
		7,175	3,396
Net Cash Inflows/(Outflows) from Operating Activities		8,502	19,529

The accompanying notes are an integral part of these financial statements

Statement of Commitments

As at 30 June 2009

	2009	2008
	\$000	\$000
By Type		
Lease commitments (excluding CIG Property Corporation)	1,439	1,548
Undisbursed bank loan facilities (Bank of the Cook Islands)	1,602	875
Capital Expenditure-Crown Parent	494	-
Capital Expenditure	5,943	300
Total Quantifiable Commitments	9,478	2,723
Lease Commitments by Term		
One year or less	57	138
From one to two years	57	70
From two to five years	170	164
Over five years	1,155	1,175
Total Lease Commitments (excluding CIG Property Corporation)	1,439	1,547

Lease Commitments

The Crown has commitments relating to land leases held by 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 have not yet been drawn down. As at 30 June 2009, these undrawn loans totalled \$1,601,748 (2008: \$875,435)

Capital and Operating Expenditure

There was \$338,197 committed by Te Aponga Uira O Tumu-te-Varovaro as at 30 June 2009 for future capital expenditure (2008: \$72,677). The Airport Authority had \$5,604,304 for future capital commitments as at 30 June 2009 (2008: \$227,247).

There was \$494,339 committed by the Ministry of Infrastructure and Planning as at 30 June 2009 for future capital expenditure (2008: \$0). This amount is related to the construction and installation of a new Synthetic Athletics Track.

There were no other financial or contractual commitments at balance date.

The accompanying notes are an integral part of these financial statements

Statement of Contingent Liabilities

As at 30 June 2009

	2009	2008
	\$000	\$000
Uncalled Capital - Asian Development Bank	1,822	1,559
Legal proceedings	16,070	14,938
Total Quantifiable Contingent Liabilities	17,892	16,497

Uncalled Capital

Asian Development Bank - Cook Islands Government Property Corporation owns 88 uncalled shares with a par value of US\$13,500 each. Using the USD rate of 0.6520, this equates to \$1,822,086 in NZD (2008: \$1,559,260 at 0.7619).

Legal Proceedings

In October 2002 a legal claim was filed against Government by Triad Maritime Ltd. relating to the Government's shipping policy. The claim is for \$14.5 million. The Government does not accept the validity of the litigation and has filed a statement of defence strongly denying the claim.

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

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

A \$600,000 claim has been lodged in relation to medical negligence against the Health Department.

A \$595,000 claim has been lodged against the Ministry of Transport for public misfeasance.

The accompanying notes are an integral part of these financial statements

Statement of Borrowings

As at 30 June 2009

	Note	2009 \$000	2008 \$000
External Debt			
Asian Development Bank		40,591	36,330
Caisse Francaise de Developpement		7,402	7,852
NZ Government Superannuation Fund		3,254	4,024
Export-Import Bank of China		15,090	-
Total External Debt		66,337	48,206
Local Debt			
Westpac Banking Corporation		1,790	554
Total Local Debt		1,790	554
Total Borrowings		68,127	48,760

The accompanying notes are an integral part of these financial statements

Statement of Borrowings (continued)

As at 30 June 2009

2009
\$000

2008
\$000

The terms of the component loans of external debts are:

Asian Development Bank

Economic restructuring loan (1996) - 1466	7,084	6,151
First multi project loan (1980) - 461	1,446	1,437
Second multi project loan (1987) - 849	3,518	3,372
First Cook Islands Development Bank project loan (1982) - 567	1,197	1,234
Second Cook Islands Development Bank loan (1992) - 1155	1,828	1,667
Third Cook Islands Development Bank loan (1996) - 1380	3,214	2,909
Outer Islands telecommunications project loan (1990) - 1031	7,544	7,029
Education development (1994) - 1317	3,894	3,565
Waste Management loan (2001 - 2005) - 1832	3,762	3,352
Cyclone Rehabilitation Project loan (1997) - 1588	1,183	1,084
Cyclone Emergency Assistance loan (2006) - 2174	4,662	3,377
TCI Emergency Loan - 1171	619	564
Pearl Loan - 1309	640	588
	<u>40,591</u>	<u>36,330</u>

- Repayable over 40 years from date of initial drawdown (year of initial drawdown beside each loan)
- All loans have an interest rate of 1%
- Loans totalling \$17.5 million up to and including 1992 are secured by New Zealand Government guarantee, loans issued after this date are unsecured

