

Government of the Cook Islands

Financial Statements

for the year ended 30 June 2019



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Directory

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Honourable Mark Brown
Prime Minister and Minister of Finance and Economic Management

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Ministerial Statement

The audited financial results as at 30 June 2019 are strong, reflecting the effectiveness of this government's policies in navigating the country towards growth and prosperity.

The Cook Islands has experienced a run of strong economic growth in recent years, generating a stream of government revenue that has increased at a faster rate than government expenditure. This strong fiscal position makes the Cook Islands more resilient to future economic shocks and natural disasters.

The 2019 results show the operating balance before gains and losses (OBEGAL) surplus of \$82 million, an improvement of \$21.2 million over the prior year. Net debt as a percentage of GDP has decreased to 13.7% from 16.2% and Crown's net worth increased by \$90.3 million over the 2018 financial year. The fiscal overview section of this report details the positive financial results, all together these accounts represent a sound and resilient position, as recognised by international observers and ratings agencies.

This strong fiscal position has ensured our country can manage through the worldwide subsequent events of the Covid-19 pandemic experienced globally in the second half of 2019/2020. By swiftly implementing a Covid-19 Economic Response Plan that provides temporary social and economic support for individuals and businesses, closing our border and implementing Covid-19 health provisions has to date ensured our people can live in a Covid free country.

Although there will be a contraction of nominal GDP, the government is committed to continuing the investment in existing and new infrastructure projects, maintaining existing public services and ensure our country, in this era of a global pandemic, can swiftly return to the strong fiscal position experienced during the 2019 year.



Hon Mark Brown
Prime Minister and Minister of Finance

30 November 2020



Statement of responsibility

These financial statements have been prepared by the Treasury in accordance with the provisions of the Ministry of Finance and Economic Act 1995-96. The financial statements comply with International Public Sector Accounting Standards, unless otherwise specified in the financial statements.

The Treasury is responsible for establishing and maintaining a system of internal control designed to provide reasonable assurance that the transactions recorded are within statutory authority and properly record the use of all public financial resources by the Government Reporting Entity. To the best of my knowledge, this system of internal control has operated adequately throughout the reporting period, subject to the qualifications included within the Independent Auditor's Report.

Garth Henderson
Financial Secretary

30 November 2020

I accept responsibility for the integrity of these financial statements, the information they contain and their compliance with the Ministry of Finance and Economic Act 1995-96.

In my opinion, these financial statements fairly reflect the financial position of the Government as at 30 June 2019 and its operations for the year ended on that date, subject to the qualifications included within the Independent Auditor's Report.



Hon Mark Brown
Prime Minister and Minister of Finance

30 November 2020





Commentary on the Financial Statements



Fiscal Overview

At a glance

Summary of the performance of the economy

The Cook Islands experienced nominal Gross Domestic Product (GDP) growth of 8.8% in the year, rising from \$504.3 million to reach \$548.7 million. This performance extended a strong run of growth averaging 8.3% growth over the past 5 years, 2015/2016 to 2018/2019. Economic activity was largely result of tourism arrivals and higher levels of public and private capital investment.

Tourist arrivals have risen by 1.2% reaching a new annual high of 166,818 visitors. New Zealand remains our largest tourist market with 110,549 (66%) of total visitors. Our next largest market is Australia with 28,503 (17%) visitors for the year.

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

Notable large Government capital projects during the year were Te Mato Vai and the Southern Group Renewable Energy Project.

Summary of the performance of Government

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

- Crown tax revenue was \$21.6 million more than last year and \$11.1 million more than the 2019 Budget Estimates (*pages 8 & 15*) .
- Crown taxation revenue as percentage to GDP increased from 27% in the prior year to 29% (Fiscal policy benchmark: 25%)
- Other sovereign revenue was up \$9.8 million from last year and \$10.4 million more than the 2019 Budget Estimate (*pages 9 & 15*) .
- Other revenue was \$8.8 million more than last year (*page 9*) .
- Personnel expenses was \$69.2 million, an increase of \$4.0 million from previous year. Personnel expense as percentage to total revenue (excluding aid revenue) has decreased from 31% from previous year to 28%. (Fiscal policy benchmark: 40%)
- Crown expenses was \$19.1 million more than last year (*page 10*) .
- The OBEGAL surplus of \$82.0 million was \$21.2 million higher than last year (*page 12*) .
- The total Crown net surplus was \$88.7 million (*page 12*) . (Fiscal policy benchmark: > 0)
- Gross Crown debt decreased nominally by \$7.2 million to \$95.9 million from the prior year, and decreased as a percentage of GDP to 17.5% (*page 13*) . Current year net debt servicing percentage was 3% of revenue (excluding aid revenue). (Fiscal policy benchmark: < 5%).
- Net Crown debt decreased in nominal terms by \$6.9 million to \$74.9 million from the prior year, and decreased as a percentage of GDP to 13.7% (*page 13*) . (Fiscal policy benchmark: < 35%)
- Net worth increased by \$90.3 million to \$490.1 million. This is largely owing to net surplus for the year (*page 14*) .

Table 1 - Financial results

Year ended 30 June \$ '000	Actual 2015	Actual 2016	Actual 2017	Actual 2018	Actual 2019
Taxation revenue	94,075	115,647	118,886	137,568	159,207
Other sovereign revenue	17,252	13,511	23,940	18,397	28,192
Other revenue	92,136	81,431	72,769	91,774	100,598
Expenses	176,329	181,948	162,198	186,846	205,954
OBEGAL (excluding minority interest)	27,134	28,641	53,397	60,893	82,043
Net surplus	20,996	36,553	61,772	58,159	88,697
Net debt	85,581	87,214	76,886	81,788	74,933
as percentage of GDP	20.8%	20.0%	16.8%	16.2%	13.7%
Gross debt	102,222	103,901	95,306	103,065	95,855
as percentage of GDP	24.8%	23.8%	20.9%	20.4%	17.5%
Net worth	263,070	292,611	336,774	399,770	490,112



Fiscal Overview (continued)

Year End results compared to Prior Year

Revenue

Total Crown revenue was \$288.0 million, an increase of \$40.3 million (16%) from last year owing to increased Crown Taxation revenue of \$21.6 million, an increase in Other sovereign revenue of \$9.8 million and a \$8.8 million increase in Other revenue.

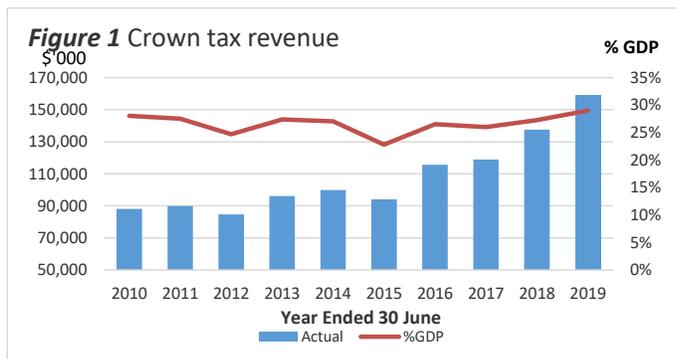
Table 2 - Breakdown of revenue

Year ended 30 June \$ '000	Actual 2015	Actual 2016	Actual 2017	Actual 2018	Actual 2019
Taxation revenue	94,075	115,647	118,886	137,568	159,207
Other sovereign revenue	17,252	13,511	23,940	18,397	28,192
Other revenue	92,136	81,431	72,769	91,774	100,598
Total Crown revenue	203,463	210,589	215,595	247,739	287,997
% of GDP					
Taxation revenue	22.8%	26.5%	26.0%	27.3%	29.0%
Other sovereign revenue	4.2%	3.1%	5.2%	3.6%	5.1%
Other revenue	22.3%	18.7%	15.9%	18.2%	18.3%
Total Crown revenue	49.3%	48.3%	47.2%	49.1%	52.5%

Crown Taxation Revenue

Crown taxation revenue was \$159.2 million, up \$21.6 million (16%) from year before. The increase in Crown tax revenue was broadly the result of strong economic activity during the year and the collection of tax revenue from the Tax Amnesty programme. *For further information relating to the Tax Amnesty programme refer to page 57 Note 4: Taxation revenue of the Financial Statements for further information.*

Crown taxation revenue as percentage to GDP increased from 27% in the prior year to 29%. This ratio establishes boundaries on the collection of revenue and ensures that the Crown limits the diversion of resources away from the private sector. The benchmark that current and previous Governments have agreed to work within, is to maintain collections to within 25% of GDP.



