



FINANCIAL STATEMENTS OF
THE GOVERNMENT OF THE COOK ISLANDS
FOR THE YEAR ENDED 30 JUNE 2008

TABLE OF CONTENTS

	Page
Statement of Responsibility	3
Overview of the Financial Statements	4 – 9
Audit Report	10 – 13
Statement of Accounting Policies	14 – 22
Schedule of Crown Entities	23
Statement of Financial Performance	24 – 25
Statement of Movements in Equity	26
Statement of Financial Position	27
Statement of Cash Flows	28 – 30
Statement of Commitments	31
Statement of Contingent Liabilities	32
Statement of Borrowings	33 – 38
Notes to the Financial Statements	39 – 55
Statement of Appropriations	56 – 57

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 2008 and are consistent with the requirements of the Ministry of Finance and Economic Management Act 1995/96.

The current Acting Financial Secretary, Priscilla Maruariki, was appointed in March 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 2008 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 2008.

Hon. Mark Brown
Minister of Finance

15^h March 2011

Priscilla Maruariki
Acting Financial Secretary

15th March 2011

OVERVIEW

Introduction

These financial statements contain the audited results for the year ended 30 June 2008.

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 overall balance at year end totalled \$199.7 million, an increase of \$2.7 million from the 2006/07 financial year of \$197.0 million.

The detailed table below discloses the actuals in two columns, both the year being reported (2007/08) and last year (2006/07). 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 2008 \$000		Actual			
		Crown 2008 \$000	Approp 2008 \$000	Crown 2007 \$000	Approp 2007 \$000
	Revenue and Expenses from Crown Funded Activities				
	<i>Revenue</i>				
76,420	Taxation & levies	78,035	79,650	85,563	82,563
5,028	Provision of goods and services	34,260	6,574	31,079	6,358
8,233	Other	11,235	7,664	12,458	16,671
<u>89,681</u>		<u>123,529</u>	<u>93,888</u>	<u>129,180</u>	<u>105,592</u>
	<i>Expenses (by functional classification)</i>				
9,235	Welfare and Grants	8,948	8,948	8,797	8,797
61,268	Wages, Salaries, and Employee Benefits	48,829	41,426	45,855	39,411
2,252	Depreciation and Amortisation Expenses	10,619	4,446	10,147	4,491
-	Finance Cost	2,043	506	1,710	864
-	Doubtful Debts	721	73	298	298
-	Net(Gain)/Loss on Foreign Exchange	3,445	4,707	(8491)	-
-	Audit Fees	241	12	222	14
-	Private School Funding	1,356	1,356	1,251	1,251
1,316	Air NZ Subsidy	3,036	3,036	-	-
14,810	Other Operating Expenses	42,520	32,505	49,044	27,203
<u>88,881</u>		<u>121,758</u>	<u>97,015</u>	<u>108,833</u>	<u>82,329</u>
800	Net Surplus from Crown Funded Activities	1,771	(3,127)	20,347	23,263

The Statement of Financial Performance (pages 24 and 25) shows that the Crown had an overall operating balance (surplus) of \$2.7 million, made up of \$1.8 million from Crown operating activities and an aid surplus of \$0.9 million. As shown in note 6, the Aid Activities surplus is because aid is of a capital nature and increases the fixed assets line in the Statement of Financial Position.

This compares to a surplus of \$25.4 million for 2006/07, which included a crown activity surplus of \$11.8 million, net foreign exchange gains of \$8.5 million and an operating surplus of \$5.1 million from Aid Activities.

Actual Appropriation Compared to Budget Appropriation

The 2007/08 Appropriation actual made a net operating deficit of \$3.1 million compared to an operating budget surplus of \$0.8 million on Crown funded activities. Contributing to the variance was overspending across a variety of functional areas (\$8.1m).

This was offset somewhat by collection of revenue above budget (\$4.2m)

Revenue

The total revenue was above budget by \$4.2 million.

Trading revenue (provision of goods and services) was above budget by \$1.5 million. This is due mainly to the \$1.1m from the Financial Supervisory Commission which was budgeted in Other Income.

Investment income was \$3.2m above that budgeted due to better than expected interest revenue on funds (\$1.9m) and equity-accounted earnings from associates which is not budgeted for (\$2.9m).

Expenses

The Crown's total expenses were over budget by \$8.1 million.

The expenditure was over budget mainly in Other Operating Expenses (\$17.7m). Offsetting this was the under spending in Wages and Salaries and Welfare and Grants.

Actual Appropriation Compared to Prior Year Appropriation

Revenue

The Crown's tax revenues showed a decrease of \$7.5 million from the previous year resulting primarily from an decrease in Individual Income Tax (\$5.4 million), VAT (\$2.3 million), and Company Tax (\$0.9 million). Offsetting these increase was a slight increase in Customs Levies (\$0.6 million)

Expenses by Output Type

Budget Approp 2008 \$000		Actual			
		Crown 2008 \$000	Approp 2008 \$000	Crown 2007 \$000	Approp 2007 \$000
	Welfare Benefits, Grants and Transfer Payments				
4,795	Old age benefits	4,645	4,647	4,619	4,619
3,189	Child benefits	3,091	3,091	3,191	3,191
602	Destitute and infirm benefits	584	584	546	546
265	Parliamentary superannuation benefits	249	249	255	255
160	Student Grants	161	161	130	-
224	Other Grants	218	218	56	205
<u>9,235</u>		<u>8,948</u>	<u>8,950</u>	<u>8,797</u>	<u>8,816</u>
	Personnel				
41,391	Salaries and wages	47,117	39,769	44,311	37,834
-	Employee superannuation subsidy	1,712	1,657	1,544	1,544
<u>41,391</u>		<u>48,829</u>	<u>41,426</u>	<u>45,855</u>	<u>36,290</u>
	Depreciation and Amortisation				
2,252	Depreciation on Infrastructure Assets	4,347	1,817	6,231	1,840
2,856	Depreciation on Property, Plant and Equipment	6,266	2,623	3,914	2,650
-	Amortisation on Intangible Assets	6	6	2	2
<u>5,108</u>		<u>10,619</u>	<u>4,446</u>	<u>10,147</u>	<u>4,492</u>
	Finance Costs				
510	Interest Expense on Foreign-Sourced Loans	524	351	698	698
255	Interest Expense on Domestic Loans	1,519	154	1,012	166
<u>765</u>		<u>2,043</u>	<u>506</u>	<u>1,710</u>	<u>864</u>
32,382	Other Operating Expenditure	51,319	41,688	42,324	36,887
<u>88,881</u>	Total Expenses by Output Type	<u>121,758</u>	<u>97,016</u>	<u>108,833</u>	<u>87,349</u>

n/b - these expense categories were not separately classified within the 2007/08 budget.

Expenditure on Appropriation Funded Activities has increased from \$87.3 million to \$97.0 million on the previous year. Transfer payments to beneficiaries have shown an increase (\$0.2 million) on the previous year. This is primarily due to an increase in old age benefits paid.

Personnel costs have increase from \$36.3 million to \$41.4million. This \$5.2 million increase was due mainly to the Cost of Living Adjustment (COLA) payment during the 2007/2008 year.

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 fixed assets within the Statement of Financial Position with a corresponding increase in the Crown Balance. 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 million for 2007/2008.

Financial Position

	Crown 2008 \$000	Crown 2007 \$000
Assets		
<i>Current assets</i>		
Cash and Term deposits	69,938	64,649
Trust accounts	7,088	5,946
Inventory	4,322	2,369
Debtors and receivables	19,165	23,005
Investments	6,698	5,904
Other Assets	-	467
	<u>107,211</u>	<u>102,339</u>
<i>Non-current assets</i>		
Investments	4,863	5,282
Banking investment portfolio	20,335	16,530
Fixed and infrastructural assets	158,276	159,832
	<u>183,474</u>	<u>181,643</u>
Total Assets	290,685	283,982
Liabilities		
<i>Current liabilities</i>		
Creditors and payables	10,051	8,962
Employee entitlements	1,460	1,910
Trustee liabilities	6,595	6,910
Current portion of Banking customer deposits	20,656	19,161
Current portion of Borrowings	3,187	2,264
Customer bonds	461	391
	<u>42,410</u>	<u>39,598</u>
<i>Non-current liabilities</i>		
Banking customer deposits	943	1,389
Members of Parliament pension liability	2,028	2,028
Borrowings	45,573	43,983
	<u>48,544</u>	<u>47,400</u>
Total Liabilities	90,954	86,998
Crown Balance	199,731	196,984

Crown Balance

The Crown Balance has increased from \$197 million to \$199 million.

Cash and Term Deposits

Cash and term deposits (excluding trust accounts) have increased by \$5 million over the previous year. There was positive cash flow from operating activities (\$19.5 million), however this was offset by the net cash outflows from investing activities (\$13.6 million) and financing activities (\$0.6 million)..

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 increased from \$2.4 million to \$4.3 million this current financial year. Increases are attributed to diesel and fuel held as stock by Te Aponga and Police.

Debtors and Receivables

The debtors and receivables balances have dropped slightly to \$19.2 million (down \$3.8 million). Contributors to this decrease were a decrease in taxes receivable (\$5million), parallel to a slight decrease in prepayments (\$0.2 million). Offsetting this was an increases in accounts receivable (\$0.8 million)

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% (2007: 16.50%-17.50%) are applicable on consumer loans.

Creditors and Payables

The Crown shows an increase in creditors and payables (\$1.1 million) from \$9 million in 2006/07 to \$10 million this year. This was driven by an increase in the creditors, accruals and provisions (\$2.4 million). Offsetting this increase was a decrease in taxation refund payable(\$1.2 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 2006/07 figure of \$46.2 million (including local domestic borrowings) to \$48.8 million as at balance date.

Overall, debt of \$2.8 million was repaid during the year to various lenders and in addition to this there was a unfavourable unrealised foreign exchange movement of \$4.2 million. These movements are detailed in the Statement of Borrowings pages 33 – 38.

Members of Parliament Pension Liability

Legislation was passed by Parliament in 2003 to incorporate the Members of Parliament pension scheme into the Cook Islands National Superannuation Fund. 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 19)

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 23.

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 2008.

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:

	<u>STANDARDS</u>	<u>EFFECTIVE DATE</u>
A.	IPSAS 25 Employee Benefits	1/01/2011
B.	IPSAS 26 Impairment of Cash Generating Assets	1/04/2009
C.	IPSAS 27 Agriculture	1/04/2011
D.	IPSAS 28 Financial Instruments: Recognition and Measurement	1/01/2013
E.	IPSAS 29 Financial Instruments: Presentation	1/01/2011

F.	IPSAS 30 Financial Instruments: Disclosure	1/01/2013
G.	IPSAS 31 Intangible Assets	1/04/2011

These new standards have been issued but are not yet effective for the Crown. The Crown will have to consider these new standards in future years. Crown has not yet determined the effect of these new standards.

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.

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.

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.

STATEMENT OF ACCOUNTING POLICIES

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
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

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.

STATEMENT OF ACCOUNTING POLICIES

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.

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.

STATEMENT OF ACCOUNTING POLICIES

Intangible Assets(continued)

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

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

Software, databases	3 - 5 years
---------------------	-------------

Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts.

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.

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.

STATEMENT OF ACCOUNTING POLICIES

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. 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.

STATEMENT OF ACCOUNTING POLICIES

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 improvement's 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

Plant, Property, and Equipment

As at the beginning of this reporting period, 1st July 2007, the Crown has voluntarily changed the accounting policy surrounding the carrying value of plant, property, and equipment (PPE). The new policy records all PPE as cost less accumulated depreciation/amortisation and impairment whereas the previous policy required certain SOE assets to be carried at revalued amounts.

IPSAS 3 – Accounting Policies, Changes in Estimates, and Errors provides that for a change in accounting policy, retrospective adjustments are to be done through one of two allowed approaches:

- benchmark approach in which the value of the adjustment is taken through opening retained earnings; or
- alternative approach in which the value of the adjustment is brought through the current year's profit.

IPSAS 3 allows for a prospective application using either of the approaches above in the event that it is impracticable or impossible to determine accurate values relating to adjustments required.

As the historical adjustments cannot be determined in any practicable and timely manner, and those values that are available to the Crown are incomplete and unverifiable, including them into the financial statements would not be beneficial and would not provide more reliable information to be presented. As

STATEMENT OF ACCOUNTING POLICIES

CHANGES IN ACCOUNTING POLICIES *(continued)*

such, the Crown has adopted the prospective application to this change in policy. Therefore, the effect of this change in policy will be reflected from this accounting period going forward.