Caisse Francaise de Developement

Northern Group Solarisation Project Loan	752	798
Rarotonga Water Supply & Electrification Loan	6,650	7,055
	<u>7,402</u>	<u>7,852</u>

- Repayable over 12 years from date of initial drawdown
- All Loans have an interest rate of 0.75% and 1.75% respectively
- All loans are Cook Island Government guaranteed

Export -Import Bank of China

Indoor Sports Stadium Project, Repairs and Upgrade of Existing Sports Facilities, Ministry of Education Building Complex	15,090	-
	<u>15,090</u>	<u>-</u>

- Repayable over 20 years from date of initial drawdown
- Loans have an interest rate of 2%, Management Fee of 1% and a Commitment Fee of 0.75%
- Loan is Cook Island Government guaranteed

The accompanying notes are an integral part of these financial statements

Statement of Borrowings (continued)

As at 30 June 2009

	2009	2008
	\$000	\$000

The terms of the component loans of external debts are:

	2009	2008
NZ Government Superannuation Fund		
- Repayable over 15 years from 1998	3,254	4,024
- Interest rate of 3%		
- Unsecured		

Westpac Banking Corporation Loans	1,790	554
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The term portion of the Bank loans relates to the Airport Authority's bank loans which have a 10 year term and a variable interest rate applicable at 10.65% per annum (2006: 10.15%) per annum. The loans are secured by debenture over the Authority's assets

Registered charge

The Westpac bank holds a registered charge of \$268,946 and bill of sale over the equipment purchased by the Crown, namely the Sand Pump and Barge.

The accompanying notes are an integral part of these financial statements

Statement of Borrowings (continued)

As at 30 June 2009

Maturity Profile as at 30 June 2009

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

Maturity Profile as at 30 June 2008

	2008/09	2009/10	2010/11	2011/12	2012/13 - 2016/17	2017/18 and after	Total book value
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
External Debt							
Asian Development Bank	542	1,048	1,131	1,235	6,851	25,522	36,329
Caisse Francaise de Developpement	748	748	748	748	3,739	1,122	7,853
NZ Government Superannuation Fund	771	706	765	854	928	-	4,024
Total External Debt	2,061	2,502	2,644	2,837	11,518	26,644	48,206
Local Debt							
Westpac Banking Corporation	470	77	7	-	-	-	554
Total Local Debt	470	77	7	-	-	-	554
Total Borrowings	2,531	2,579	2,651	2,837	11,518	26,644	48,760

The accompanying notes are an integral part of these financial statements

Statement of Borrowings (continued)

As at 30 June 2009

Movements during the year ended 30 June 2009

	As at 1 July 2008	Increases / additions	Decreases / repayments	Currency realignment	As at 30 June 2009
External Debt	\$000	\$000	\$000	\$000	\$000
Asian Development Bank	36,330	858	(1,117)	4,520	40,591
Caisse Francaise de Developpement	7,852	-	(851)	401	7,402
NZ Government Superannuation Fund	4,024	-	(770)	-	3,254
Export- Import Bank of China	-	18,012	-	(2,922)	15,090
Total External Debt	48,206	18,870	(2,738)	1,999	66,337
Local Debt					
Westpac Banking Corporation	554	1,675	(439)	-	1,790
Total Local Debt	554	1,675	(439)	-	1790
Total Borrowings	48,760	20,545	(3,177)	1,999	68,127

Movements during the year ended 30 June 2008

	As at 1 July 2007	Increases / additions	Decreases / repayments	Currency realignment	As at 30 June 2008
External Debt	\$000	\$000	\$000	\$000	\$000
Asian Development Bank	33,084	1,083	(692)	2,855	36,330
Caisse Francaise de Developpement	7,251	-	(748)	1,349	7,852
Government Superannuation Fund	4,250	-	(226)	-	4,024
Total External Debt	44,584	1,083	(1,666)	4,204	48,206
Local Debt					
Westpac Banking Corporation	1,662	-	(1,108)	-	554
Total Local Debt	1,662	-	(1,108)	-	554
Total Borrowings	46,246	1,083	(2,774)	4,204	48,760

The accompanying notes are an integral part of these financial statements

Statement of Borrowings (continued)