Most major tax types increased over the year with three tax types making up most of the increase (Table 3). Strong economic activity was largely the result of tourist arrivals, which have risen by 1.2% reaching a new annual high of 166,818 visitors, and higher levels of public and private capital investment. Significant amount of private capital investment being for tourist accommodation.

Table 3 - Movement in taxation revenue

Year ended 30 June	\$ million
2018 taxation revenue	137.6
Individual income tax	8.7
Company income tax	2.5
Customs levies	(0.3)
Value added tax	9.4
Withholding tax	0.4
Departure tax	0.9
2019 taxation revenue	159.2

- Individual income tax increased by \$8.7 million (31%).
- Company income tax increased by \$2.5 million (13%).
- Value added tax increased by \$9.4 million (15%).



Fiscal Overview (continued)

Other Sovereign Revenue

Crown other sovereign revenue was \$28.2 million, an increase of \$9.8 million (53%) from previous year. Other sovereign revenue includes fees, fines, licensing and fisheries revenue. The increase over the year related predominantly to an increase of \$7.7 million (60%) from fisheries revenue.

Fisheries revenue makes up over 70% of Crown other sovereign revenue. The Crown receives fisheries revenue from the sale of fishing licenses and the sale of fish catch quotas for albacore tuna and bigeye tuna to long line fishing vessels. In December 2016, longline regulations for the Quota Management System (QMS) were enacted setting a total allowable catch of 9,750t for albacore tuna and 3,500t for bigeye tuna per calendar year were set.

The Crown receives a significant portion of fisheries revenue from purse seine fishery, where the Cook Islands Exclusive Economic Zone (EEZ) has a total limit of 1,250 fishing days in accordance with conservation and management measures implemented by the Western Central Pacific Fisheries Commission (WCPFC). The price for a fishing day ranges from \$14,500 to \$15,000, as determined by exchange rates, as a vessel day is charged at a rate of US\$9,500 per day.

The \$7.7 million (60%) increase in fisheries revenue related predominantly to the \$6.1 million (55%) increase from more purse sein vessel days purchased during the year, 1,252 days purchased as opposed to 872 days in the previous year.

In addition, longline fish catch quota increased by \$1.2 million (131%) during the year, 8,025t of quota purchased as opposed to 3,550t in the previous year.

Year ended 30 June	Annual Limit	Actual 2018	Actual 2019	
Longline fishing license		805	1,244	
Longline fish catch quota		888	2,051	
Purse seine vessel fishing days		11,104	17,226	
		12,797	20,521	
Longline fish catch quota (metric tonne)	\$250 per mt	12,198 mt	3,550	8,025
Purse seine vessel fishing days	\$9,500 USD per day	1,250 days	872	1,252

Table 4 - Number of active fishing vessels

Licensed and active vessels	2017	2018	2019
<i>Offshore fishery</i>			
Long liner	55	42	55
Purse seiner	16	40	51
Other commercial	8	13	14
Total offshore fishery	79	95	120
<i>Local artisanal and game fishery</i>			
	273	304	236

source: Cook Islands Government Budget Estimates 2020/24 Book 1 - Table 5-7 Number of active fishing vessels

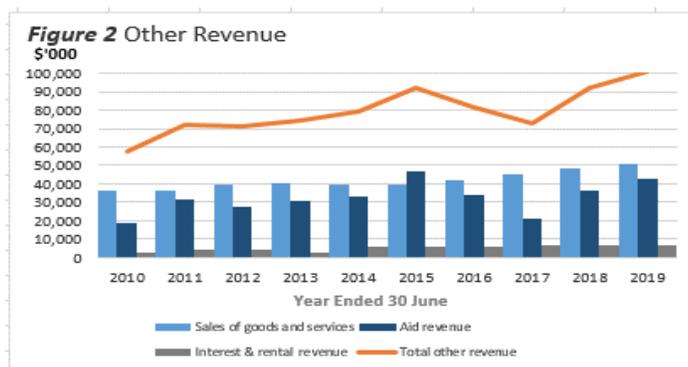
Other Revenue

Total Crown other revenue was \$100.6 million, an increase of \$8.8 million (10%) from previous year. Other revenue includes revenue from operations of Crown entities and State-owned enterprises (SOEs), interest revenue, rental income and aid revenue.

The increase in Crown other revenue predominantly related to the \$6.5 million (18%) increase in aid revenue.

This increase related mainly to the Apii Nikao project.

Refer to page 61 Note 11: Aid activities of the Financial Statements for further information.



Fiscal Overview (continued)

Expenses

Total Crown expenses were \$206.0 million in the current year, \$19.1 million (10%) more than last year. Crown expense as percentage to GDP increased from 37% in the prior year to 38%.

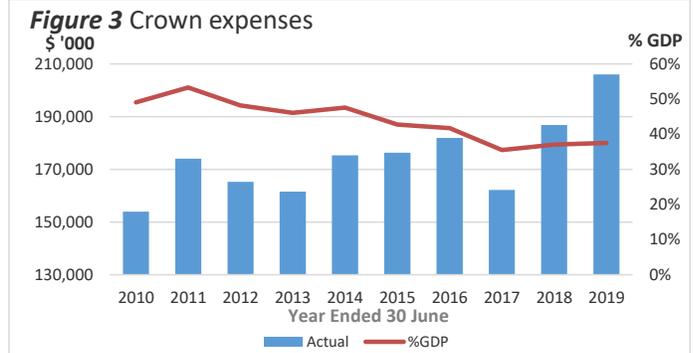


Table 5 - Breakdown of expenses

Year ended 30 June \$ '000	Actual 2015	Actual 2016	Actual 2017	Actual 2018	Actual 2019
Personnel expenses	58,904	60,118	60,349	65,185	69,169
Welfare payments	15,691	15,878	16,193	18,271	19,525
Depreciation	14,247	15,497	15,961	17,267	18,530
Finance cost	4,538	4,765	5,074	4,441	2,123
Air New Zealand underwrite	9,764	5,920	9,106	11,208	12,925
Fuel and oil	10,375	8,092	8,490	9,574	10,823
Repairs and maintenance	5,413	13,804	14,819	7,126	9,434
Tourism marketing	4,745	2,441	2,347	3,697	2,116
Other expenses	24,819	24,619	17,174	33,249	44,052
Aid expenses	27,833	30,814	12,685	16,828	17,257
Total Crown expense	176,329	181,948	162,198	186,846	205,954
% of GDP					
Personnel expenses	14.3%	13.8%	13.2%	12.9%	12.6%
Welfare payments	3.8%	3.6%	3.5%	3.6%	3.6%
Depreciation	3.5%	3.6%	3.5%	3.4%	3.4%
Finance cost	1.1%	1.1%	1.1%	0.9%	0.4%
Air New Zealand underwrite	2.4%	1.4%	2.0%	2.2%	2.4%
Fuel and oil	2.5%	1.9%	1.9%	1.9%	2.0%
Repairs and maintenance	1.3%	3.2%	3.2%	1.4%	1.7%
Tourism marketing	1.2%	0.6%	0.5%	0.7%	0.4%
Other expenses	6.0%	5.6%	3.8%	6.6%	8.0%
Aid expenses	6.8%	7.1%	2.8%	3.3%	3.1%
Total Crown expense	42.8%	41.7%	35.5%	37.1%	37.5%



Fiscal Overview (continued)

Personnel expenses

Personnel expense was \$69.2 million, an increase of \$4.0 million (6%) from previous year. Personnel expenses as percentage to total revenue (excluding aid revenue) has decreased from 31% from previous year to 28%. This ratio is aimed at controlling expansion in the size of the public sector. The benchmark that current and previous Governments agreed to work within is maintaining the expenditure on personnel within 40% of total revenues. Refer to page 59 Note 7: Personnel expense of the Financial Statements for further information.

Welfare payments

Welfare payments was \$19.5 million, an increase of \$1.3 million (7%) from previous year. Refer to page 59 Note 8: Welfare payments of the Financial Statements for further information.

Depreciation

Depreciation was \$18.5 million, an increase of \$1.3 million (7%) from previous year. This increase largely related to capital expenditure for the year. Refer to pages 68 - 70 Note 17, 18 & 19: Property, plant and equipment of the Financial Statements for further information.