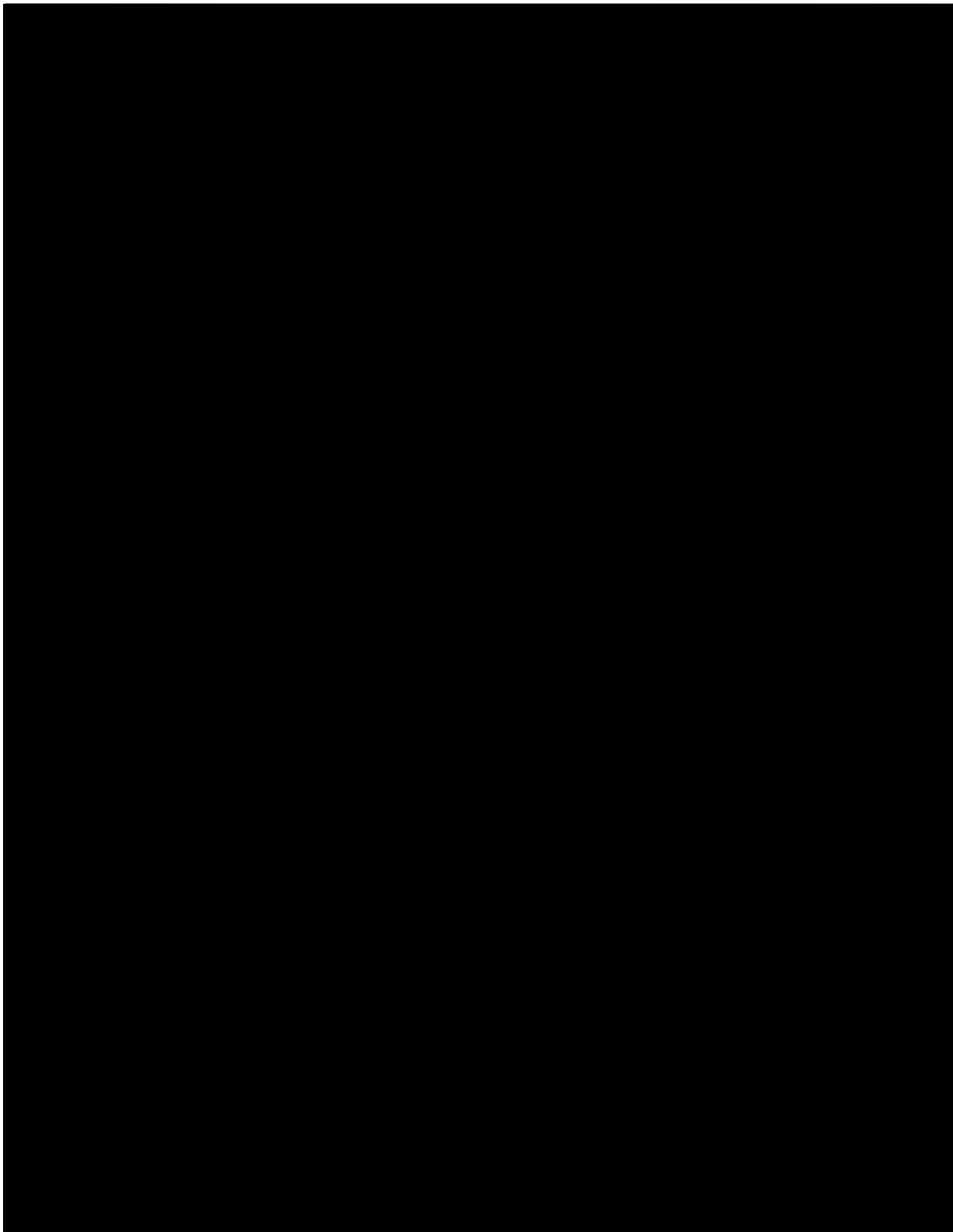
As there were no revaluations done in any of the entities making up the Cook Islands Government for the year ended 30 June 2008, no adjustments have been made in this period.

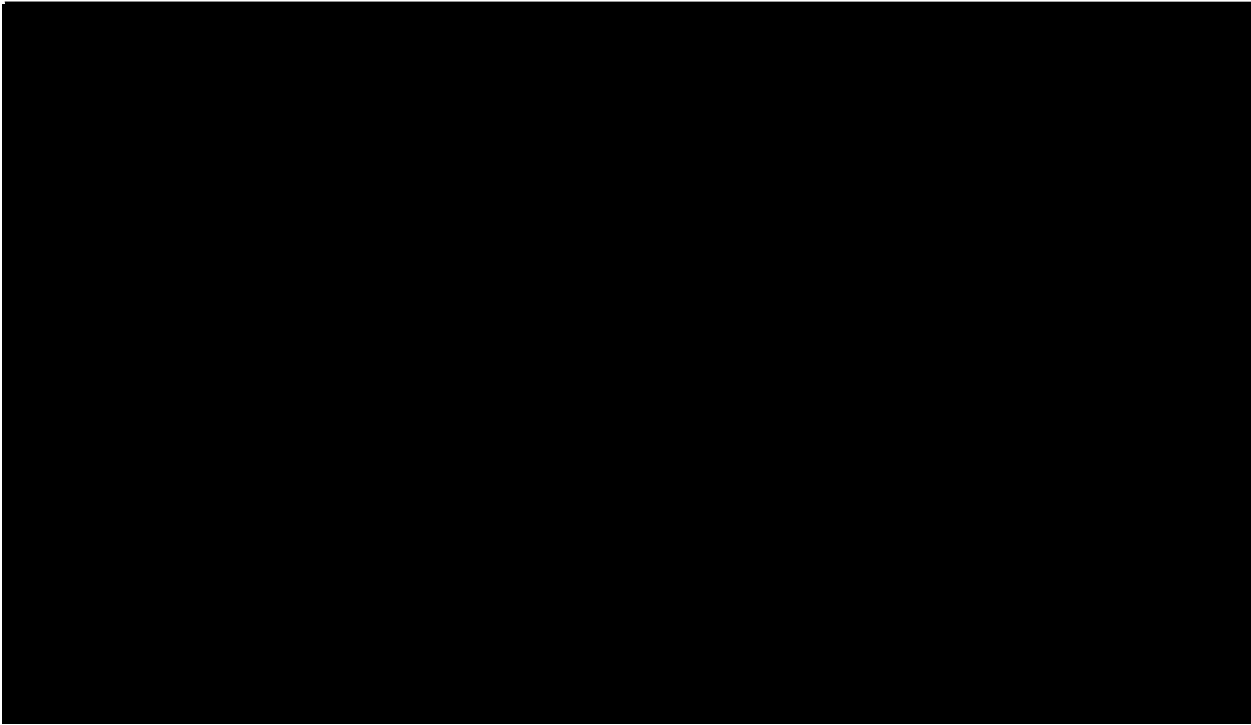
Schedule of Crown Entities

Reporting Entity as at 30 June 2008

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 Cook Islands Natural Heritage Trust Crown Law Cultural Development Business Trade Investment Board Education Finance and Economic Management Financial Intelligence Unit Financial Supervisory Commission Foreign Affairs and Immigration Health Human Resource Development Internal Affairs Justice Marine Resources Outer Island Head Office and Support Parliamentary Services Police Prime Minister's Office Public Service Commission Tourism Corporation Transport Tu'anga Taporoporo (Environment) Works</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</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 Suwarow 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 OMIA Minister of Foreign Affairs, Immigration, Youth & Sports and Transport Minister of Justice Office of the Leader of the Opposition Head of State</p>
--	---





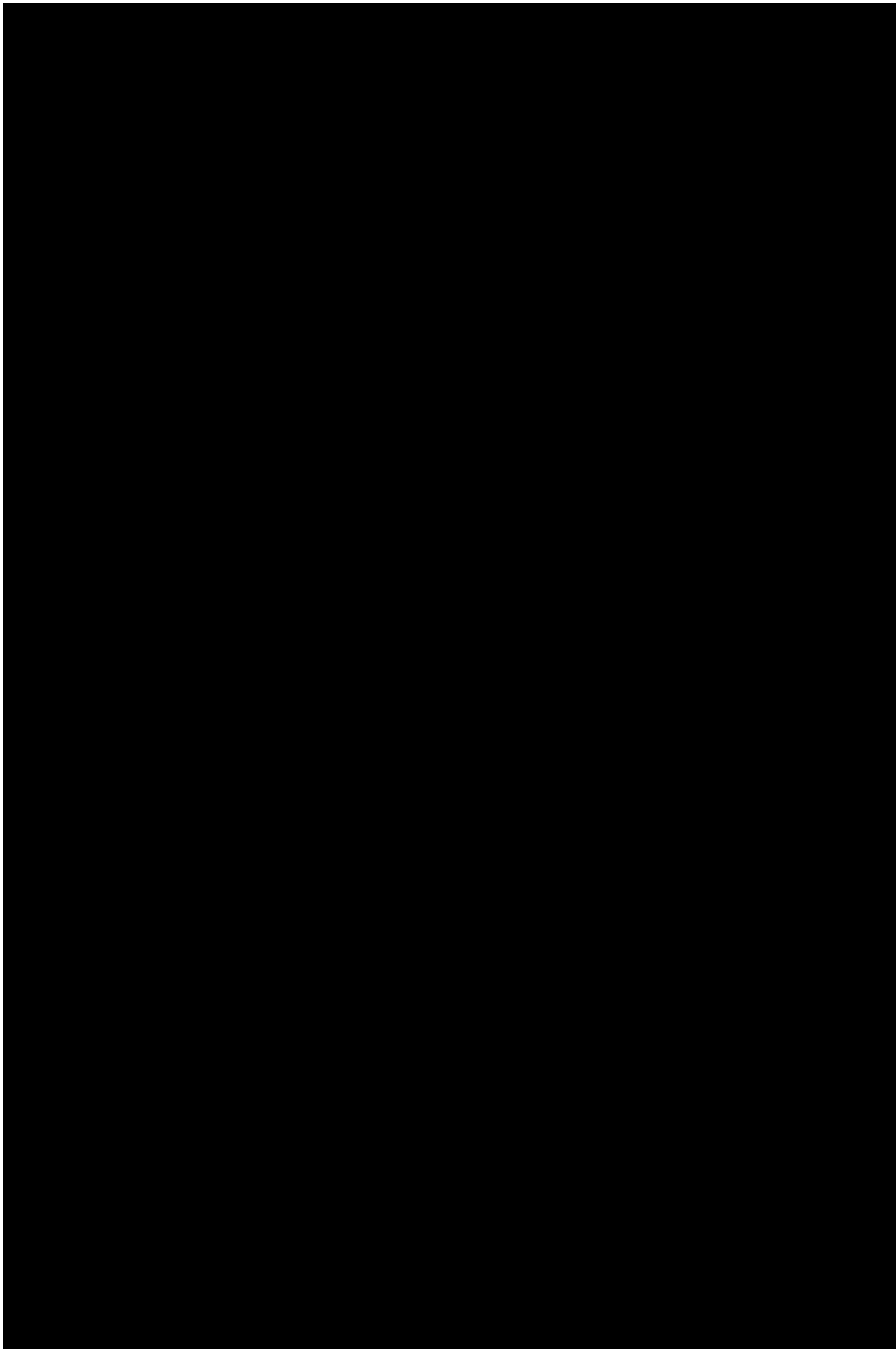
Statement of Changes in Net Assets / Equity