As at 30 June 2009

Currency Analysis as at 30 June 2009

	Currency in which loan denominated/repayable									
	United States dollars	Euros	New Zealand dollars	Japanese yen	Australian dollars	Chinese Yuan	Danish Krone	Canadian Dollars	Other	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
External Debt										
Asian Development Bank	40,591	-	-	-	-	-	-	-	-	40,591
Caisse Francaise de Development	-	7,402	-	-	-	-	-	-	-	7,402
NZ Government Superannuation Fund	-	-	3,254	-	-	-	-	-	-	3,254
Export-Import Bank of China	-	-	-	-	-	15,090	-	-	-	15,090
Total External Debt	40,591	7,402	3,254	-	-	15,090	-	-	-	66,337
Local Debt										
Westpac Banking Corporation	-	-	1,790	-	-	-	-	-	-	1,790
Total Local Debt	-	-	1,790	-	-	-	-	-	-	1,790
Total Borrowings	40,591	7,402	5,044	-	-	15,090	-	-	-	68,127

Currency Analysis as at 30 June 2008

	Currency in which loan denominated/repayable									
	United States dollars	Euros	New Zealand dollars	Japanese yen	Australian dollars	Chinese Yuan	Danish Krone	Canadian Dollars	Other	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
External Debt										
Asian Development Bank	20,235	2,574	2,426	5,003	5,616	-	80	246	150	36,330
Caisse Francaise de Development	-	7,852	-	-	-	-	-	-	-	7,852
NZ Government Superannuation Fund	-	-	4,024	-	-	-	-	-	-	4,024
Total External Debt	20,235	10,426	6,450	5,003	5,616	-	80	246	150	48,206
Local Debt										
Westpac Banking Corporation	-	-	554	-	-	-	-	-	-	554
Total Local Debt	-	-	554	-	-	-	-	-	-	554
Total Borrowings	20,235	10,426	7,004	5,003	5,616	-	80	246	150	48,760

The accompanying notes are an integral part of these financial statements

Notes to the Financial Statements

For the Year Ended 30 June 2009

	2009 \$000	2008 \$000
Note 1: Taxation		
Direct Taxation		
Individual income tax	25,604	22,163
Company income tax	<u>5,610</u>	<u>6,906</u>
Total Direct Taxation	31,214	29,069
Indirect Taxation		
Value added tax	33,059	33,954
Customs levies	9,745	9,810
Departure tax	<u>3,573</u>	<u>2,989</u>
Total Indirect Taxation	46,377	46,753
Total Taxation	77,591	75,822

Note 2: Fees, Fines, Penalties, and Licenses

Registration fees	1,024	916
Road transport licensing	1,383	1,139
Court fines	69	128
Other fees, fines and levies	55	30
Total Compulsory Fees, Fines and Levies	2,531	2,213

Note 3: Investment Income

Interest on advances to Associate	66	69
Interest on bank deposits	3,450	4,963
Equity accounted earnings of Associate (see Note 14)	2,458	2,875
Total Investment Income	5,974	7,907

Note 4: Other Crown Income

Currency and numismatic revenue	517	386
Fisheries licenses	1,572	595
Tattslotto income	148	188
Net gain on disposal of assets	237	64
Other	1,065	2,094
Total Other Crown Income	3,539	3,327

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2009

	2009	2008
	\$000	\$000

Note 5: Personnel Expenses

Wages and salaries	48,618	47,117
Employee superannuation subsidy	1,812	1,712
Total Personnel Expenses	50,430	48,829

Note 6: Welfare and Grants

Old age benefits	6,585	4,593
Child benefits	3,062	3,091
Destitute and infirm benefits	660	584
Special assistance benefits	101	218
Power subsidies	18	54
Parliamentary pension beneficiary payments (note 23)	229	249
Student grants	160	161
Total Welfare and Grants	10,815	8,948

Note 7: Depreciation and Amortisation

Depreciation on infrastructure assets	3,773	4,347
Depreciation on plant, property, and equipment	6,557	6,266
Amortisation on intangible assets	37	6
Total Depreciation and Amortisation	10,367	10,619

Note 8: Finance Costs

Interest expenses on foreign-sourced loans	822	524
Interest expenses on domestic loans	1,675	1,519
Total Finance Costs	2,497	2,043