Air New Zealand underwrite

The Air New Zealand underwrite is to support two non-economical long haul services operated by Air New Zealand from Los Angeles, United States of America and Sydney, Australia. Air New Zealand underwrite was \$12.9 million, an increase of \$1.7 million (15%) from previous year.

Table 6 - Movement in Crown expenses

Year ended 30 June	\$ million
2018 Crown expenses	186.8
Personnel expense	4.0
Welfare payments	1.3
Depreciation	1.3
Finance cost	(2.3)
Air New Zealand underwrite	1.7
Fuel and oil	1.2
Repairs and maintenance	2.3
Tourism marketing	(1.6)
Other expenses	10.8
Aid expenses	0.5
2018 Crown expenses	206.0

Table 7 - Visitor arrivals by country

Year ended	Total	New Zealand	Australia	USA	Canada	Europe	Other
2015	121,772	82,217	20,627	5,064	1,876	9,313	2,675
2016	135,134	89,910	23,389	5,876	2,062	9,944	3,953
2017	155,230	105,072	24,578	7,436	2,664	11,122	4,358
2018	164,800	110,227	26,398	8,131	3,287	11,928	4,829
2019	166,818	110,549	28,503	8,239	3,065	12,369	4,093

Other expenses

Other expenses was \$44.1 million, an increase of \$10.8 million (33%) from previous year. There was a general increase across all expenditure lines with notable increase pertaining to a \$2.9 million increase in Te Maeva Nui cost and an increase of \$1.2 million paid out in legal cost for the year. Refer to page 59 Note 10: Other expenses of the Financial Statements for further information



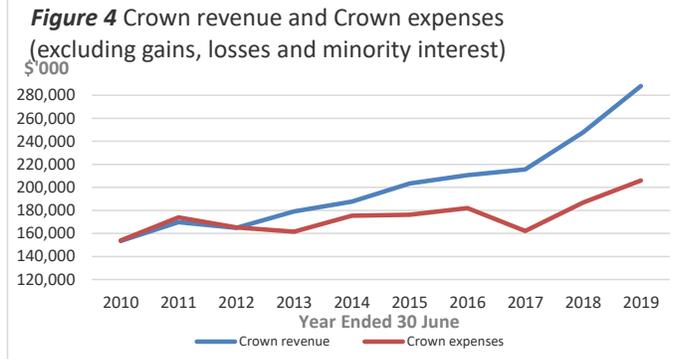
Fiscal Overview (continued)

Net Surplus

OBEGAL (Operating Balance before Gains and Losses)

The OBEGAL surplus of \$82.0 million is an improvement of \$21.2 million (35%) from last year. Total Crown revenue was \$288.0 million, an increase of \$40.3 million (16%) from last year while total Crown expenses also increased by \$19.1 million (10%) to \$206.0 million for the year.

The increase in OBEGAL surplus for the year is largely owing to increased Crown taxation revenue of \$21.6 million. The increases in Other sovereign revenue of \$9.8 million and \$8.8 million in Other revenue were offset by the increase in total Crown expenses of \$19.1 million.



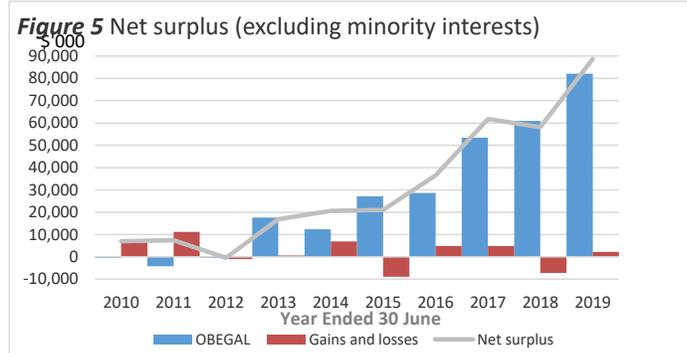
Net Surplus

Current year net surplus was \$88.7 million, an increase of \$30.5 million from the past year. The OBEGAL surplus of \$82.0 million was increased by \$6.7 million. This increase was the result of foreign exchange gains of \$2.1 million for the year and \$5.1 million from the Crowns interest in Telecom Cook Islands Limited.

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

Foreign exchange gain / (loss)

The Crown reported a foreign exchange gain of \$2.1 million as opposed to a foreign exchange loss of \$7.2 million reported in the prior year. Historically the Crown has been subject to volatile fluctuations as 65% of total borrowings of \$95.9 million are denominated in foreign currency.



Refer to page 38 Statement of Borrowings – currency analysis of the Financial Statements for further information.

Minority interest

Share of profit of associate relates to the Crown's interest in Telecom Cook Islands Limited which is incorporated in the Cook Islands and provides telecommunication services to the Cook Islands. The Crown has 40% ownership in Telecom Cook Islands Limited. Refer to page 66 Note 15: Investment in shares and associates of the Financial Statements for further information.

Table 8 - Total Crown net surplus / (loss)

Year ended 30 June \$ '000	Actual 2015	Actual 2016	Actual 2017	Actual 2018	Actual 2019
Total Crown OBEGAL	27,134	28,641	53,397	60,893	82,043
Gains, losses and minority interest					
Impairment loss / gain or loss on disposal of assets	(3)	(39)	(79)	15	(562)
Foreign exchange gain / loss	(8,898)	4,872	4,867	(7,188)	2,145
Share of profit of associate	2,763	3,079	3,587	4,439	5,071
Total gains, losses and minority interest	(6,138)	7,912	8,375	(2,734)	6,654
Total Crown net surplus / loss	20,996	36,553	61,772	58,159	88,697
% of GDP					
Total Crown OBEGAL	6.6%	6.6%	11.7%	12.1%	15.0%
Total Crown gains and losses	-2.2%	1.1%	1.0%	-1.4%	0.3%
Total Crown minority interest	0.7%	0.7%	0.8%	0.9%	0.9%
Net surplus	5.1%	8.4%	13.5%	11.5%	16.2%



Fiscal Overview (continued)

Debt

Gross Crown debt was \$95.9 million, down \$7.2 million (7%) from year before. The decrease was largely the result of \$8.4 million in repayments for the year. This was offset by \$1.4 million in additional loans drawn down during the year.

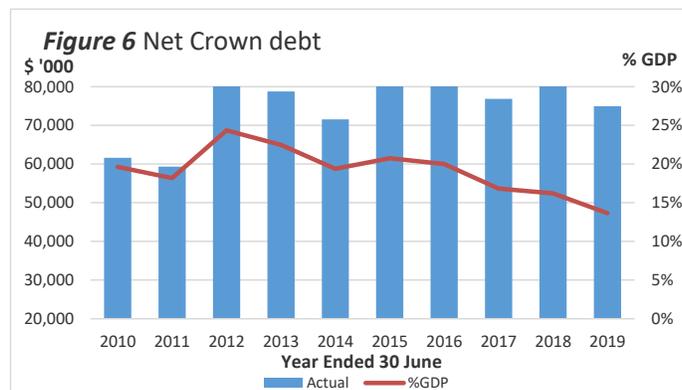
Table 9 - Movement in gross Crown debt

Year ended 30 June	\$ million
2018 gross Crown debt	103.1
Additional loans	1.4
Loan repayments	(8.4)
Foreign exchange (gain) or loss	(0.2)
2018 gross Crown debt	95.9

The additional loan drawn down of \$1.4 million for the year pertained to the Southern Group Renewable Energy project (ADB LN3193). Refer to page 79 Note 27 Subsequent events of the Financial Statements for further details regarding the project

Net Crown debt is made up of gross Crown debt less loan repayment fund [1]. Net Crown debt was \$74.9 million, \$6.9 million (8%) from year before. Net Crown debt as percentage to GDP decreased to 14% from the prior year. The Crown's fiscal strategy is to maintain net debt < 35% of GDP. This ensures the level of debt relative to national income, controls the overall level of debt taken on by Government.

Also part of the Crown's fiscal strategy is to maintain debt servicing < 5% of revenue (excluding aid revenue). This ensures the ability of Government to service its debt obligations from revenue collected. Current year net debt servicing percentage was 3% (3%: 2018)



Additional information regarding Crown debt can be found on page 38 Statement of borrowings of the Financial Statements.