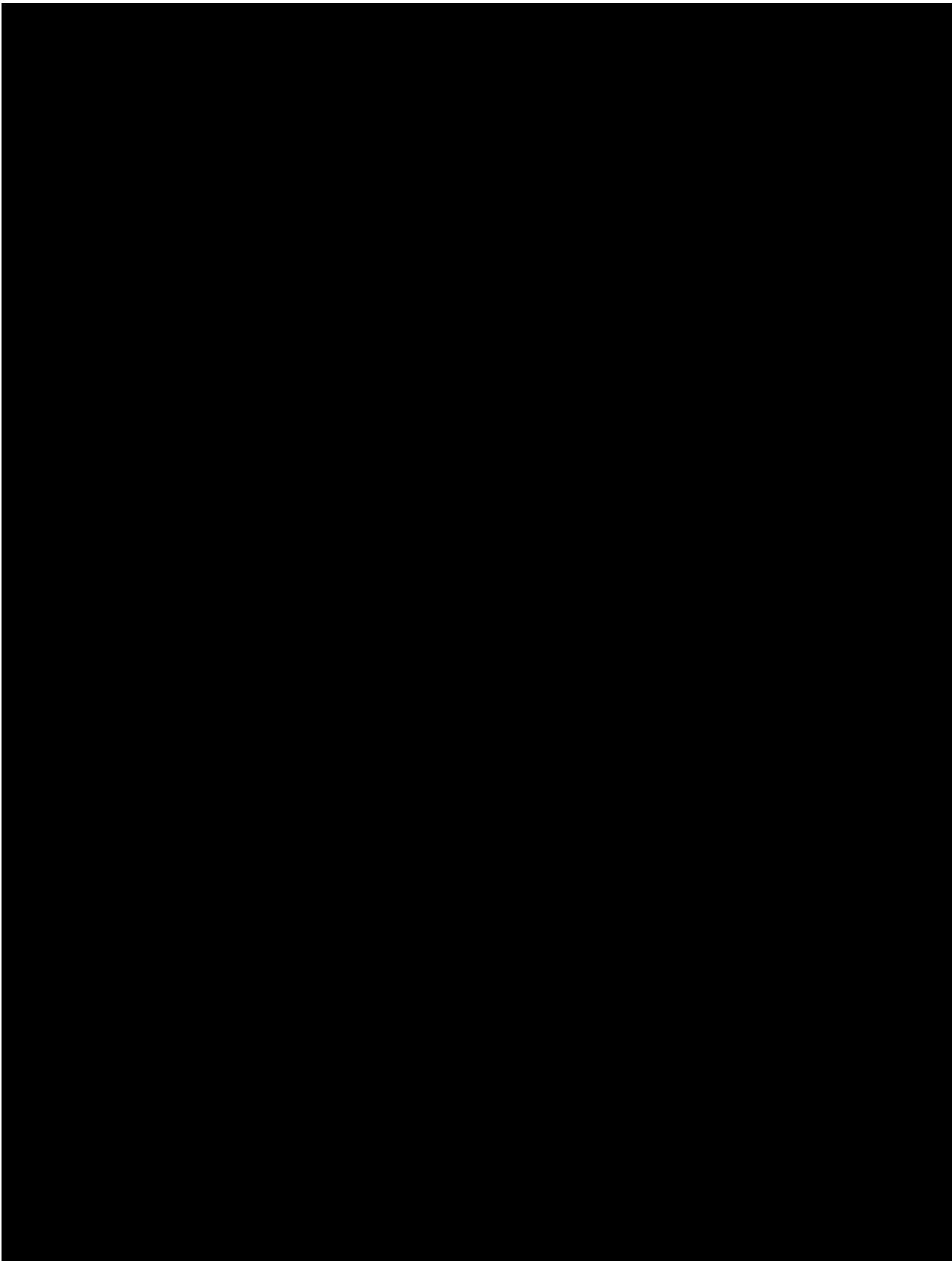
For the Year Ended 30 June 2008

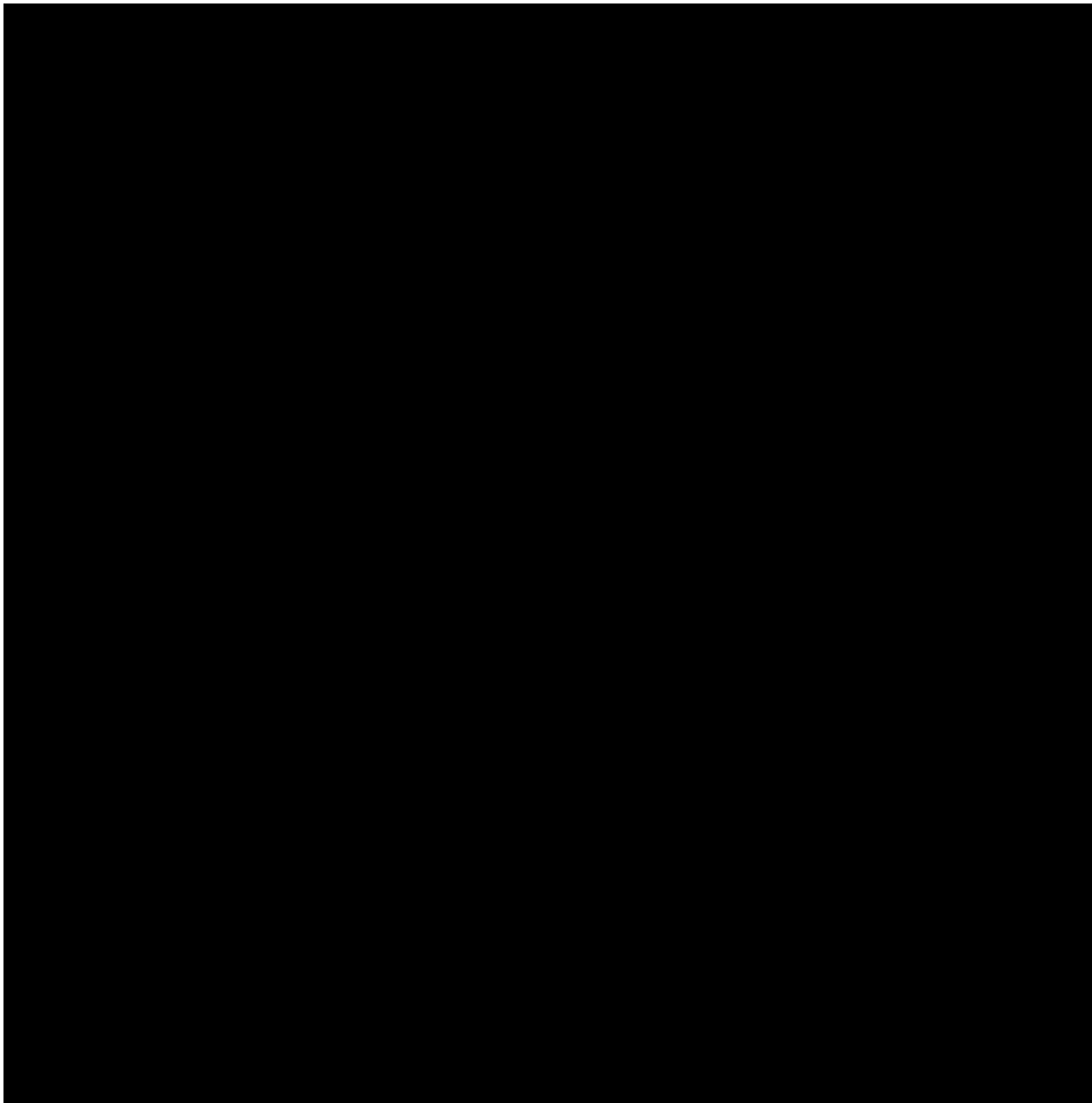
	General Reserves	Revaluation Reserves	Accumulated Surpluses / (Deficits)	Total Net Assets / Equity
Balance as at 30 June, 2006	338	33,979	135,143	169,460
Changes in accounting policy				0
Restated balance as at 30 June, 2006	338	33,979	135,143	169,460
Changes in net assets / equity for 2007:				
Gain on revaluation of plant, property and equipment		2,098		2,098
Net surplus / (deficit) for the year			25,426	25,426
Total recognised revenue and expense for the year	0	2,098	25,426	27,524
Transfers to Trust Fund Reserve	348	0	(348)	0
Balance as at 30 June, 2007 carried forward	686	36,077	160,221	196,984

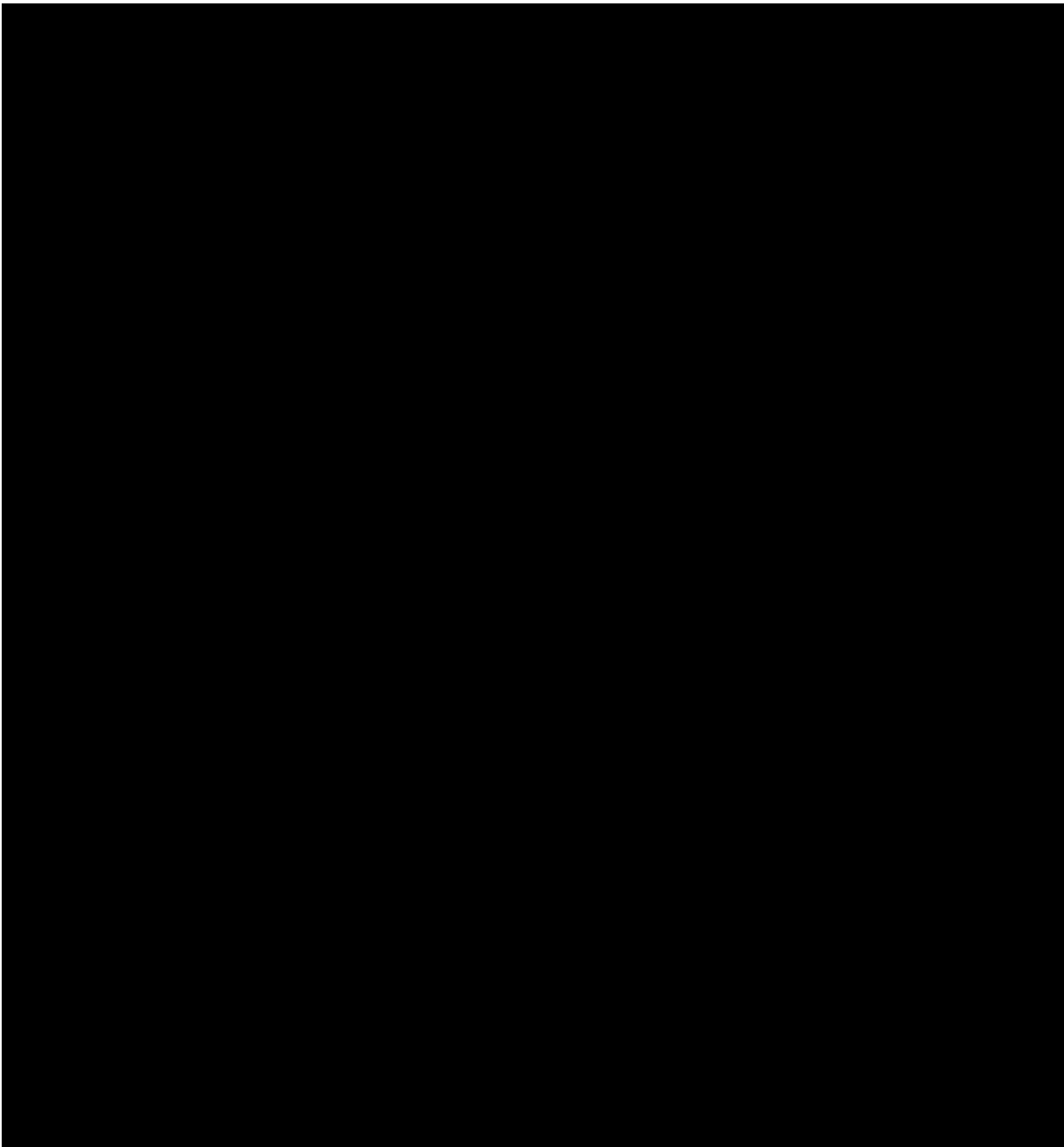
	General Reserves	Revaluation Reserves	Accumulated Surpluses / (Deficits)	Total Net Assets / Equity
Balance at 30 June, 2007 brought forward	686	36,077	160,221	196,984
Changes in net assets / equity for 2008:				
Gain on revaluation of plant, property and equipment		0		0
Net surplus / (deficit) for the year			2,747	2,747
Total recognised revenue and expense for the year	0	0	2,747	2,747
Transfers to Trust Fund Reserve	448	0	(448)	0
Balance as at 30 June, 2008 carried forward	1,134	36,077	162,520	199,731

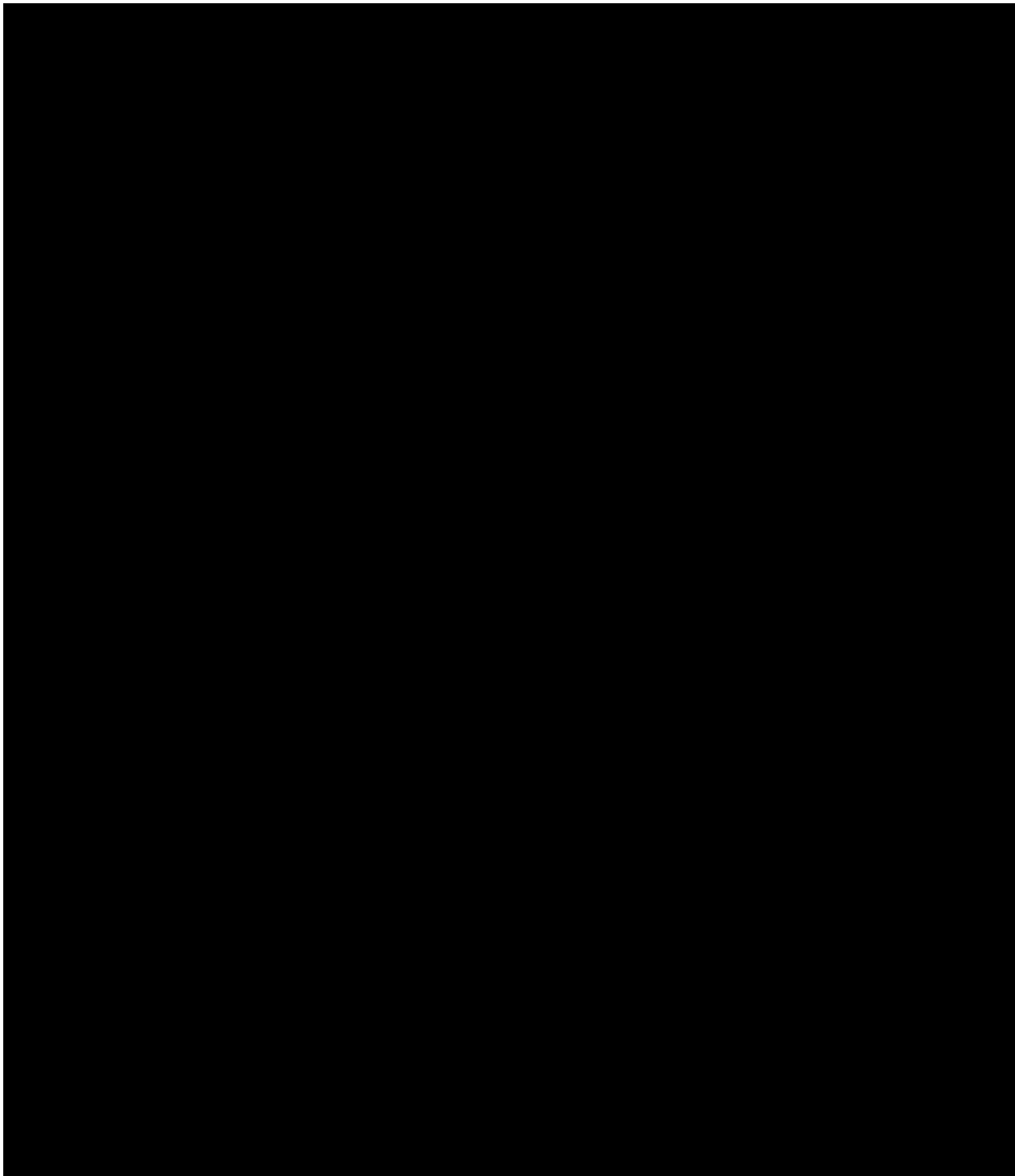
The accompanying notes should be read in conjunction with these Financial Statements.