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2009

	2009	2008
	\$000	\$000
Note 9: Other Expenses		
Private school funding	1,630	1,356
Air New Zealand Underwrite	2,982	3,036
Fuel and oil	14,681	12,911
Communications	1,563	1,491
Repairs and maintenance	6,492	4,869
Office supplies and consumables	1,170	1,101
Professional services	1,652	828
Travel	1,720	1,681
Advertising and marketing	2,397	1,977
Insurance	903	726
Medical and hospital expenses	1,357	1,230
Other expenses	15,842	15,692
Total Other Expenses	52,389	46,898

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2009

2009
\$000

2008
\$000

Note 10: Aid Funded Activities

Donor Aid Contributions

New Zealand Aid	3,533	5,945
European Union Assistance	214	360
United Nations Aid Assistance	808	365
Other Aid Assistance	2,680	1,736

Total Donor Aid Contributions	7,235	8,406
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Aid Expenses

Public sector reform	949	137
Private sector development	-	243
Human Resource development	102	2,572
Outer Islands development	891	920
Health development	761	1,115
Education Development	1,823	1,050
Other Aid Expenses	1,392	1,393

Total Aid Expenses	5,918	7,430
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Funds received from various donors 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.

Aid funded expenditure of a capital nature is accounted for as plant, property, 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 donors 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 2009

	2009 \$000	2008 \$000
Note 11: Cash and Equivalents		
Cash		
Crown entities accounts	10,730	10,073
Crown public accounts		
Australia and New Zealand Banking Group Limited	1,124	4,861
Westpac Banking Corporation	954	601
Taxation imprest accounts	489	97
Other Bank accounts	823	58
Total Cash	14,120	15,690
Term Deposits		
Loan repayment reserves	20,934	18,551
Crown public account term deposits	11,632	20,281
Crown entities term deposits	17,228	14,703
Total Term Deposits	49,794	53,535
The loan repayment reserves are funds which are set apart specifically to meet future loan repayment commitments.		
Trust Accounts		
Customs bond account	4	65
Workers compensation account	916	782
Insurance deposits account	30	28
Law Trust account	278	192
Land Trust deposits	1,192	2,814
Aid Accounts		
General Aid accounts	2,537	2,147
Outer Islands Development Grant Fund	638	971
Other Trust Fund	99	89
Total Trust Accounts	5,694	7,088

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2009

	2009	2008
	\$000	\$000
Note 12: Inventory		
<u>Inventory Held for Use</u>		
Electricity - Diesel	1,272	1,616
Infrastructure and Planning - Bitumen	599	439
Health - Pharmaceuticals and hospital supplies	720	396
Outer Islands - Various supplies	182	81
Education - School supplies	56	57
Other	192	676
	3,021	3,265
<u>Inventory Held for Sale</u>		
Electricity - Trading stock	1,061	870
Numismatic - Coin stocks	104	148
Cultural Development - Books and tapes	23	26
Parliamentary Services - Legislation materials	12	13
Total held for sale	1,200	1,057
Provision for Obsolete Stock	(195)	-
Total Inventory	4,026	4,322

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 2009

	2009	2008
	\$000	\$000

Note 13: Debtors and Receivables

Taxes receivable	14,098	12,617
Accounts receivable	6,370	5,147
Prepayments	2,875	482
Interest receivable	196	477
Accrued revenue	-	27
Dividends receivable	810	2,600
	24,349	21,350
Provision for doubtful debts	(3,785)	(2,185)

Total Debtors and Receivables	20,564	19,165
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Taxes receivable includes a portion for taxes collectable for the periods prior to 1 July 1996. This portion has not been quantified since the 2008 financial year.

Prepayments in 2009 were mostly made up of \$2,614,756 for the prepayment of assets relating to the upgrade of the power station on Aitutaki, and \$72,766 for prepaid inventory - also for Aitutaki. In 2008, a welfare prepayment was recorded of \$333,752. In 2009, this was not required to the payments matching to the relevant accounting periods.

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2009

	2009 \$000	2008 \$000
Note 14: Investments in Shares & Associate		
Investment in Shares		
Asian Development Bank	128	128
Pacific Forum Line Limited	78	78
Total Investments in Shares	206	206
Share of Net Assets of Associate		
Carrying amount at beginning of year	4,648	4,373
Equity accounted earnings of Associate	2,458	2,875
Dividends from Associate	(2,400)	(2,600)
Total Share of Net Assets of Associate	4,706	4,648
Total Investments in Shares & Associate	4,912	4,854

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.