Additional loans taken out subsequent to year end

The Crown took out a loan from the Asian Development Bank in June 2020 for \$15.7 million (NZD), LN3933 Disaster Resilience Program (Phase 2).

For further information regarding the Crown's subsequent debt position, refer to the Section 11 Crown Debt and Net Worth of the Cook Islands Government Budget Estimates 2020/21.

Table 10 - Debt

Year ended 30 June \$ '000	Actual 2015	Actual 2016	Actual 2017	Actual 2018	Actual 2019
Gross debt	102,222	103,901	95,306	103,065	95,855
as percentage of GDP	24.8%	23.8%	20.9%	20.4%	17.5%
Loan repayment fund	16,641	16,687	18,420	21,277	20,922
Net debt	85,581	87,214	76,886	81,788	74,933
as percentage of GDP	20.8%	20.0%	16.8%	16.2%	13.7%

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



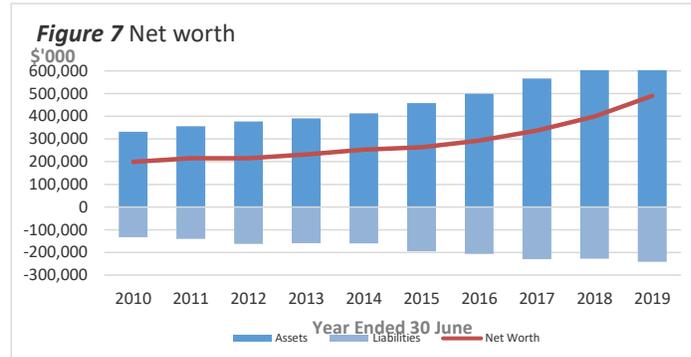
Fiscal Overview (continued)

Total Crown Balance Sheet

Net Worth

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

Net worth was \$490.1 million at 30 June 2019, an increase of \$90.3 million from a year earlier. This was largely owing to net surplus for the year. As a share of the economy, net worth increased by 10% from 79% of GDP in 2018 to 89% of GDP in the current year.



The Crown Balance Sheet

Total Crown assets were \$730.9 million at 30 June 2019, a \$103.4 million (17%) increase from last year. This growth related predominantly to financial assets and property, plant and equipment, which grew by \$39.4 million (15%) and \$51.4 million (16%) respectively.

Total Crown liabilities were \$240.8 million, an increase of \$13.0 million (6%) from the previous year.

Table 11 - Composition of the total Crown balance sheet

Year ended 30 June \$ '000	Actual 2015	Actual 2016	Actual 2017	Actual 2018	Actual 2019
Financial assets	144,252	171,295	230,994	257,525	296,888
Loan repayment fund	16,641	16,687	18,420	21,277	20,922
Property, plant and equipment	261,546	278,032	274,575	313,407	364,771
Other assets	35,575	33,280	42,431	35,328	48,327
Total assets	458,014	499,294	566,420	627,537	730,908
Borrowings	102,222	103,901	95,306	103,065	95,855
Other liabilities	92,722	102,782	134,340	124,702	144,941
Total liabilities	194,944	206,683	229,646	227,767	240,796
Net worth	263,070	292,611	336,774	399,770	490,112

Financial assets

Financial assets reported at \$296.9 million were \$39.4 million higher than last year. The increase was largely the result of a general increase in the Crown's cash reserves of \$35.0 million.

Property, plant and equipment

The \$51.4 million increase in property, plant and equipment related predominantly to the following projects:

- \$25.7 million in work in progress relating to Te Mato Vai Stage 2 project
- \$11.2 million in work in progress relating to the Southern Group Renewable Energy project
- \$4.5 million in work in progress relating to the Manatua Submarine Cable project.
- \$11.8 million relating to the completion of the Apii Nikao school building project by China

Other Liabilities

Other liabilities of \$144.9 million was \$20.2 million more than last year. The increase was largely the result of a \$21.6 million increase in trustee liabilities. This increase related predominantly to aid funding received from various donors that had not been spent at year end. Refer to page 72 Note 24 Trustee liabilities of the Financial Statements for further details.

Fiscal Overview (continued)

Year End results compared to Budget 2019

The Cook Islands Government Budget Estimates 2018/19 was published on 21 September 2018. The Cook Islands Governments Appropriation Amendment 2018/19 was published on 8 April 2019. These financial statements of the Cook Islands Government comprises of the following segments [2] :

Crown parent + Crown entities (45) + State owned enterprises (16) = Cook Islands Government

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

Table 12 - Comparison to the Budget 2019

Year ended 30 June \$ '000	Financial Statement Note Reference	Actual 2019	Budget 2019	Variance \$	Variance %
Crown taxation revenue	4	159,207	148,154	11,053	7%
Crown other sovereign revenue	5	28,192	17,840	10,352	58%
Sales of goods and services	6	6,461	6,646	(185)	-3%
Interest revenue		3,649	2,050	1,599	78%
Aid revenue	11	43,062	53,454	(10,392)	-19%
Total revenue		240,571	228,144	12,427	5%
Personnel expenses	7	57,014	60,271	(3,257)	-5%
Welfare payments	8	19,525	19,201	324	2%
Finance costs	9	2,082	2,367	(285)	-12%
Depreciation and amortisation	17,18 & 19	8,257	14,152	(5,895)	-42%
Aid expenses	11	43,062	53,454	(10,392)	-19%
Administered payments	10	28,826	40,001	(11,175)	-28%
Payments on behalf of the Crown	10	1,875	2,115	(240)	-11%
Other expenses		19,173	21,567	(2,394)	-11%
Total expense		179,814	213,128	(33,314)	-16%
Operating balance before gains and losses (OBEGAL)		60,757	15,016	45,741	305%

Crown Taxation Revenue

Crown taxation revenue was \$11.1 million (7%) more than expected in the Budget for 2019, most major tax types increased over the year with two tax types making up most of the increase (Table 13). The increase in Crown tax revenue was broadly result of strong economic activity during the year and the collection of tax revenue from the Tax Amnesty programme. For further information relating to the Tax Amnesty programme refer to page 57 Note 4: Taxation revenue of the Financial Statements for further information.

Strong economic activity was largely result of tourist arrivals which have risen by 1.2% reaching a new annual high of 166,818 visitors, and higher levels of public and private capital investment. Significant amount of private capital investment being for tourist accommodation. The largest differences being as follows:

- Individual income tax was \$8.1 million (28%) above budget.
- Company income tax was \$1.7 million (7%) below budget.
- Value added tax (VAT) was \$4.8 million (7%) above budget.

Table 13 - Taxation revenue compared to budget

Year ended 30 June	\$ million
2019 budget taxation revenue	148.2
Individual income tax	8.1
Company income tax	(1.7)
Withholding tax	(1.0)
Value added tax	4.8
Customs levies	0.4
Departure tax	0.4
2019 taxation revenue	159.2

[2] Refer to page 29 Schedule of Government entities for a detailed listing of all entities per segment



Fiscal Overview (continued)

Crown Other Sovereign Revenue

Crown other sovereign revenue was \$10.4 million (58%) more than expected in the Budget for 2019. The excess revenue related predominantly to Fisheries revenue and Fines.

Fisheries revenue generated \$7.2 million (54%) more than initially budgeted. This was the result of more purse sein vessel days purchased during the year, 1,252 days purchased as opposed to 872 days in the previous year. In addition, longline fishing vessels purchased 8,025t of fish catch quota during the year as opposed to 3,550t in the previous year.

Two foreign fishing vessels were fined for illegally fishing within Cook Islands waters, both vessels were fined a total amount of \$1.75 million USD which equates to \$2.4 million NZD.

Aid Revenue and Expenses

Aid revenue was \$10.4 million (19%) less than expected in the 2019 Budget, the shortfall over the year related predominantly to aid funded projects by various donors not being fully implemented or started during the year. The notable projects were:

- European Union Fund for southern Cook Islands renewable energy project
- Global Environment Fund for southern Cook Islands renewable energy project
- New Zealand Aid contribution for Te Mato Vai project
- *Refer to page 78 Note 27: Subsequent events for further information.*

For further information regarding aid activities, refer to page 61 Note 11: Aid activities of the Financial Statements

Administered Payments

Administered payments were \$11.2 million (28%) less than expected from the Budget for 2019, with the largest differences being a \$7.7 million difference resulting from different budgeting and accounting treatments for funding received from New Zealand aid for core sector support. Core sector support is funding tailored to support the Ministry of Education, Ministry of Health, Cook Islands Tourism and Marketing Corporation and the Ministry of Finance and Economic Management. The 2019 Budget has classified the funds as Core sector support revenue and expensed it as administered funds on the respective Crown entities, within the financial statements the funding has been treated as Aid revenue and Aid expenses.