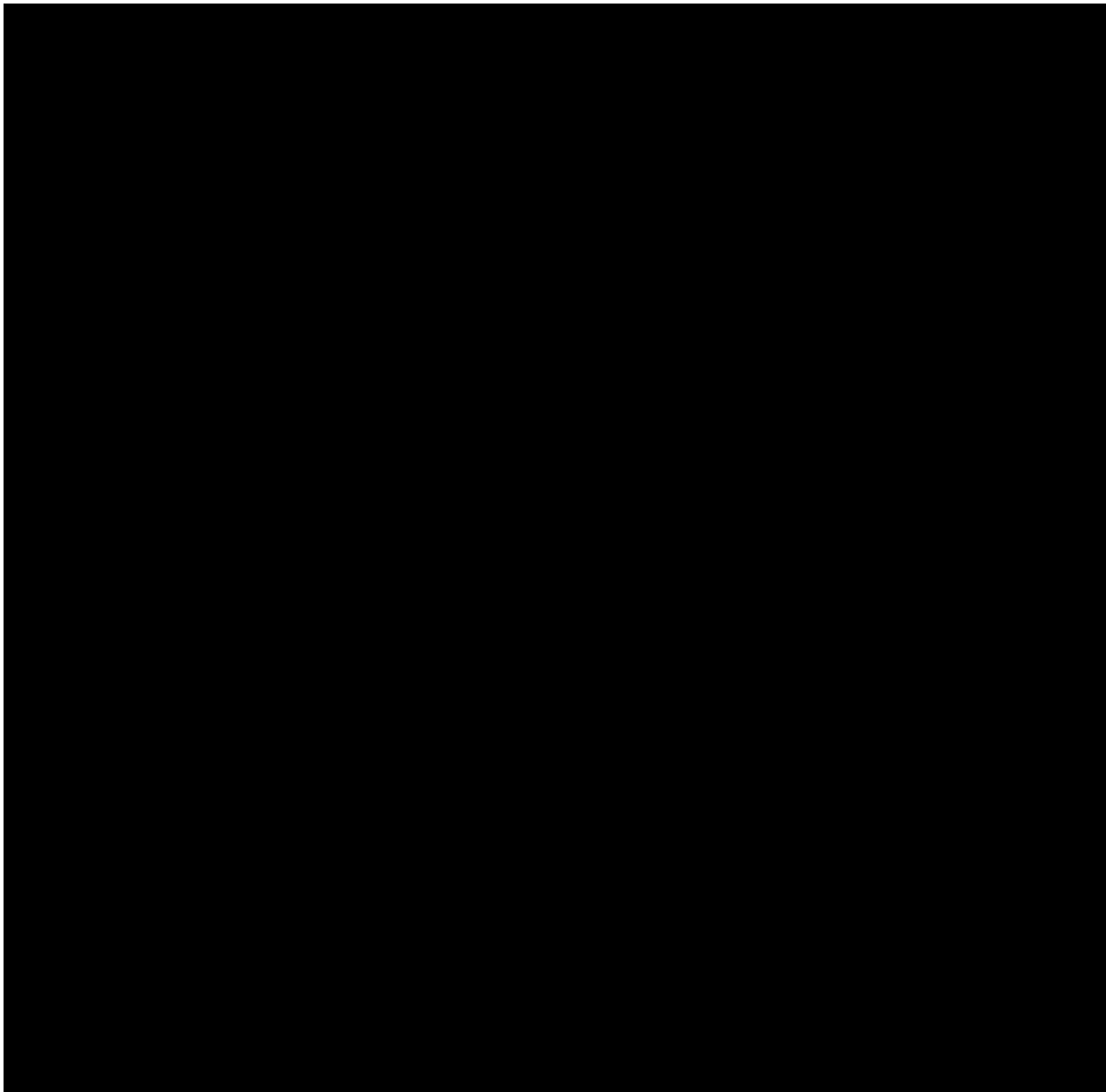


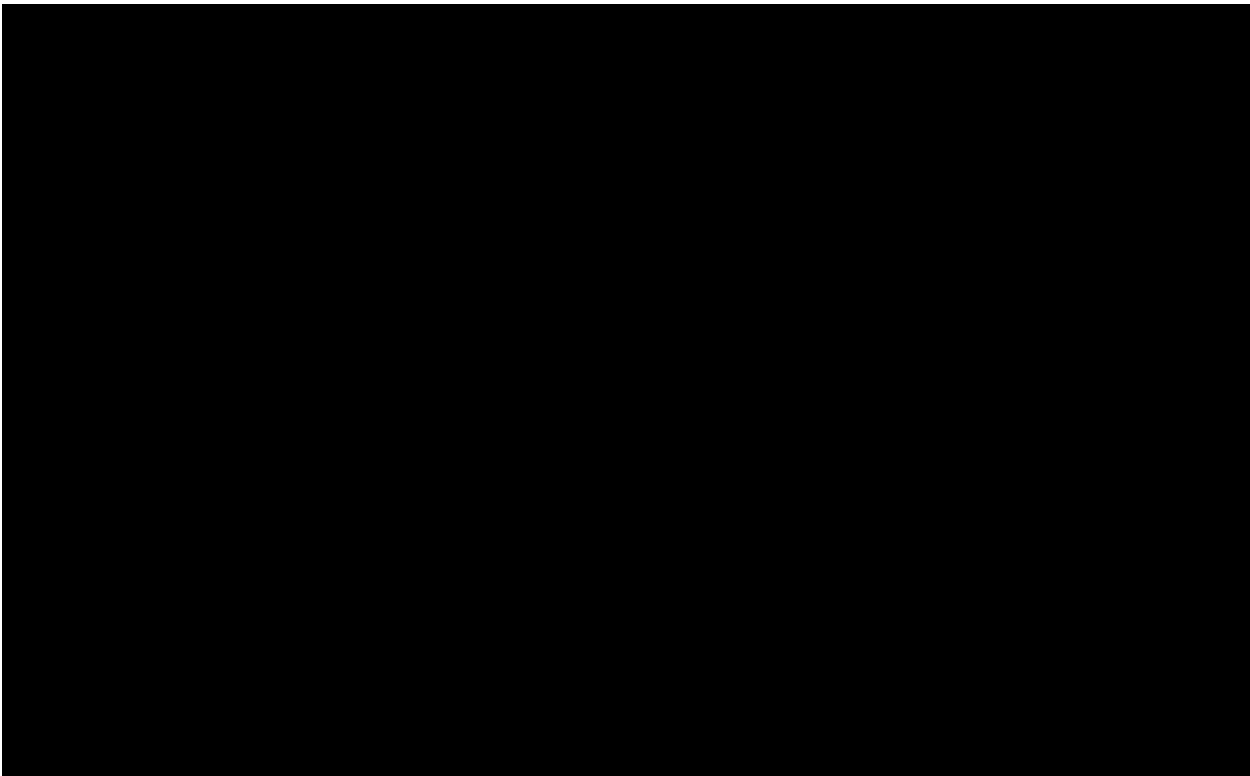


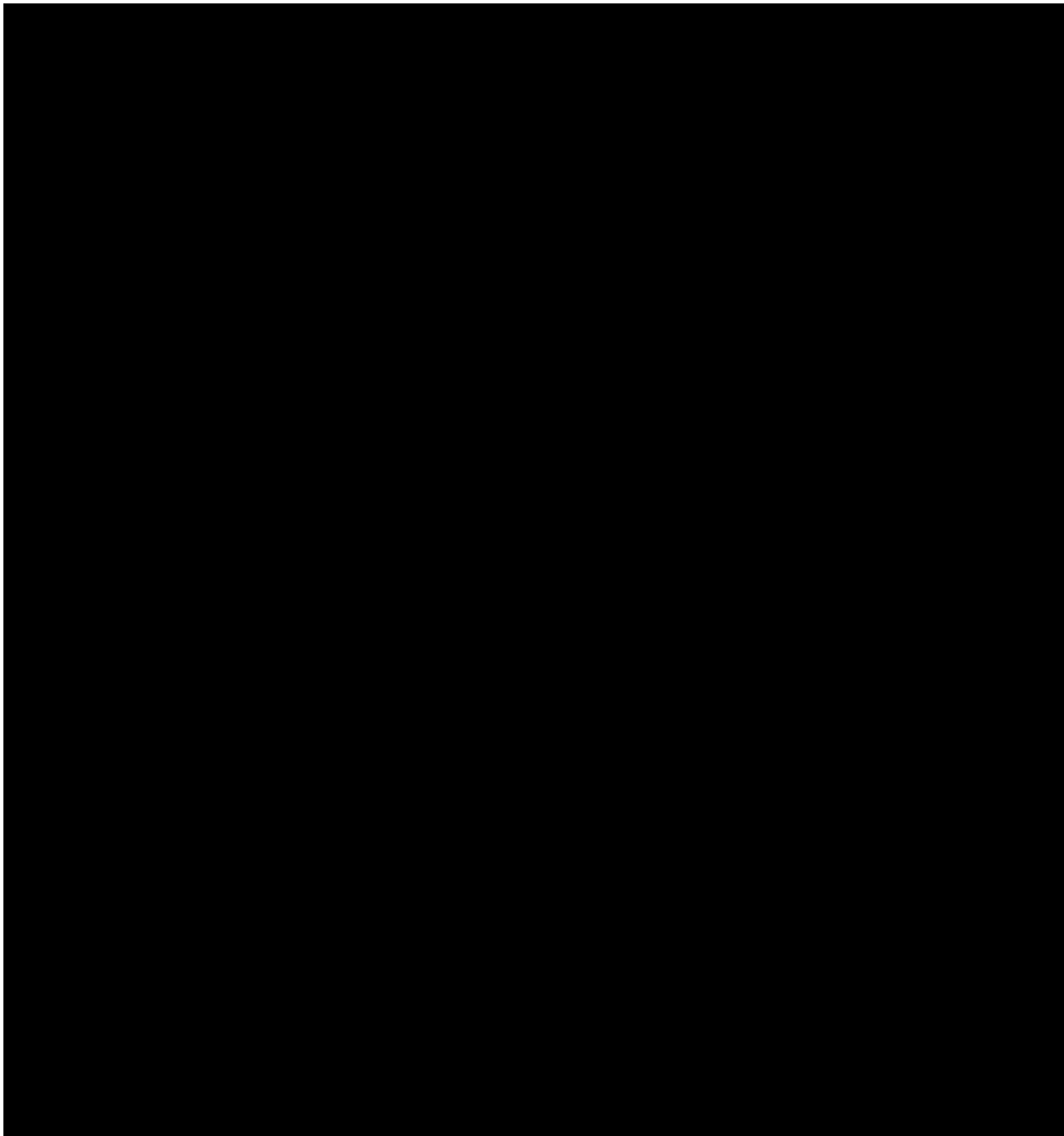


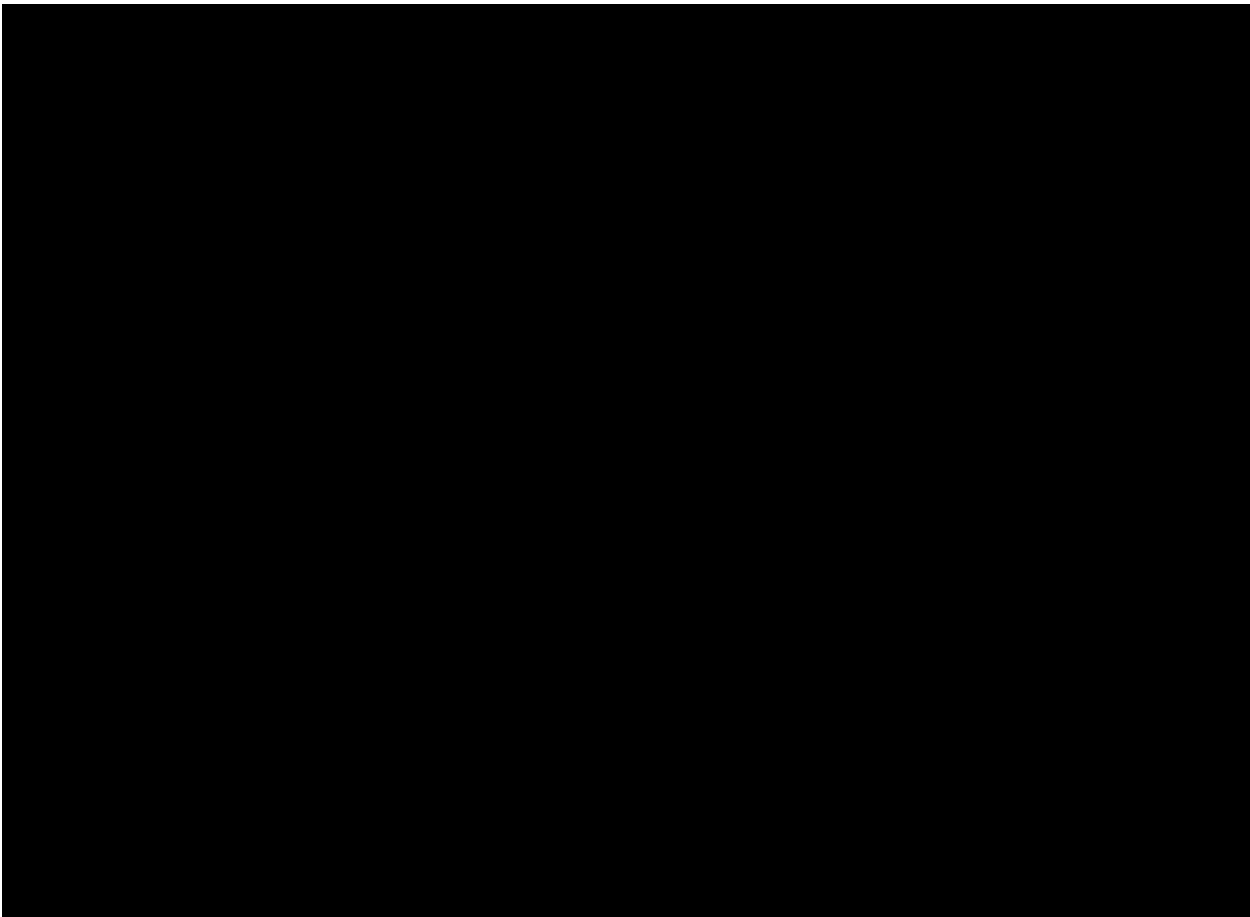












Statement of Borrowings (continued)