	Percentage Interest	Balance Date
At 30 June 2009 investment in associate comprises:		
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 2009

	2009	2008
	\$000	\$000

Note 15: Banking Portfolio Investments

Current	7,062	7,010
Provision for bad and doubtful loans - current	<u>(309)</u>	<u>(312)</u>
	6,753	6,698
Term	25,515	21,272
Provision for bad and doubtful loans - term	<u>(1,115)</u>	<u>(937)</u>
	24,400	20,335

Total Banking Portfolio Investments	31,153	27,033
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The loans portfolio primarily comprises housing, pearl, tourism and business development loans. Housing loans attract interest rates of 5.00% - 10.75% (2008: 5.00% - 9.75%) whereas 10.75% - 15.5% (2008: 10.75% - 15.25%) applies to development (including business) loans. Interest rates of 14.50% - 17.50% (2008: 14.50% - 17.50%) are applicable on consumer loans.

Also included within the banking portfolio investments are loans to directors and staff of the Bank of the Cook Islands of \$2,049,118 (2008: \$1,312,116). The interest rates on these balances are at 8.75% - 9.75%.

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2009

Note 16a: Property, Plant, and Equipment 2009 (\$000)

Category	Opening Cost	Additions	Disposals	Other *	Closing Cost	Opening Accum Depn	Depn	Accum Depn on Disposals	Other *	Closing Accum Depn	Net Book Value
Office and computer equipment	5,403	736	65	(448)	5,626	3,895	837	22	(524)	4,186	1,440
Furniture and fittings	2,124	782	14	86	2,978	1,457	189	14	(21)	1,611	1,366
Motor vehicles	9,143	1,035	573	116	9,721	6,958	756	443	(312)	6,959	2,763
Plant and equipment	32,425	3,540	34	(1,505)	34,426	13,772	2,701	34	(1,615)	14,824	19,601
Buildings and improvements	62,584	1,035	3	326	63,942	14,110	2,069	-	219	16,398	47,544
Land	12,219	-	-	-	12,219	180	5	-	-	185	12,034
Work in progress	3,422	23,473	2,014	2,285	27,166	-	-	-	-	-	27,166
Total Property, Plant & Equipment	127,320	30,601	2,703	860	156,078	40,372	6,557	513	(2,253)	44,163	111,915

Note 16b: Property, Plant, and Equipment 2008 (\$000)

Category	Opening Cost	Additions	Disposals	Other *	Closing Cost	Opening Accum Depn	Depn	Accum Depn on Disposals	Other *	Closing Accum Depn	Net Book Value
Office and computer equipment	4,705	977	278	-	5,403	3,443	658	206	-	3,895	1,509
Furniture and fittings	1,929	196	-	-	2,124	1,233	205	(19)	-	1,457	667
Motor vehicles	9,209	480	546	-	9,143	6,628	700	370	-	6,958	2,185
Plant and equipment	30,079	2,534	188	-	32,425	11,288	2,480	(4)	-	13,772	18,653
Buildings and improvements	60,720	1,871	7	-	62,584	12,224	2,184	-	(298)	14,110	48,474
Land	11,994	225	-	-	12,219	140	40	-	-	180	12,038
Work in progress	3,884	437	900	-	3,422	-	-	-	-	-	3,422
Total Property, Plant & Equipment	122,519	6,720	1,919	-	127,320	34,956	6,266	553	(298)	40,372	86,948

Completeness and Valuation of Assets

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



Notes to the Financial Statements (continued)

For the Year Ended 30 June 2009

Note 17a: Intangible Assets 2009 (\$000)

Category	Opening Cost	Additions	Disposals	Other	Closing Cost	Opening Accum Amort	Amortisation	Accum Amort on Disposals	Other	Closing Accum Amortisation	Net Book Value
Purchased software	81	2	-	-	83	8	24	-	8	40	43
Developed software	204	33	-	(21)	216	183	13	-	-	196	20
Total Intangible Assets	285	35	-	(21)	298	191	37	-	8	235	63

Note 17b: Intangible Assets 2008 (\$000)

Category	Opening Cost	Additions	Disposals	Other	Closing Cost	Opening Accum Amort	Amortisation	Accum Amort on Disposals	Other	Closing Accum Amortisation	Net Book Value
Purchased software	13	69	1	-	81	3	6	1	-	8	73
Developed software	183	21	-	-	204	183	-	-	-	183	21
Total Intangible Assets	196	90	1	-	285	186	6	1	-	191	94