Fiscal Overview (continued)

Historical Financial Information

Historical Financial Information

Year ended 30 June \$ '000	Actual 2010	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Actual 2015	Actual 2016	Actual 2017	Actual 2018	Actual 2019
Statement of financial performance										
Taxation revenue	88,088	89,878	84,718	96,077	99,826	94,075	115,647	118,886	137,568	159,207
Fees, fines, penalties and licenses	2,739	2,517	2,600	2,598	2,698	4,269	2,970	3,191	3,712	5,542
Fisheries licenses	2,844	3,528	4,363	4,877	5,503	10,887	7,714	18,057	12,797	20,522
Other Crown revenue	1,815	1,727	1,876	1,310	803	2,096	2,827	2,692	1,888	2,128
Total sovereign revenue	95,486	97,650	93,557	104,862	108,830	111,327	129,158	142,826	155,965	187,399
Sales of goods and services	36,084	36,287	39,381	40,049	39,257	39,402	41,659	44,795	48,250	50,470
Interest revenue	3,164	4,249	4,027	3,151	3,349	3,169	3,047	3,664	3,767	3,649
Rental revenue	-	-	-	-	2,764	2,868	2,886	2,961	3,198	3,417
Aid revenue	18,722	31,578	27,821	31,116	33,459	46,697	33,839	21,349	36,559	43,062
Total Crown revenue	153,456	169,764	164,786	179,178	187,659	203,463	210,589	215,595	247,739	287,997
Personnel expenses	50,397	52,319	53,699	53,913	58,378	58,904	60,118	60,349	65,185	69,169
Welfare payments	12,268	12,305	12,778	13,108	14,348	15,691	15,878	16,193	18,271	19,525
Depreciation	10,318	12,045	11,879	12,374	10,893	14,247	15,497	15,961	17,267	18,530
Finance cost	3,431	3,459	3,129	3,159	4,609	4,538	4,765	5,074	4,441	2,123
Air New Zealand underwrite	1,912	4,486	11,829	9,554	11,102	9,764	5,920	9,106	11,208	12,925
Fuel and oil	11,751	12,456	13,728	13,267	12,318	10,375	8,092	8,490	9,574	10,823
Repairs and maintenance	5,093	6,635	3,848	6,985	6,742	5,413	13,804	14,819	7,126	9,434
Tourism marketing	3,276	4,728	4,497	3,413	4,658	4,745	2,441	2,347	3,697	2,116
Other expenses	39,053	36,406	24,189	16,086	21,028	24,819	24,619	17,174	33,249	44,052
Aid expenses	16,424	29,191	25,724	29,685	31,233	27,833	30,814	12,685	16,828	17,257
Total Crown expense	153,923	174,030	165,300	161,544	175,309	176,329	181,948	162,198	186,846	205,954
Operating balance excluding gains and losses (OBEGAL) (excluding minority interest)	(467)	(4,266)	(514)	17,634	12,350	27,134	28,641	53,397	60,893	82,043
Impairment loss / gain or loss on disposal of assets	(370)	(695)	(224)	(2,940)	(37)	(3)	(39)	(79)	15	(562)
Foreign exchange gain / loss	6,355	11,176	(1,057)	585	6,940	(8,898)	4,872	4,867	(7,188)	2,145
Share of profit of associate	1,543	1,237	1,343	1,565	1,318	2,763	3,079	3,587	4,439	5,071
Net surplus	7,061	7,452	(452)	16,844	20,571	20,996	36,553	61,772	58,159	88,697
Statement of financial position										
Property, plant and equipment	188,242	192,093	209,726	219,933	231,069	261,546	278,032	274,575	313,407	364,771
Financial assets	103,013	116,949	129,376	132,517	124,522	144,252	171,295	230,994	257,525	296,888
Loan repayment fund	16,261	11,639	1,115	1,152	16,210	16,641	16,687	18,420	21,277	20,922
Other assets	24,702	35,222	37,014	37,603	41,600	35,575	33,280	42,431	35,328	48,327
Total assets	332,218	355,903	377,231	391,205	413,401	458,014	499,294	566,420	627,537	730,908
Borrowings	77,906	70,998	84,678	79,953	87,735	102,222	103,901	95,306	103,065	95,855
Other liabilities	54,973	69,270	77,312	79,167	73,010	92,722	102,782	134,340	124,702	144,941
Total liabilities	132,879	140,268	161,990	159,120	160,745	194,944	206,683	229,646	227,767	240,796
Net worth	199,339	215,635	215,241	232,085	252,656	263,070	292,611	336,774	399,770	490,112
Debt indicators										
Borrowings less loan repayment fund	61,645	59,359	83,563	78,801	71,525	85,581	87,214	76,886	81,788	74,933
Net debt percentage of GDP	19.6%	18.2%	24.4%	22.5%	19.4%	20.8%	20.0%	16.8%	16.2%	13.7%
Gross debt percentage of GDP	24.8%	21.7%	24.7%	22.8%	23.8%	24.8%	23.8%	20.9%	20.4%	17.5%
Nominal Gross Domestic Product (GDP)										
Nominal GDP	313,971	326,644	343,072	350,560	368,653	412,297	435,948	457,056	504,258	548,693
Annual GDP growth rates	-2.9%	4.0%	5.0%	2.2%	5.2%	11.8%	5.7%	4.8%	10.3%	8.8%
<i>source: http://www.mfem.gov.ck/statistics/economic-statistics/national-accounts accessed 12 Oct 2020</i>										
Visitor arrivals										
Number of visitors	100,319	108,750	116,897	120,701	122,527	121,772	135,134	155,230	164,800	166,818
Annual growth rate in visitor numbers	3.5%	8.4%	7.5%	3.3%	1.5%	-0.6%	11.0%	14.9%	6.2%	1.2%
<i>source: http://www.mfem.gov.ck/statistics/social-statistics/tourism-and-migration accessed 12 Oct 2020</i>										



Fiscal Overview (continued)