As at 30 June 2008

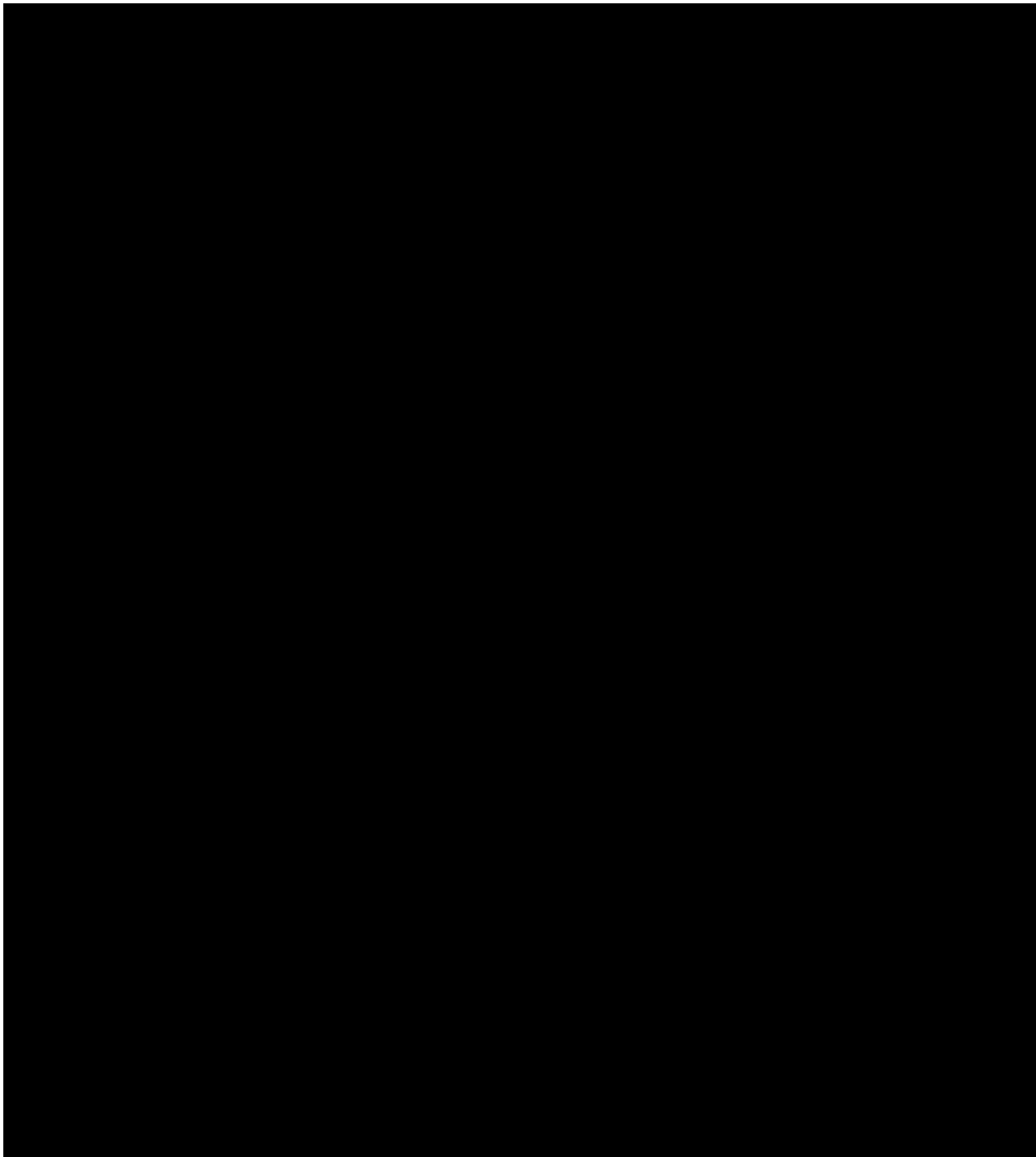
Maturity Profile as at 30 June 2008

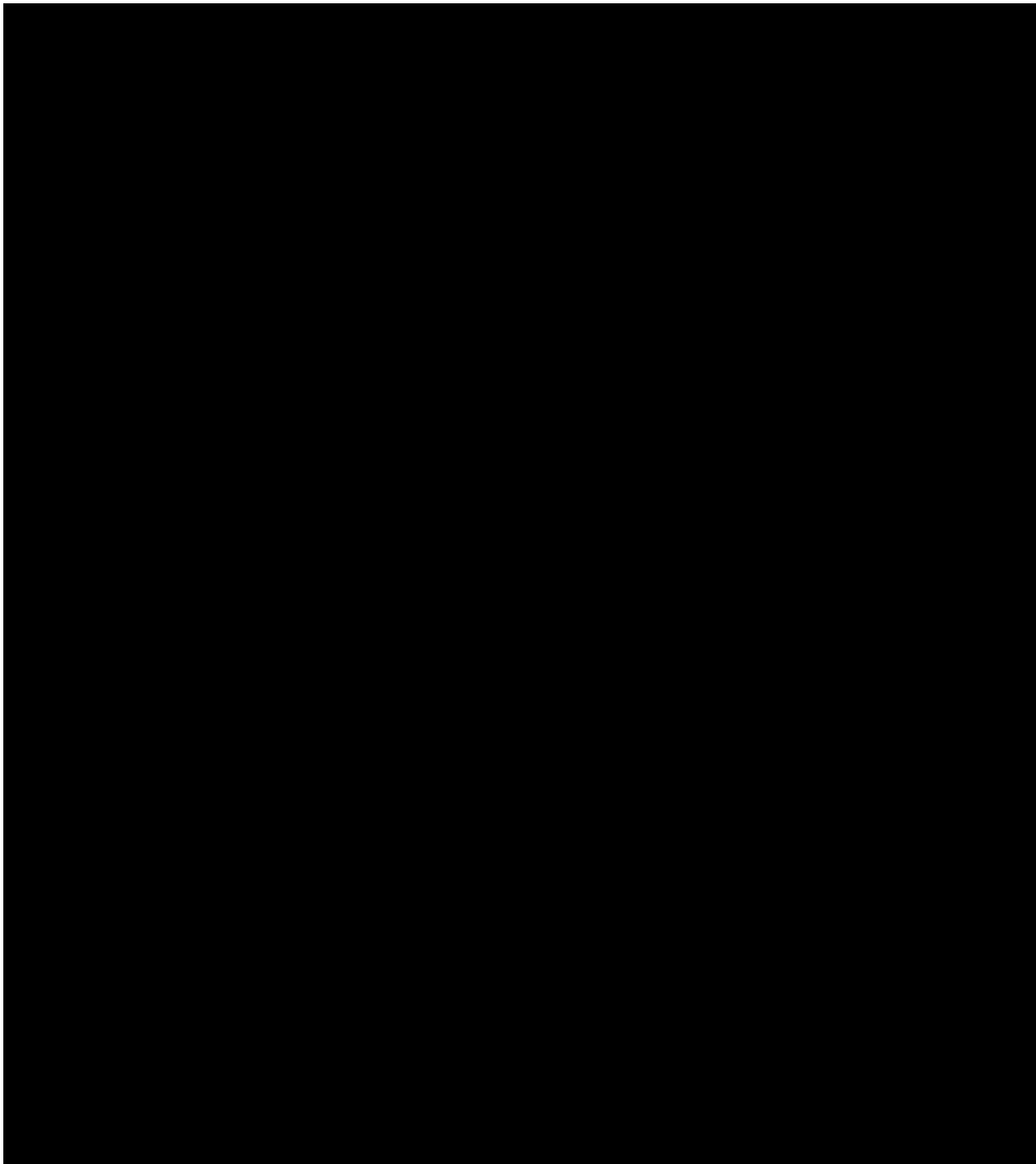
	2008/09	2009/10	2010/11	2011/12	2012/13 - 2016/17	2017/18 and after	Total book value
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
External Debt							
Asian Development Bank	1,585	1,107	1,385	1,486	15,220	15,547	36,330
Caisse Francaise de Developpement	361	361	361	361	1,804	4,604	7,852
NZ Government Superannuation Fund	771	706	765	854	928	-	4,024
Total External Debt	2,717	2,174	2,511	2,701	17,953	20,151	48,206
Local Debt							
Westpac Banking Corporation	470	77	7	-	-	-	554
Total Local Debt	470	77	7	-	-	-	554
Total Borrowings	3,187	2,251	2,518	2,701	17,953	20,151	48,760

Maturity Profile as at 30 June 2007

	2007/08	2008/09	2009/10	2010/11	2011/12 - 2015/16	2016/17 and after	Total book value
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
External Debt							
Asian Development Bank	782	841	970	1,042	6,015	23,434	33,084
Caisse Francaise de Developpement	630	630	630	630	3,154	1,577	7,254
NZ Government Superannuation Fund	458	540	706	765	1,781	-	4,250
Total External Debt	1,870	2,011	2,306	2,437	10,950	25,011	44,588
Local Debt							
Westpac Banking Corporation	394	438	830	-	-	-	1,662
Cook Islands Saving Bank Loan	-	-	-	-	-	-	-
Total Local Debt	394	438	830	-	-	-	1,662
Total Borrowings	2,264	2,449	3,136	2,437	10,950	25,011	46,250

The accompanying notes are an integral part of these financial statements





Notes to the Financial Statements

For the Year Ended 30 June 2008

2008
\$000

2007
\$000

Note 1: Taxation

Direct Taxation

Individual income tax	22,163	27,515
Company income tax	6,906	7,850
Total Direct Taxation	29,069	35,365