Notes to the Financial Statements (continued)

Note 18a: Infrastructure Assets 2009 (\$000)

Category	Opening Cost	Additions	Disposals	Other *	Closing Cost	Opening Accum Depn	Depn	Accum Depn on Disposals	Other *	Closing Accum Depreciation	Net Book Value
Roading	16,377	630	-	(237)	16,770	8,820	1,079		726	10,625	6,145
Power network	8,429	820	-	-	9,249	2,192	505		(1,689)	1,008	8,241
Harbours and ports	7,481	1,159	33	-	8,607	1,151	397	18	(18)	1,512	7,095
Airports	45,733	643	-	-	46,376	4,432	1,122		(56)	5,498	40,878
Coastal protection	929	-	-	-	929	319	37		43	399	530
Water	10,215	335	66	(81)	10,403	8,938	359		478	9,775	628
Waste management	5,484	-	-	-	5,484	457	274		579	1,310	4,174
Work in progress	2,895	400	12	(1,514)	1,769	-			8	8	1,761
Total Infrastructure Assets	97,543	3,987	111	(1,832)	99,589	26,309	3,773	18	71	30,135	69,454

Note 18b: Infrastructure Assets 2008 (\$000)

Category	Opening Cost	Additions	Disposals	Other *	Closing Cost	Opening Accum Depn	Depn	Accum Depn on Disposals	Other *	Closing Accum Depreciation	Net Book Value
Roading	16,284	121	28	-	16,377	7,919	1,009	108	-	8,820	7,557
Power network	7,389	1,040	-	-	8,429	1,700	492		-	2,192	6,237
Harbours and ports	6,106	1,375	-	-	7,481	760	391	-	-	1,151	6,329
Airports	45,606	127	-	-	45,733	3,260	1,172		-	4,432	41,301
Coastal protection	929	-	-	-	929	282	37		-	319	610
Water	10,215	-	-	-	10,215	7,875	1,034		29	8,938	1,277
Waste management	5,484	-	-	-	5,484	245	212		-	457	5,027
Work in progress	2,287	608	-	-	2,895	-	-		-	-	2,895
Total Infrastructure Assets	94,300	3,271	28	-	97,543	22,041	4,347	108	29	26,309	71,234

* The description other is made up of various corrections of prior period errors. The most significant relating to the reconstruction of the fixed asset register for the Ministry of Health.

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2009

	2009 \$000	2008 \$000
Note 19: Creditors and Other Payables		
Accounts Payable Accrued from Current Year		
Creditors, accruals and provisions	9,536	8,130
Payroll accruals	977	695
Interest accrued	160	536
Taxation refunds payable	653	553
Total Accounts Payable Accrued from Current Year	11,326	9,914
Accounts Payable Accrued prior to 1 July 1996		
Creditors, accruals and provisions	147	136
	147	136
Total Creditors, Accruals and Provisions	11,473	10,050

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

Note 20: Employee Entitlements

Current		
Provision for annual leave	939	1,242
Provision for sick leave	190	218
Provision for long service bonus	325	-
Total Current Employee Entitlements	1,454	1,460
Non-Current		
Provision for long service bonus	127	-
Total Non-Current Employee Entitlements	127	-
Total Employee Entitlements	1,581	1,460

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 2008. This liability will be paid to employees when they leave Government service.

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2009

	2009 \$000	2008 \$000
Note 21: Trustee Liabilities		
Aid funding liabilities	2,804	1,365
Land Trust Deposits Liability	3,080	2,830
Outer Islands Development Grant Fund	651	984
Workers compensation	955	872
Law Trust liability	278	192
Immigration deposits	56	70
Customs bond account	4	65
Insurance deposits	30	28
Other Trust Fund	490	189
Total Trustee Liabilities	8,348	6,595

Land Trust Deposits Liability

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

Outer Islands Development Grant Fund (OIDGF)

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

Workers Compensation

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

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 deposit.

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2009

Other Trust Fund

Other trust fund of \$489,296 is funding received which has not been spent at 30 June 2009 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 \$308,712 for EU funding, \$48,079 for the fertiliser rolling fund, and \$132,505 on other.

Customs Bond

Deposits held as a bond on imported equipment that is imported for a project and that will be returned after the project is completed, a refund is paid out once the equipment is returned. A bond is also paid if the goods arrived without a proforma invoice.