Historical Financial Information

Year ended 30 June as % of GDP	Actual 2010	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Actual 2015	Actual 2016	Actual 2017	Actual 2018	Actual 2019
Statement of financial performance										
Taxation revenue	28.1%	27.5%	24.7%	27.4%	27.1%	22.8%	26.5%	26.0%	27.3%	29.0%
Fees, fines, penalties and licenses	0.9%	0.8%	0.8%	0.7%	0.7%	1.0%	0.7%	0.7%	0.7%	1.0%
Fisheries licenses	0.9%	1.1%	1.3%	1.4%	1.5%	2.6%	1.8%	4.0%	2.5%	3.7%
Other Crown revenue	0.6%	0.5%	0.5%	0.4%	0.2%	0.5%	0.6%	0.6%	0.4%	0.4%
Total sovereign revenue	30.4%	29.9%	27.3%	29.9%	29.5%	27.0%	29.6%	31.2%	30.9%	34.2%
Sales of goods and services	11.5%	11.1%	11.5%	11.4%	10.6%	9.6%	9.6%	9.8%	9.6%	9.2%
Interest revenue	1.0%	1.3%	1.2%	0.9%	0.9%	0.8%	0.7%	0.8%	0.7%	0.7%
Rental revenue	0.0%	0.0%	0.0%	0.0%	0.7%	0.7%	0.7%	0.6%	0.6%	0.6%
Aid revenue	6.0%	9.7%	8.1%	8.9%	9.1%	11.3%	7.8%	4.7%	7.3%	7.8%
Total Crown revenue	48.9%	52.0%	48.0%	51.1%	50.9%	49.3%	48.3%	47.2%	49.1%	52.5%
Personnel expenses	16.1%	16.0%	15.7%	15.4%	15.8%	14.3%	13.8%	13.2%	12.9%	12.6%
Welfare payments	3.9%	3.8%	3.7%	3.7%	3.9%	3.8%	3.6%	3.5%	3.6%	3.6%
Depreciation	3.3%	3.7%	3.5%	3.5%	3.0%	3.5%	3.6%	3.5%	3.4%	3.4%
Finance cost	1.1%	1.1%	0.9%	0.9%	1.3%	1.1%	1.1%	1.1%	0.9%	0.4%
Air New Zealand underwrite	0.6%	1.4%	3.4%	2.7%	3.0%	2.4%	1.4%	2.0%	2.2%	2.4%
Fuel and oil	3.7%	3.8%	4.0%	3.8%	3.3%	2.5%	1.9%	1.9%	1.9%	2.0%
Repairs and maintenance	1.6%	2.0%	1.1%	2.0%	1.8%	1.3%	3.2%	3.2%	1.4%	1.7%
Tourism marketing	1.0%	1.4%	1.3%	1.0%	1.3%	1.2%	0.6%	0.5%	0.7%	0.4%
Other expenses	12.4%	11.1%	7.1%	4.6%	5.7%	6.0%	5.6%	3.8%	6.6%	8.0%
Aid expenses	5.2%	8.9%	7.5%	8.5%	8.5%	6.8%	7.1%	2.8%	3.3%	3.1%
Total Crown expense	49.0%	53.3%	48.2%	46.1%	47.6%	42.8%	41.7%	35.5%	37.1%	37.5%
Operating balance excluding gains and losses (OBEGAL) (excluding minority interest)	-0.1%	-1.3%	-0.1%	5.0%	3.4%	6.6%	6.6%	11.7%	12.1%	15.0%
Impairment loss / gain or loss on disposal of assets	-0.1%	-0.2%	-0.1%	-0.8%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.1%
Foreign exchange gain / loss	2.0%	3.4%	-0.3%	0.2%	1.9%	-2.2%	1.1%	1.1%	-1.4%	0.4%
Share of profit of associate	0.5%	0.4%	0.4%	0.4%	0.4%	0.7%	0.7%	0.8%	0.9%	0.9%
Net surplus	2.2%	2.3%	-0.1%	4.8%	5.6%	5.1%	8.4%	13.5%	11.5%	16.2%
Statement of financial performance										
Property, plant and equipment	60.0%	58.8%	61.1%	62.7%	62.7%	63.4%	63.8%	60.1%	62.2%	66.5%
Financial assets	32.8%	35.8%	37.7%	37.8%	33.8%	35.0%	39.3%	50.5%	51.1%	54.1%
Loan repayment fund	5.2%	3.6%	0.3%	0.3%	4.4%	4.0%	3.8%	4.0%	4.2%	3.8%
Other assets	7.9%	10.8%	10.8%	10.7%	11.3%	8.6%	7.6%	9.3%	7.0%	8.8%
Total assets	105.8%	109.0%	110.0%	111.6%	112.1%	111.1%	114.5%	123.9%	124.4%	133.2%
Borrowings	24.8%	21.7%	24.7%	22.8%	23.8%	24.8%	23.8%	20.9%	20.4%	17.5%
Other liabilities	17.5%	21.2%	22.5%	22.6%	19.8%	22.5%	23.6%	29.4%	24.7%	26.4%
Total liabilities	42.3%	42.9%	47.2%	45.4%	43.6%	47.3%	47.4%	50.2%	45.2%	43.9%
Net worth	63.5%	66.0%	62.7%	66.2%	68.5%	63.8%	67.1%	73.7%	79.3%	89.3%
% change taxation revenue	13.5%	2.0%	-5.7%	13.4%	3.9%	-5.8%	22.9%	2.8%	15.7%	15.7%
Total Crown revenue growth	16.9%	10.6%	-2.9%	8.7%	4.7%	8.4%	3.5%	2.4%	14.9%	16.3%
Total Crown expense growth	10.4%	13.1%	-5.0%	-2.3%	8.5%	0.6%	3.2%	-10.9%	15.2%	10.2%
Operating balance excluding gains and losses (OBEGAL) (excluding minority interest) growth	-94.3%	813.5%	-88.0%	-3530.7%	-30.0%	119.7%	5.6%	86.4%	14.0%	34.7%
Net surplus growth	-194.7%	5.5%	-106.1%	-3826.5%	22.1%	2.1%	74.1%	69.0%	-5.8%	52.5%







Independent audit report of the Director of Audit



Independent Audit Report of the Director of Audit

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TO THE READERS OF THE FINANCIAL STATEMENTS OF THE GOVERNMENT OF THE COOK ISLANDS FOR THE YEAR ENDED 30 JUNE 2019

Opinion

I have audited the financial statements of the Government of the Cook Islands (the financial statements of the Government) for the year ended 30 June 2019 using my staff, resources, and appointed auditors and their staff. The financial statements of the Government on pages 28 to 79 comprise:

The annual financial statements include the statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in equity, and statement of cash flows for the year ended on that date, statement of segments, statement of borrowings, statement of commitments, statement of contingent liabilities, notes to the financial statements that include accounting policies and other explanatory information.

Qualified opinion

In my opinion, except for the possible effects of the matters described in the *Basis for qualified opinion* section of my report, the financial statements of the Government on pages 28 to 79:

- i. present fairly in all material respects, the Government's:
 - a. financial position as at 30 June 2019; and
 - b. financial performance for the year ended on that date;
- ii. comply with generally accepted accounting practices as defined by the Ministry of Finance and Economic Management Act 1995-96 and International Public Sector Accounting Standards (IPSAS) issued by the International Public Sector Accounting Standards Board.

My audit was completed 30 November 2020. This is the date on which my opinion is expressed.

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

Basis for qualified opinion

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

1. I was unable to confirm property, plant and equipment of \$128.8 million and infrastructure assets of \$224.4 million

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



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

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

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

2. *I was unable to confirm taxation revenue of \$159.2 million, tax amnesty write-off of \$23.5 million and tax receivables of \$24.3 million*

My Office was not given access to the underlying tax records to assess whether tax revenue has been appropriately recorded. As a result, I cannot confirm that taxation revenue, tax receivables, tax amnesty write-off and the related elements included in the statement of financial position, statement of financial performance and statement of cash flows were fairly presented and comply with generally accepted accounting practice.

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

The current tax system does not fully enable Government to account for taxation revenue on an accrual basis or distinguish which period tax receipts relate to. This has resulted in the tax amnesty write off \$23.5 million not being reflected in the statement of financial performance or the statement of financial position.

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

The Government has recorded a number of transactions in its financial statements to correct prior year errors, which it has recognised through a “prior year consolidation adjustments” equity account. Prior year consolidation adjustments of \$2.0 million (\$29.9 million (2018)) could not be confirmed. This is a departure from IPSAS 3 – Accounting Policies, Estimates and Errors. The Government should instead have corrected these significant prior period errors by retrospectively correcting the comparative information in the financial statements.

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

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



I carried out my audit in accordance with International Standards of Supreme Audit Institutions (ISSAI), which incorporate ISSAI 130 Code of Ethics issued by the International Organization of Supreme Audit Institutions (INTOSAI Code of Ethics). My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements of the Government* section of this report.

I have fulfilled my responsibilities in accordance with ISSAI.

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

Other information

The Financial Secretary is responsible for the other information. The other information comprises the information included on pages 1 to 79, but does not include the annual financial statements of the Government and my auditor's report thereon.

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

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



Independence

While carrying out this audit, my staff and appointed auditors and their staff complied with the ISSAI 130 Code of Ethics or the independence requirements of Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code).