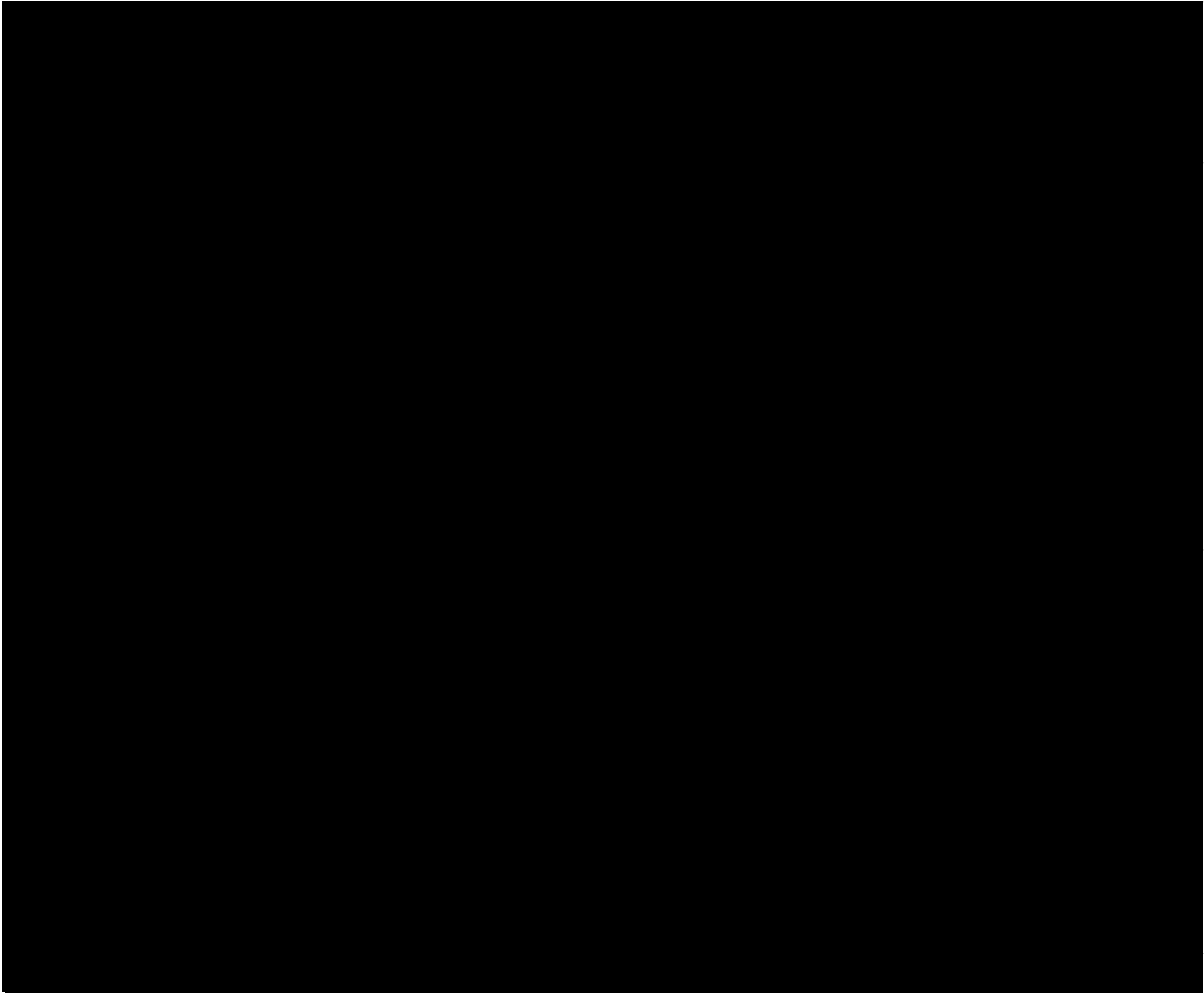
Indirect Taxation

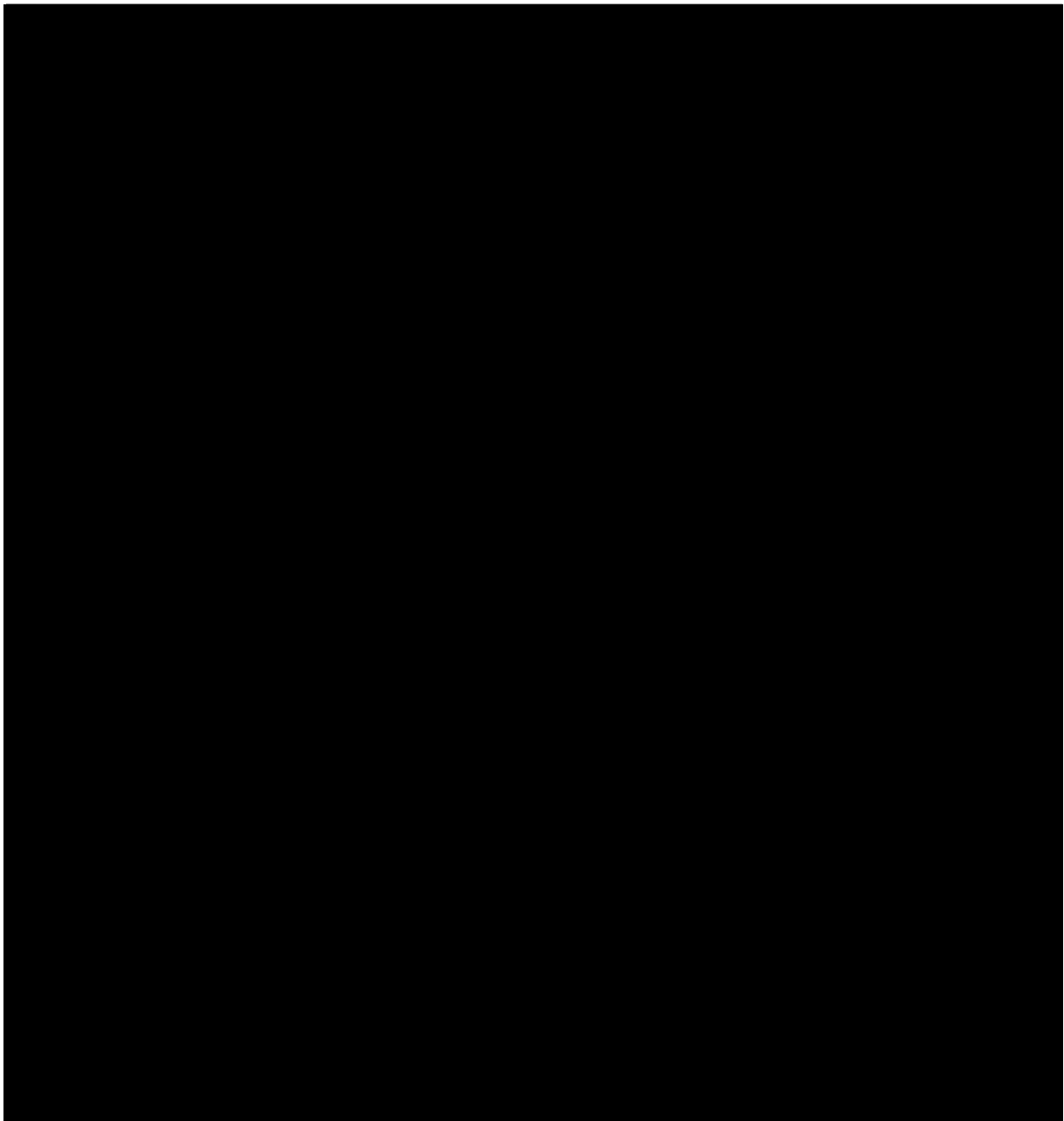
Value added tax	33,955	36,287
Customs levies	9,810	9,183
Departure tax	2,989	2,978
Environment tax	-	-
Total Indirect Taxation	46,753	48,448

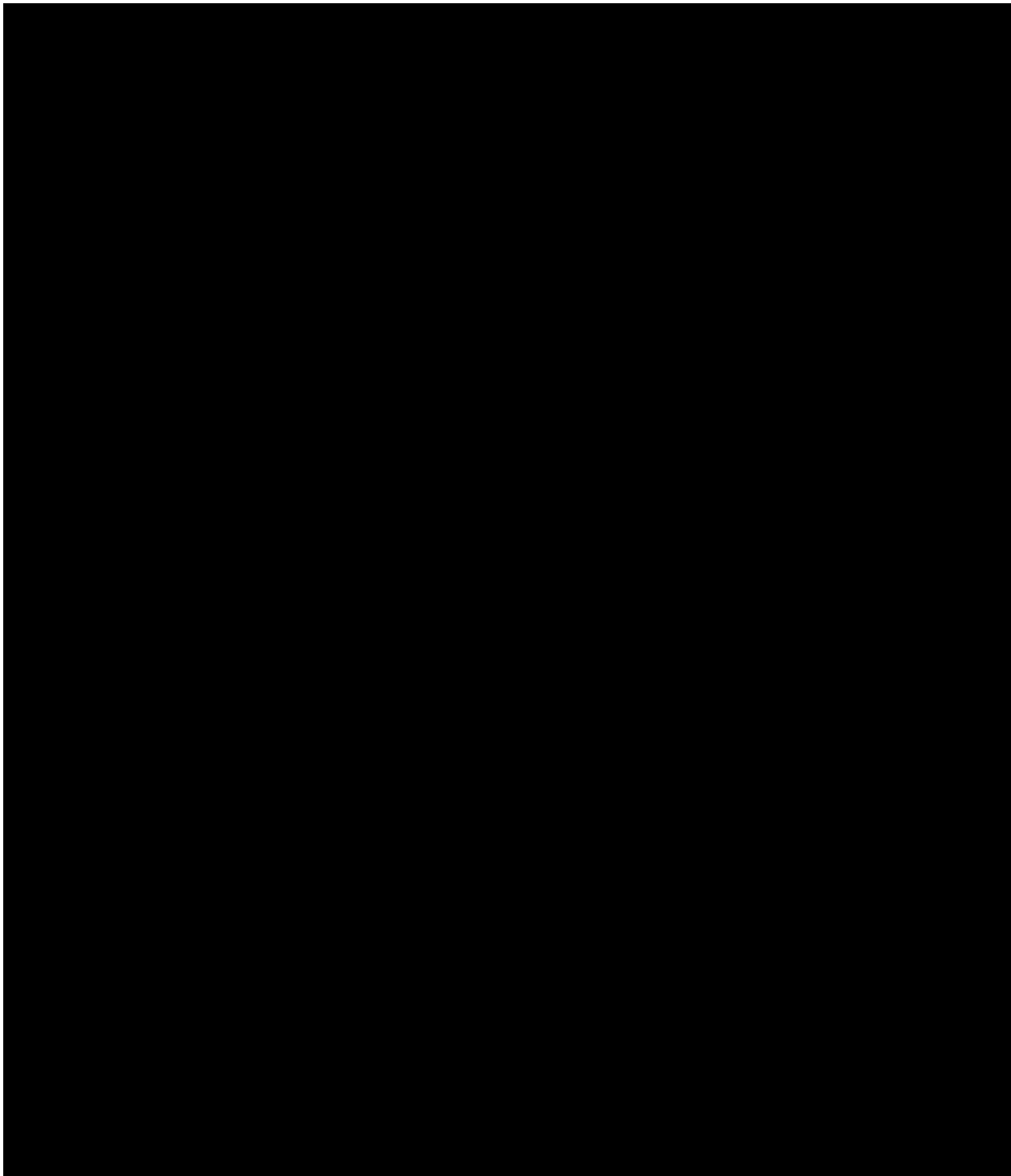
Total Taxation	75,822	83,813
-----------------------	---------------	---------------

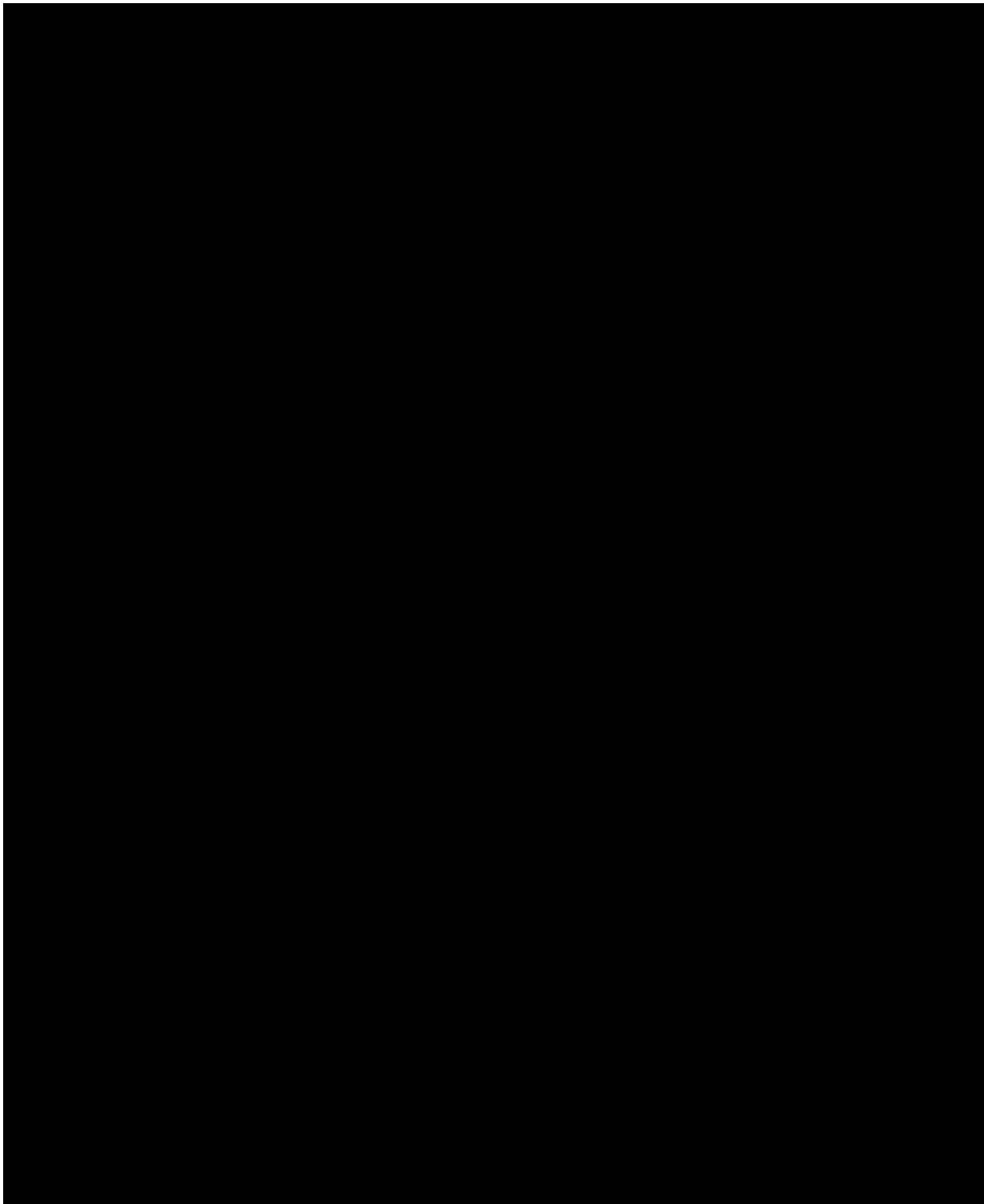
Note 2: Fees, Fines, Penalties, and Licenses

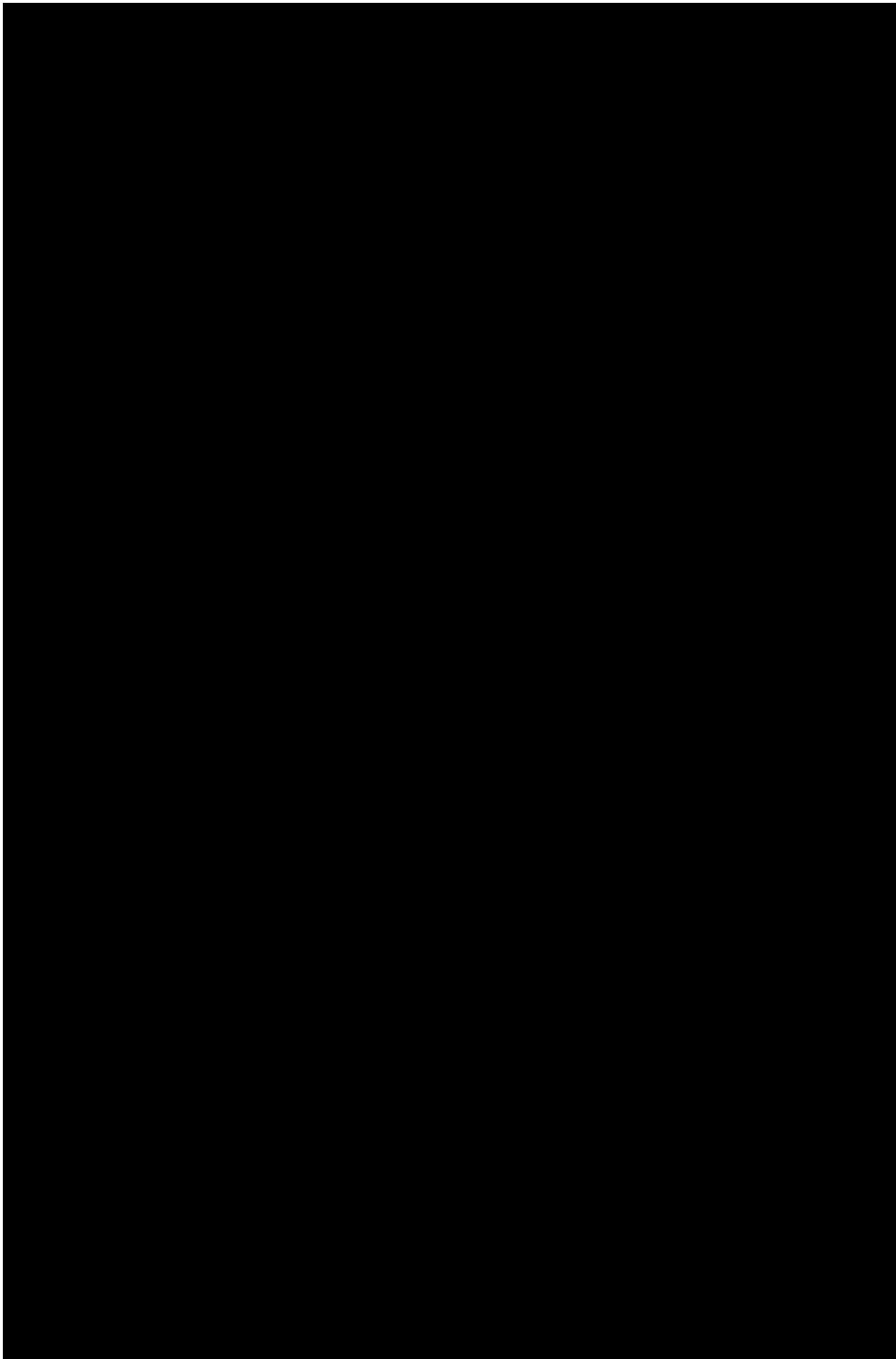
Registration fees	915	794
Road transport licensing	1,139	683
Court fines	128	326
Other fees, fines and levies	30	29
Total Compulsory Fees, Fines and Levies	2,212	1,832