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2009

2009 2008
\$000 \$000

Note 22: Banking Customer Deposits

Current	20,212	20,656
Term: One to two years	1,810	943

Total Banking Customer Deposits	22,022	21,599
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Customer deposits yield interest rates between 1% and 5.75% (2008: 1% and 5.75%), and are unsecured.

Note 23: Members of Parliament Pension Liability

The Cook Islands Government Superannuation Scheme for Members of Parliament provided under the Legislative Assembly Members' Superannuation Act 1976 was most recently assessed in December 2007 by Melville Jessup Weaver Limited, a firm of actuaries from New Zealand, as at 30 June 2007. Further review confirmed this balance accurate as at 30 June 2009. This resulted in a revaluation of the liability by \$5.155 million in 2006, reducing it from \$7.183 million to \$2.028 million. The liability relates to past and current contributions made by members and employer contributions.

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

This list of former MPs and MPs widows, which currently comprises 28 retirees (2008:29), will each receive a pension for the rest of their lives. This pension was reduced 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 Crowns general monetary assets.

Notes to the Financial Statements (continue)

For the Year Ended 30 June 2009

Current Year Activity

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

	2009	2008
	\$000	\$000
Expenses		
Parliamentary pension beneficiary payments	229	249
Operating Results of Parliament Pension Liability	(229)	(249)

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2009

Note 24: Subsequent Events

Nationalisation of Fuel Industry

In the 2008-9 financial year, Government proposed to restructure the Cook Islands fuel market by purchasing a fuel farm (Apex Agency Ltd-Trading as Toa Petroleum) 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 Ltd (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 \$1.75m payout from the Crown to Toa and also an undertaking that the Crown will provide revenue to Toa to enable them to make an annual EBITDA profit of \$1.2m for the following 8 years.

The settlement payment of \$1.75m was paid in the 2009-10 financial year and the beginning of the EBITDA support was appropriated in that same financial year. A provision for the settlement and guarantee has been recorded in the 2008-9 financial year.(see Note 26)

Aitutaki & Penrhyn Cyclone Recovery

In February 2010 both Aitutaki and Penrhyn were severely damaged by tropical cyclones. Following the development of the Aitutaki Cyclone Recovery Plan, \$2.2 million was mobilised to fund the implementation of this plan. A further \$0.3million was mobilised to also assist with recovery efforts on Penrhyn.

Ports Authority

On 5 May 2009 Cook Island Government signed a loan agreement with ADB. On the 31st of July 2009, the Ports Authority entered into a subsidiary loan agreement for US\$15.5million with the Cook Island Government. The purpose of the loan is to assist with the reconstruction and development of the Avatiu Harbour. The first draw down on the loan was made in June 2010 and the project is expected to be completed in the 2012/2013 financial year at a cost of NZD \$27 million.

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2009

Cook Islands Consulate-Symond Street, Auckland

Cabinet decided in 2011 that the Cook Islands Consulate should be relocated to South Auckland given the proximity of that location to Auckland International Airport and the fact that a significant proportion of people of Cook Islands descent in New Zealand live in South Auckland. Arising from that decision, the property and building which has housed the Consulate in Symond Street, Newton, Auckland was placed on the open market for sale in July last year. An offer to purchase the property was accepted in April 2012 and negotiations for the finalisation of the sale is expected to be completed in June 2012. Government purchased the property in 1994 for \$976,000.

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2009

Note 25: Statement of Specific Fiscal Risks (Foreign Currencies)

During the year all ADB loans denominated in individual foreign currencies were converted to Special Drawing Rights (SDR). The currency value of SDRs is determined by summing the values in USD based on market exchange rates of a basket of major currencies (USD, EUROS, Yen & Pound Sterling). The conversion was undertaken to obtain some perceived benefit and certainty around holding SDRs rather than individual currencies.

Government continues to maintain debt repayment reserves which provide a form of safeguard against adverse events.

All monetary amounts in these financial statements are expressed in New Zealand dollars. The New Zealand dollar closing rates for the major currencies were:

	30 June 2009	30 June 2008
Euros *	0.4863	0.4826
United States dollars *	0.6520	0.7619
Australian dollars *	N/A	0.7918
Japanese Yen *	N/A	80.9800
Danish Krone #	N/A	3.5991
Canadian Dollars #	N/A	0.7698
Swedish Krona #	N/A	4.5509
Norwegian Kroner #	N/A	3.8601
Swiss Francs #	N/A	0.7759
Chinese Yuan #	4.4572	N/A

* Exchange rate obtained from the Reserve Bank of New Zealand.