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



Allen Parker

Director of Audit
Cook Islands Audit Office
Rarotonga, Cook Islands





Audited financial statements of the Government of the Cook Islands



**Schedule of Government entities
For the year ended 30 June 2019**

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

Crown parent + Crown entities (45) + State owned enterprises (16) = Cook Islands Government

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

Crown entities (45)

Ministries (13)

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

Crown agencies and offices (15)

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

Island administrations (10)

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

Ministerial support (7)

- 39 Prime Minister's Support Office
- 40 Office of the Deputy Prime Minister
- 41 Office of the Leader of Opposition
- 42 Minister R. Brown's Support Office
- 43 Minister V. Mokoroa's Support Office
- 44 Minister G. Angene's Support Office
- 45 Minister R. Tapaitau's Support Office

State owned enterprises (16)

- 1 Cook Islands Investment Corporation

Subsidiaries of Cook Islands Investment Corporation (CIIC)

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

Subsidiaries of Cook Islands Government Property Corporation

- 8 Banana Court Co Limited
- 9 Cook Islands Property Corporation
- 10 Bank of the Cook Islands Limited
- 11 Suwarrow Development Corporation
- 12 Development Finance limited
- 13 Cook Islands Telecommunication Holdings Limited
- 14 Aitutaki Power Supply Limited
- 15 To Tatou Vai Limited
- 16 Avaroa Cables Limited



Statement of Financial Performance
For the year ended 30 June 2019
In New Zealand Dollars

	Note	2019 \$000	2018 \$000
Revenue			
Taxation revenue	4	159,207	137,568
Other sovereign revenue	5	28,192	18,397
Total sovereign revenue		187,399	155,965
Sales of goods and services	6	50,470	48,250
Interest revenue		3,649	3,767
Rental revenue		3,417	3,198
Aid revenue	11	43,062	36,559
Total revenue earned through operations		100,598	91,774
Total revenue (excluding gains and minority interest)		287,997	247,739
Expenses			
Personnel expenses	7	69,169	65,185
Welfare payments	8	19,525	18,271
Audit Fees		447	417
Changes in provision for doubtful debts	14	1,534	927
Depreciation and amortisation	17, 18, 19 & 20	18,530	17,267
Finance costs	9	2,123	4,441
Aid expenses	11	17,257	16,828
Other expenses	10	77,369	63,510
Total expenses (excluding losses)		205,954	186,846
Operating balance before gains and losses (OBEGAL) & minority interest		82,043	60,893
Other gains / (losses) and minority interest			
Gain / (loss) on disposal of assets		(562)	15
Foreign exchange gain / (loss)		2,145	(7,188)
Share of profit of associate	15	5,071	4,439
Total other gains / (losses) and minority interest		6,654	(2,734)
Net surplus		88,697	58,159

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



Statement of Financial Position
For the year ended 30 June 2019
In New Zealand Dollars

	Note	2019 \$000	2018 \$000
Assets			
Current assets			
Cash and cash equivalents	12	67,785	41,872
Term deposits	12	109,204	125,477
Trust accounts	24	47,715	22,369
Inventory	13	9,021	8,674
Debtors and other receivables	14	39,306	26,654
Banking portfolio investments	16	9,842	10,064
Total current assets		282,873	235,110
Non-current assets			
Investments in shares and associate	15	11,215	11,144
Banking portfolio investments	16	72,049	67,876
Investment property	20	6,284	5,300
Property, plant and equipment	17	128,791	115,909
Infrastructural assets	18	224,356	187,259
Intangible assets	19	5,340	4,939
Total non-current assets		448,035	392,427
Total assets		730,908	627,537
Liabilities			
Current liabilities			
Creditors and other payables	22	18,208	16,855
Employee entitlements	23	4,383	3,783
Trustee liabilities	24	59,598	38,021
Banking customer deposits	25	58,703	64,241
Current borrowings	Borrowings	8,083	8,413
Total current liabilities		148,975	131,313
Non-current liabilities			
Banking customer deposits	25	4,049	1,802
Non-current borrowings	Borrowings	87,772	94,652
Total non-current liabilities		91,821	96,454
Total liabilities		240,796	227,767
Net assets		490,112	399,770
Equity			
Capital contributions and retained earnings		490,112	399,770
Total equity		490,112	399,770

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



Statement of Changes in Equity
For the year ended 30 June 2019
In New Zealand Dollars

	General reserves	Taxpayers funds	Total equity
	\$000	\$000	\$000
Net worth at 30 June 2017	1,956	334,818	336,774
Opening equity adjustments *	-	(25,105)	(25,105)
Prior year consolidation adjustments **	-	29,942	29,942
Net surplus / (deficit) for the year	-	58,159	58,159
Net worth at 30 June 2018	1,956	397,814	399,770
Opening equity adjustments *	-	(404)	(404)
Prior year consolidation adjustments **	-	2,049	2,049
Net surplus / (deficit) for the year	-	88,697	88,697
Net worth at 30 June 2019	1,956	488,156	490,112

* **'Opening equity adjustments'** - this relates to the 'previous year's' consolidation transactions and adjustments that were necessary to align the 'current year' opening equity balance to 'previous year's' audited closing equity balance.

** **'Prior year consolidation adjustments'** - this relates to the correction of significant prior year consolidation adjustments in the current financial year. Government deemed it impracticable to restate prior year comparatives. Hence there was no restatement to equity and any other affected or related accounts.

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

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



Statement of Cash Flows
For the year ended 30 June 2019
In New Zealand Dollars

	2019	2018
	\$000	\$000
Cash Flows From Operating Activities		
Cash was provided from:		
Taxation receipts	143,687	138,133
Other sovereign receipts	36,382	49,694
Sales of goods and services	46,524	52,984
Net Aid Receipt	43,060	-
Cash receipts from associates	4,201	3,352
Total cash provided from operations	273,854	244,163
Cash was disbursed to:		
Social welfare benefits and education grant payments	18,782	17,576
Personnel payments	66,210	63,149
Supplier payments	96,485	99,691
Realised foreign exchange movements	(2,907)	1,809
Total cash disbursed to operations	178,570	182,225
Net cash flows from operations	95,284	61,938
Cash Flows From Investing Activities		
Cash was provided from:		
Sale of property, plant and equipment	562	15,178
Gain on investments	-	4,837
Net increase in trustee accounts	(3,772)	1,986
Interest received from investments	4,369	8,110
Total cash provided from investing activities	1,159	30,111
Cash was disbursed to:		
Purchase of property, plant and equipment	61,919	65,752
Purchase of infrastructure	7,195	-
Purchase of intangible assets	401	-
Net change in investments value	(12,322)	44,552
Total cash disbursed to investing activities	57,193	110,304
Net cash flows from investing activities	(56,034)	(80,193)
Cash Flows From Financing Activities		
Cash was provided from:		
Drawdown of borrowings	-	7,171
Client deposit accounts held	(3,291)	(4,337)
Customs bonds received	50	33
Total cash provided from financing activities	(3,241)	2,867
Cash was disbursed to:		
Loan repayments (foreign-sourced borrowings)	10,095	6,712
Total cash disbursed to financing activities	10,095	6,712
Net cash flows from financing activities	(13,336)	(3,845)
Net movement in cash	25,914	(22,100)
Opening cash balance	41,872	63,972
Closing cash and cash equivalents balance	67,785	41,872

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



Statement of Cash Flows (continued)
For the Year Ended 30 June 2019
In New Zealand Dollars

	2019	2018
	\$000	\$000
Reconciliation between the Operating Balance and the Net Cash Flows from Operations		
Net surplus/ (loss) for the year	88,697	58,159
Add / (less) non cash items		
Depreciation and amortisation	18,530	17,267
Change in provision for doubtful debts	1,534	927
Unrealised foreign exchange movement	(2,885)	7,188
Prior year adjustment	2,049	4,837
Total non cash items	19,228	30,219
Add / (less) movements in working capital		
(increase)/ decrease in taxes receivable	(15,042)	1,822
(increase)/ decrease in dividend receivable	784	-
(increase)/ decrease in interest receivable	720	(96)
(increase)/ decrease in prepayments	234	219
(increase)/ decrease in inventory	(343)	557
(increase)/ decrease in other current assets	(469)	154
(increase)/ decrease in other receivables	(192)	5,661
(increase)/ decrease in trustee accounts	(3,951)	4,200
(increase)/ decrease in debt servicing	(2,123)	(2,505)
increase/ (decrease) in amounts due to employees	600	1
increase/ (decrease) in interest accrued	50	33
increase/ (decrease) in tax refund liability	1,320	48
increase/ (decrease) in customer deposits	(3,291)	(4,337)
increase/ (decrease) in creditors	16,298	(38,148)
increase/ (decrease) in investments in shares and associates	(26)	(1,310)
increase/ (decrease) in provision for legal settlement TOA	-	(498)
increase/ (decrease) in foreign borrowings	(7,210)	7,759
Total movement in working capital	(12,641)	(26,440)
Net cash inflows/(outflows) from operating activities	95,284	61,938