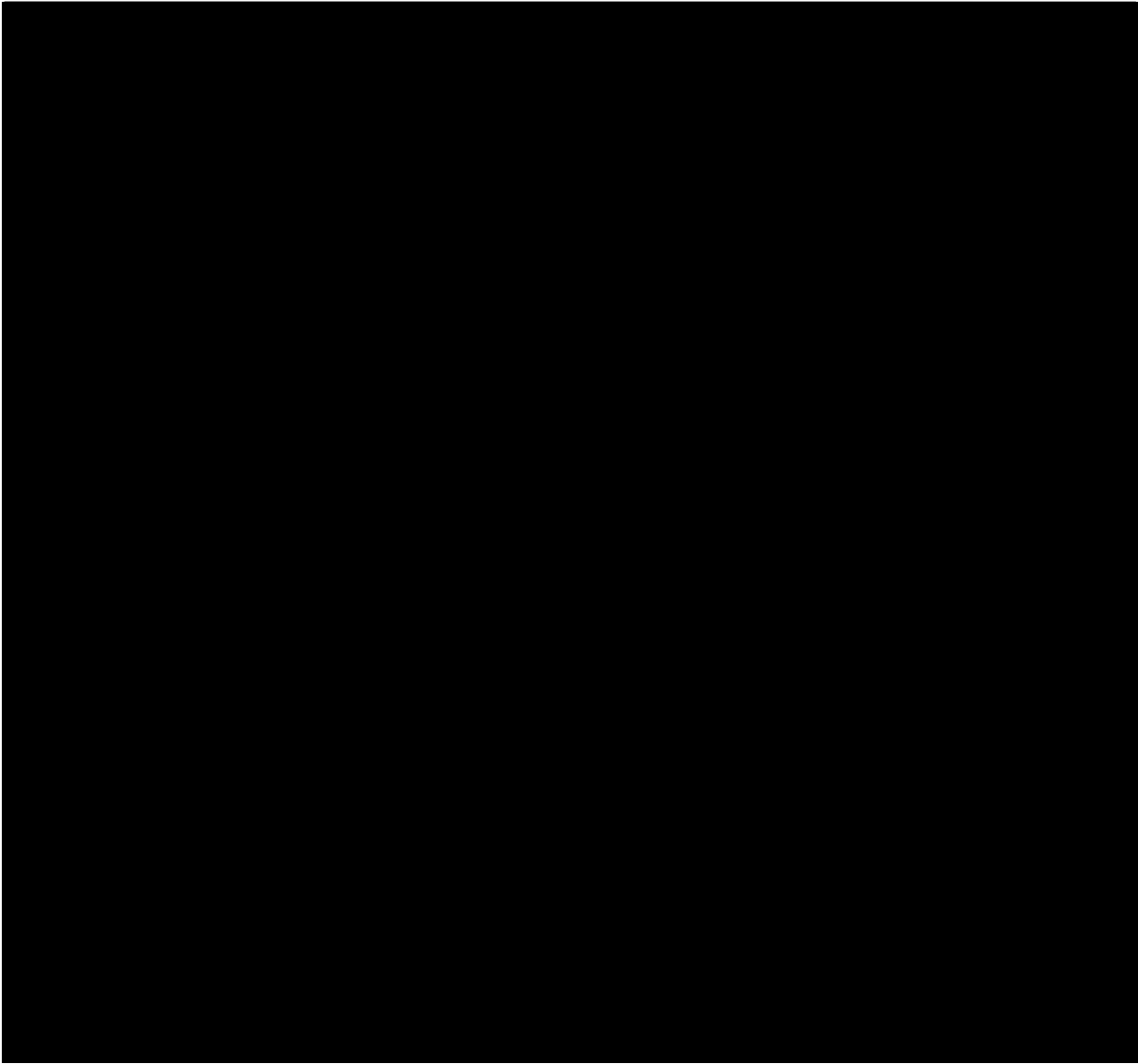


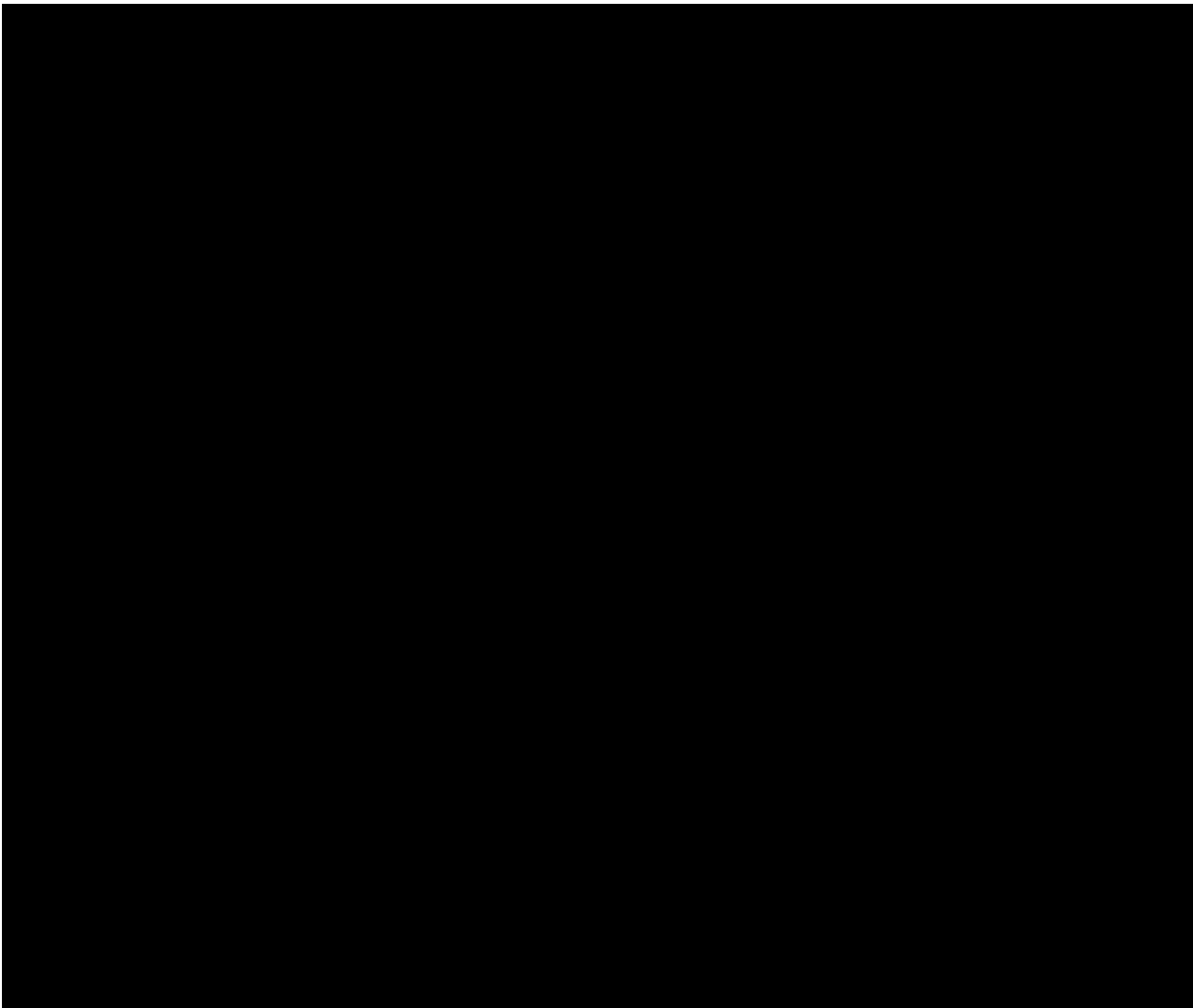












Notes to the Financial Statements (continued)

For the Year Ended 30 June 2008

Note 12a: Property, Plant, and Equipment 2008

Category	Opening Cost	Additions	Disposals	Closing Cost	Opening Accum Depn	Depreciation	Accum Depn on Disposals	Other	Closing Accum Depreciation	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	86,949

Note 12b: Property, Plant, and Equipment 2007

Category	Opening Cost	Additions	Disposals	Closing Cost	Opening Accum Depn	Depreciation	Accum Depn on Disposals	Other	Closing Accum Depreciation	Net Book Value
Office and computer equipment	5,125	317	737	4,705	3,221	350	127	-	3,443	1,261
Furniture and fittings	1,967	11	50	1,929	1,163	105	35	-	1,233	696
Motor vehicles	8,796	599	186	9,209	6,243	513	128	-	6,628	2,581
Plant and equipment	22,857	7,310	88	30,079	10,165	1,250	127	-	11,288	18,791
Buildings and improvements	56,264	4,456	-	60,720	10,630	1,676	82	-	12,224	48,496
Land	11,864	130	-	11,994	120	20	-	-	140	11,854
Work in progress	1,661	2,223	-	3,884	-	-	-	-	-	3,884
Total Property, Plant & Equipment	108,533	15,046	1,061	122,519	31,542	3,914	500	-	34,956	87,562

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

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2008

Note 13a: Intangible Assets 2008

Category	Opening Cost	Additions	Disposals	Closing Cost	Opening Accum Amort	Amortisation	Accum Amort on Disposals	Closing Accum Amortisation	Net Book Value
Purchased software	13	69	1	81	2	6	1	8	73
Developed software	183	21	-	204	183	-	-	183	21
Total Intangible Assets	196	90	1	285	185	6	1	190	94

Note 13b: Intangible Assets 2007

Category	Opening Cost	Additions	Disposals	Closing Cost	Opening Accum Amort	Amortisation	Accum Amort on Disposals	Closing Accum Amortisation	Net Book Value
Purchased software	-	13	-	13	-	2	-	2	11
Developed software	183	-	-	183	183	-	-	183	-
Total Intangible Assets	183	13	-	196	183	2	-	185	11

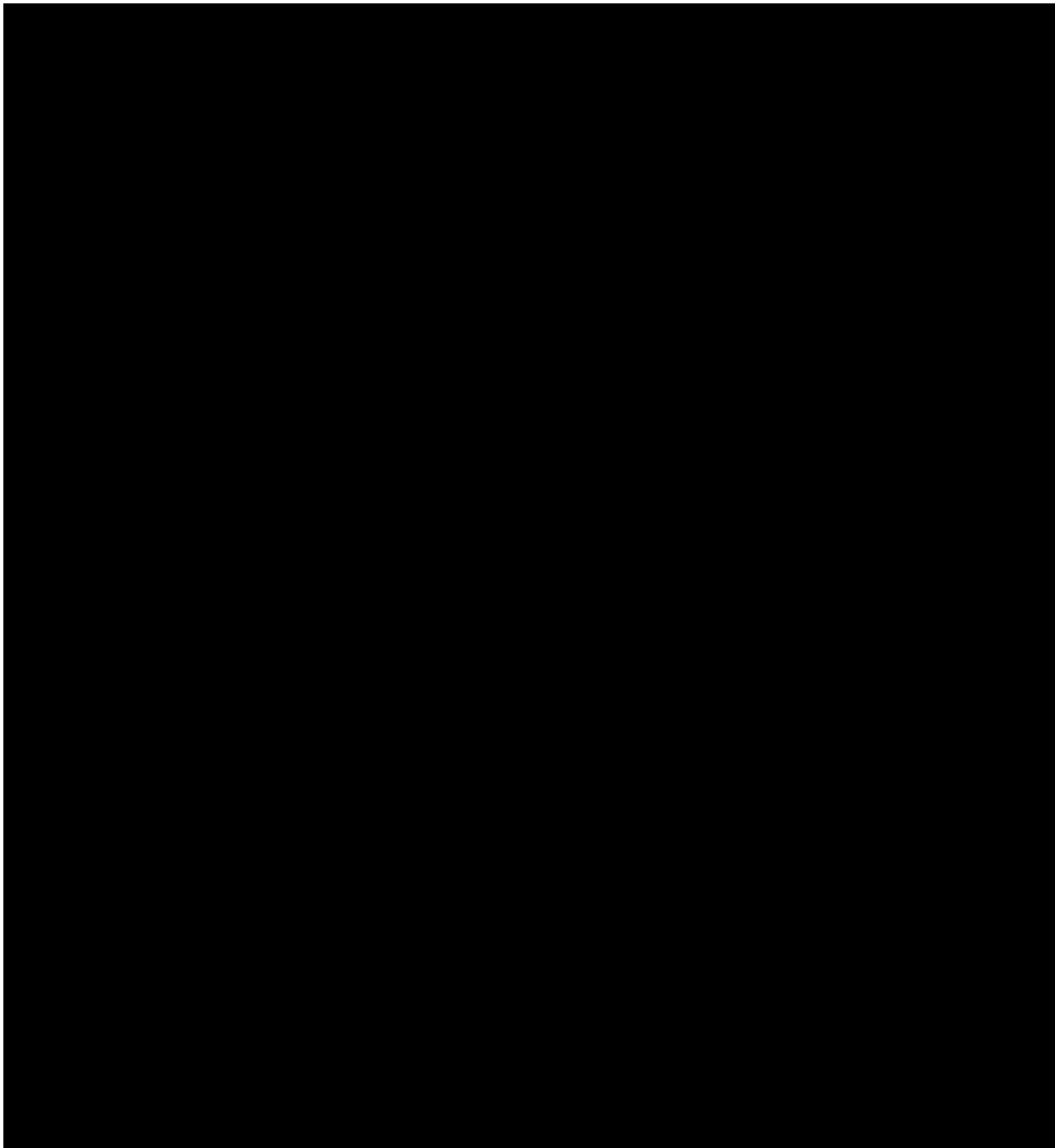
Notes to the Financial Statements (continued)