Exchange rate obtained from www.oanda.com, a currency site on the internet.

N/A- During the year all ADB loans denominated in individual foreign currencies were converted to SDRs

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2009

Note 26: Provision for Legal Settlement

Provision for Toa settlement	2009	2008
At 1 July	-	-
Arising during the year	6,235,250	-
Utilised	-	-
Unused amounts reversed	-	-
Unwinding & discount rate adjustment	-	-
At 30 June	<u>6,235,250</u>	<u>-</u>
Current	1,750,000	-
Non-current	<u>4,485,250</u>	<u>-</u>
	<u>6,235,250</u>	<u>-</u>

The Crown has recognised a provision for the Apex Agencies Ltd (Toa Petroleum) EBITDA guarantee to the value of \$6,235,250.

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

Statement of Appropriations

For the year ended 30 June 2009

	2008/9 Net Appropriation Budget \$000	2008/9 Net Expenditure Actual \$000	2008/9 Net Appropriation Variance \$000	2007/8 Net Expenditure Actual \$000
Agriculture	960	960	-	966
Audit (PERCA)	852	852	-	821
Crown Law	727	727	-	419
Cultural Development	650	650	-	694
Business Trade Investment Board	705	705	-	625
Education	10,071	10,071	-	9,824
Environment (Tu'anga Taporoporo)	1,040	1,040	-	912
Finance and Economic Management	2,777	2,778	(0)	2,434
Financial Intelligent Unit	331	331	-	317
Foreign Affairs and Immigration	1,652	1,652	-	1,670
Head of State	222	222	-	201
Health	10,620	10,620	-	9,584
Human Resource Development	354	354	-	368
Internal Affairs	1,214	1,214	-	1,343
Justice	1,373	1,373	-	1,197
Marine Resources	1,461	1,461	-	1,425
Ombudsman	251	251	-	224
Parliamentary Services	750	750	-	717
Pearl Authority	406	406	-	375
Police	3,787	3,787	-	3,327
Prime Ministers Office	1,111	1,111	-	1,009
Public Service Commission	447	447	-	398
Transport	445	445	-	442
Tourism Corporation	4,463	4,463	-	4,335
Infrastructure and Planning	1,742	1,742	-	-
Works and Physical Planning	626	626	-	1,712
Outer Island Head Office and Support	259	259	-	704
Aitutaki	1,458	1,458	-	1,285
Aitutaki Power Supply	238	238	-	155
Atiu	973	973	-	970
Mangaia	1,061	1,061	-	977
Manihiki	654	654	-	577
Mauke	720	720	-	620
Mitiaro	509	509	-	478
Palmerston	304	304	-	302
Penrhyn	514	514	-	633
Pukapuka-Nassau	878	878	-	810
Rakahanga	423	423	-	426
Prime Minister's Support Office	342	342	-	333
Deputy Prime Minister's Office	316	316	-	308
Minister 1	200	200	-	184
Minister 2	194	194	-	189
Minister 3	196	196	-	184
Minister 4	193	193	-	191
Office of the Leader of the Opposition	200	200	-	185
Contingency Expenses	318	252	66	118
Debt Servicing	944	958	(14)	506
Welfare Benefits, Grants and Transfer Payments	10,167	10,897	(730)	8,700
Building Maintenance (CIIC)	1,800	1,800	-	1,742
Depreciation on Crown-controlled Assets	2,397	1,717	680	2,370
Other Expenses	12,238	13,939	(1,701)	9,967
Appropriation	86,534	88,232	(1,698)	78,256

This statement compares the net budget appropriation against the net actual expenditure.
The accompanying notes are an integral part of these financial statements

Statement of Appropriations (continued)

For the year ended 30 June 2009

<u>Reconciliation to Statement of Financial Performance</u>		
	2009	2008
Net Actual Expenditure for Ministries or Appropriations	88,232	78,256
Other Ministry revenues (excluding Appropriation)	12,236	10,773
State owned enterprises	27,824	26,911
Air NZ Underwrite (not budgeted in operating)	2,982	3,036
Prior Year consolidated adjustments	-	(1,679)
Other Crown costs	(1,378)	1,016
Total Expenses from Crown Funded Activities	129,896	118,313

The accompanying notes are an integral part of these financial statements