Note 14a: Infrastructure Assets 2008

Category	Opening Cost	Additions	Disposals	Closing Cost	Opening Accum Depn	Depreciation	Accum Depn on Disposals	Other	Closing Accum Depreciation	Net Book Value
Roading	16,284	121	28	16,377	7,920	1,009	108	-	8,820	7,556
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	2,289	608	-	2,896	-	-	-	-	-	2,896
Total Infrastructure Assets	94,301	3,271	28	97,543	22,041	4,347	108	(29)	26,309	71,234

Note 14b: Infrastructure Assets 2007

Category	Opening Cost	Additions	Disposals	Closing Cost	Opening Accum Depn	Depreciation	Accum Depn on Disposals	Other	Closing Accum Depreciation	Net Book Value
Roading	16,052	232	-	16,284	7,371	1,473	924	-	7,920	8,364
Power network	7,251	137	-	7,389	691	1,009	-	-	1,700	5,689
Harbours and ports	4,981	1,124	-	6,106	466	295	-	-	760	5,346
Airports	45,606	-	-	45,606	2,173	1,087	-	-	3,260	42,346
Coastal protection	929	-	-	929	287	76	82	-	282	647
Water	10,215	-	-	10,215	7,400	1,546	1,070	-	7,875	2,340
Waste management	5,484	-	-	5,484	487	745	988	-	245	5,239
Work in progress	1,339	950	-	2,289	-	-	-	-	-	2,289
Total Infrastructure Assets	91,856	2,444	-	94,301	18,875	6,231	3,065	-	22,041	72,259



Notes to the Financial Statements (continued)

For the Year Ended 30 June 2008

	2008	2007
	\$000	\$000
Note 17: Trustee Liabilities		
Aid funding liabilities	1,365	1,278
Land Trust Depos its Liability	2,830	2,585
Outer Islands Development Grant Fund	984	1,110
Workers compensation	872	857
Law Trust liability	192	326
Immigration de pos its	70	84
Customs bond account	65	66
Insurance deposits	28	27
Other Trust Fund	189	576
Total Trustee Liabilities	6,595	6,909

Land Trust Depos its Liability

The Justice Land Trust is made up of \$1,705,674 held at the Ministry of Justice for the administration of a Land Trust Account where payments are received from lessees and are paid to the land owners. The balance of \$1,124,084 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.

Law Trust Liability

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

Immigration Depos its

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 2008

Other Trust Fund

Other trust fund of \$189,096 is aid funding received from donors which has not been spent at 30 June 2008 on approved projects and are held within Ministry's aid trust bank account. This is made up of unspent funding from aid donors of \$94,132 for the Ministry of Health. The remaining amount of \$94,964 is unspent funding for grants from Forum Fisheries Agency to Ministry of Marine for \$92,816 and \$2,148 for the Financial Supervisory Commission .

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, in this case a pre-clear amount is paid to clear the goods until the invoice is obtained to calculate the levy and VAT on the imported goods.

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2008

	2008	2007
	\$000	\$000

Note 18: Banking Customer Deposits

Current	20,656	19,160
Term: One to two years	943	1,389

Total Banking Customer Deposits	21,600	20,548
--	---------------	---------------

Customer deposits yield interest rates between 1% and 5.75% (2006: 1% and 5%), and are unsecured.

Note 19: 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 2008. 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 29 retirees, 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 Crown's general monetary assets.

Current Year Activity

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

	2008	2007
	\$000	\$000

Expenses

Parliamentary pension beneficiary payments	249	255
--	-----	-----

Operating Results of Parliament Pension Liability	(249)	(255)
--	--------------	--------------

Notes to the Financial Statements (continued)

For the Year Ended 30 June 2008

Note 20: Subsequent Events

Ministry of Works & Ministry of Outer Islands Merger

The Ministry of Works merged in operations with the Ministry of Outer Islands to form the Ministry of Infrastructure and Planning as of 1st November 2008.

Cost of Living Adjustment (COLA)

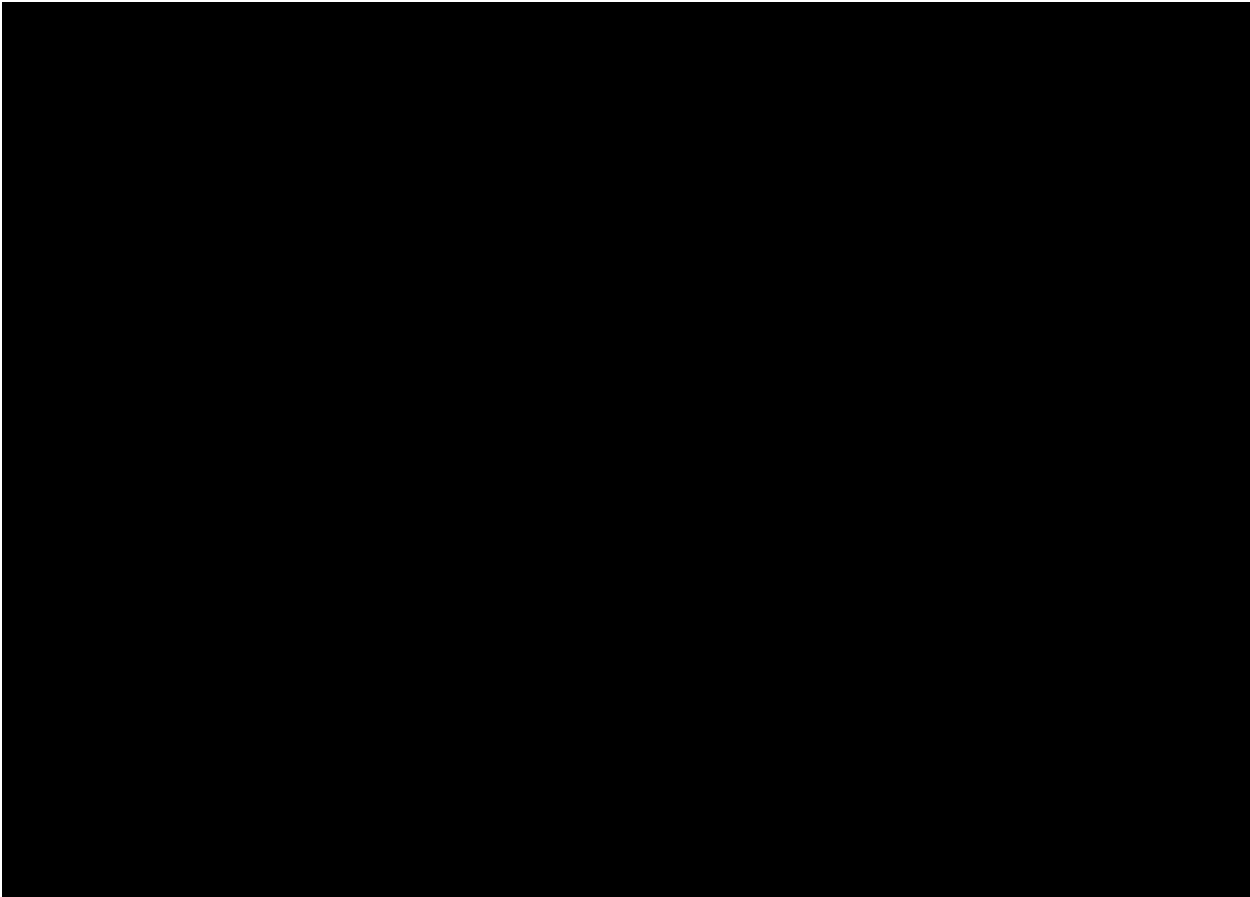
On 27 April 2006 Cabinet approved a Cost Of Living Adjustment (COLA) for the Public Service to maintain real wage levels. This entails a 12% wage increase phased evenly over three years (4% per year). While \$1.2 million was set aside for COLA in the 2006/07 budget appropriation, this amount was not spent as COLA was delayed until after the general election in 2006. The \$1.2million has been carried forward into the 2007/08 financial year along with two other COLA disbursements of \$510,000 and \$3.3 million. The final year of the COLA payout is 2008/09 and is expected to cost approximately \$1.4 million.

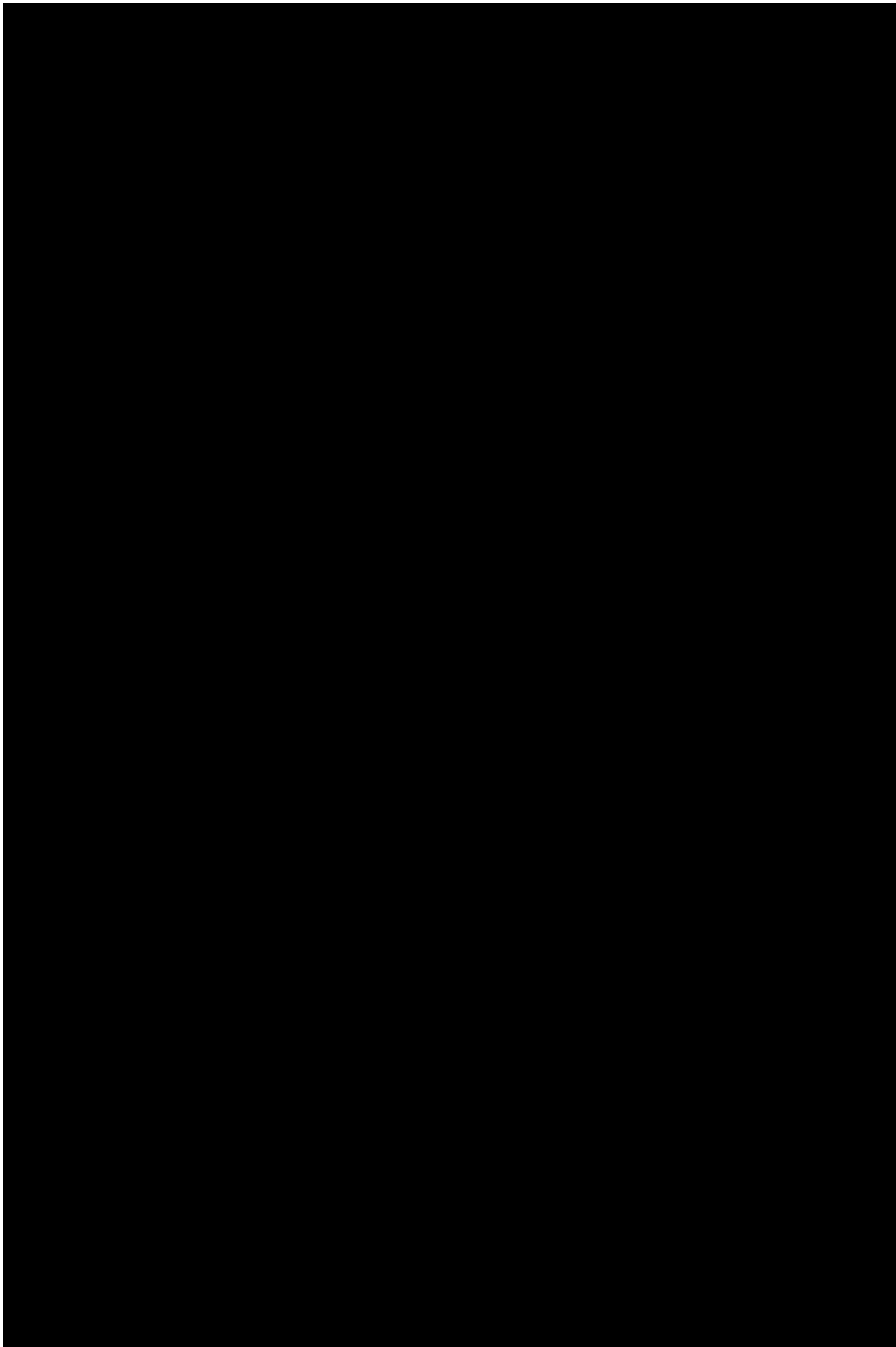
Triad Pacific Petroleum Ltd - CL

In the 2008-9 financial year, Government proposed to restructure the Cook Islands fuel market by purchasing a fuel farm (Toa) 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.





Statement of Appropriations (continued)

For the year ended 30 June 2008

<u>Reconciliation to Statement of Financial Performance</u>		
	2008	2007
Net Actual Expenditure for Ministries or Appropriations	78,256	74,297
Other Ministry revenues	10,773	6,644
State owned enterprises	26,911	25,267
Air NZ Subsidy	3,036	-
Prior Year consolidated adjustments	(1,679)	10,442
Other Crown costs	1,016	672
Total Expenses from Crown Funded Activities	118,313	117,325

With the exception of trading revenues, the reconciling items are components of overall Crown expenditure which are not separately appropriated for. Ministry trading revenues are a reconciling item because the Statement of Appropriations shows expenditure net of trading revenue whereas the Statement of Financial Performance discloses income and expenditure as gross figures.

The accompanying notes are an integral part of these financial statements