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



Statement of Segments
For the year ended 30 June 2019
In New Zealand Dollars

	Current Year Actual vs Prior Year Actual									
	Crown Parent		Crown Entities		State Owned Enterprises		Inter-Segment Elimination		Whole of Government	
	Actual 2019 \$000	Actual 2018 \$000	Actual 2019 \$000	Actual 2018 \$000	Actual 2019 \$000	Actual 2018 \$000	Actual 2019 \$000	Actual 2018 \$000	Actual 2019 \$000	Actual 2018 \$000
Revenue										
Taxation revenue	162,281	140,657	-	-	-	-	(3,074)	(3,089)	159,207	137,568
Other Sovereign revenue	27,157	17,717	-	419	-	658	1,035	(397)	28,192	18,397
Revenue from Crown funding	-	-	76,644	68,409	13,942	7,749	(90,586)	(76,158)	-	-
Total sovereign revenue	189,438	158,374	76,644	68,828	13,942	8,407	(92,625)	(79,644)	187,399	155,965
Sales of goods and services	451	441	6,685	6,811	44,805	42,304	(1,471)	(1,306)	50,470	48,250
Interest revenue	3,243	2,854	-	-	1,166	1,703	(760)	(790)	3,649	3,767
Rental revenue	4,202	3,024	-	-	3,417	3,198	(4,202)	(3,024)	3,417	3,198
Aid revenue	27,796	25,082	5,331	5,222	4,469	4,665	5,466	1,590	43,062	36,559
Total revenue earned through operations	35,692	31,401	12,016	12,033	53,857	51,870	(967)	(3,530)	100,598	91,774
Total revenue (excluding gains and minority interest)	225,130	189,775	88,660	80,861	67,799	60,277	(93,592)	(83,174)	287,997	247,739
Expenses										
Personnel expenses	1,472	1,269	53,183	50,851	12,155	11,031	2,359	2,034	69,169	65,185
Welfare payments	19,035	17,710	-	-	-	-	490	561	19,525	18,271
Audit Fees	-	-	27	27	447	404	(27)	(14)	447	417
Changes in provision for doubtful debts	-	-	575	609	959	318	-	-	1,534	927
Depreciation and amortisation	1,392	2,019	6,865	6,183	10,273	9,065	-	-	18,530	17,267
Finance costs	2,082	2,196	-	1	801	2,993	(760)	(749)	2,123	4,441
Aid expenses	20,061	12,069	3,546	3,170	-	-	(6,350)	1,589	17,257	16,828
Other expenses	131,981	113,672	18,865	18,159	31,232	30,287	(104,709)	(98,608)	77,369	63,510
Total expenses (excluding losses)	176,023	148,935	83,061	79,000	55,867	54,098	(108,997)	(95,187)	205,954	186,846
Operating balance before gains and losses (OBEGAL) & minority interest	49,107	40,840	5,599	1,861	11,932	6,179	15,405	12,013	82,043	60,893
Other gains / (losses) and minority interest										
Gain / (loss) on disposal of assets	(1)	46	(72)	(31)	(489)	1	-	(1)	(562)	15
Foreign exchange gain / (loss)	2,189	(6,501)	-	-	(44)	(687)	-	-	2,145	(7,188)
Share of profit of associate	-	-	-	-	-	4,439	5,071	-	5,071	4,439
Total other gains / (losses) and minority interest	2,188	(6,455)	(72)	(31)	(533)	3,753	5,071	(1)	6,654	(2,734)
Net surplus	51,295	34,385	5,527	1,830	11,399	9,932	20,476	12,012	88,697	58,159

Statement of Segments reports on the three different segments of the Cook Islands Government. This includes Crown Parent, Crown Entities and State Owned Enterprises. A segment is a distinguishable activity or group of activities of an entity for which it is appropriate to separately report financial information for the purpose of evaluating the entity's past performance in achieving its objectives and for making decisions about the future allocation of resources.

Inter-Segmental Elimination reports eliminations of any inter-agency revenue, expenses, assets and liabilities.

The whole of Government reports on the final consolidated financial performance and position as at 30 June 2019.

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



Statement of Segments (continued)
For the year ended 30 June 2019
In New Zealand Dollars

	Current Year Actual vs Prior Year Actual									
	Crown Parent Actual 2019 \$000	Actual 2018 \$000	Crown Entities Actual 2019 \$000	Actual 2018 \$000	State Owned Enterprises Actual 2019 \$000	Actual 2018 \$000	Inter-Segment Elimination Actual 2019 \$000	Actual 2018 \$000	Whole of Government Actual 2019 \$000	Actual 2018 \$000
Assets										
Current assets										
Cash and cash equivalents	44,353	29,571	12,008	10,020	23,262	14,961	(11,838)	(12,680)	67,785	41,872
Term deposits	76,185	84,032	3,023	2,909	38,852	43,334	(8,856)	(4,798)	109,204	125,477
Trust accounts	46,968	28,944	16,290	7,953	-	-	(15,543)	(14,528)	47,715	22,369
Inventory	1,063	1,146	2,062	1,631	5,897	5,897	(1)	-	9,021	8,674
Debtors and other receivables	98,150	71,061	48,859	41,378	11,702	13,050	(119,405)	(98,835)	39,306	26,654
Banking portfolio investments	-	-	-	-	9,842	10,064	-	-	9,842	10,064
Total current assets	266,719	214,754	82,242	63,891	89,555	87,306	(155,643)	(130,841)	282,873	235,110
Non-current assets										
Investments in shares and associate	20,141	22,034	-	-	11,182	11,112	(20,108)	(22,002)	11,215	11,144
Banking portfolio investments	-	-	-	-	72,049	67,876	-	-	72,049	67,876
Investment Assets	-	-	-	-	6,284	5,298	-	2	6,284	5,300
Plant, property and equipment	96,686	65,650	20,743	19,872	103,783	92,862	(92,421)	(62,475)	128,791	115,909
Intangible assets	2	110	3,147	2,334	2,192	2,495	219,015	182,320	224,356	187,259
Infrastructural assets	17,947	18,749	28,727	20,398	85,261	85,593	(126,595)	(119,801)	5,340	4,939
Total non-current assets	134,776	106,543	52,617	42,604	280,751	265,236	(20,109)	(21,956)	448,035	392,427
Total assets	401,495	321,297	134,859	106,495	370,306	352,542	(175,752)	(152,797)	730,908	627,537
Liabilities										
Current liabilities										
Creditors and other payables	58,614	52,087	70,526	60,216	9,572	9,377	(120,504)	(104,825)	18,208	16,855
Employee entitlements	129	76	3,362	3,239	892	468	-	-	4,383	3,783
Trustee liabilities	47,443	29,158	19,884	11,955	-	-	(7,729)	(3,092)	59,598	38,021
Banking customer deposits	-	-	-	-	85,934	88,673	(27,231)	(24,432)	58,703	64,241
Current borrowings	8,083	8,413	-	-	-	-	-	-	8,083	8,413
Total current liabilities	114,269	89,734	93,772	75,410	96,398	98,518	(155,464)	(132,349)	148,975	131,313
Non-current liabilities										
Banking customer deposits	-	-	-	-	4,049	1,802	-	-	4,049	1,802
Non-current borrowings	87,772	94,652	-	-	19,502	21,320	(19,502)	(21,320)	87,772	94,652
Total non-current liabilities	87,772	94,652	-	-	23,551	23,122	(19,502)	(21,320)	91,821	96,454
Total liabilities	202,041	184,386	93,772	75,410	119,949	121,640	(174,966)	(153,669)	240,796	227,767
Net assets	199,454	136,911	41,087	31,085	250,357	230,902	(786)	872	490,112	399,770
Equity										
Capital contributions and retained earnings	199,454	136,911	41,087	31,085	250,357	230,902	(786)	872	490,112	399,770
Total equity	199,454	136,911	41,087	31,085	250,357	230,902	(786)	872	490,112	399,770

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



Statement of Segments (Continued)
For the year ended 30 June 2019
In New Zealand Dollars

	Current Year Actual vs Estimated Actuals (Budget 2019)									
	Crown Parent Actual 2019 \$000	Budget 2019 \$000	Crown Entities Actual 2019 \$000	Budget 2019 \$000	State Owned Enterprises Actual 2019 \$000	Budget 2019 \$000	Inter-Segment Elimination Actual 2019 \$000	Budget 2019 \$000	Whole of Government Actual 2019 \$000	Budget 2019 \$000
Revenue										
Taxation revenue	162,281	148,154	-	-	-	-	(3,074)	-	159,207	148,154
Other Sovereign revenue	27,157	17,982	-	-	-	-	1,035	(142)	28,192	17,840
Revenue from Crown funding	-	-	76,644	84,769	13,942	-	(90,586)	(84,769)	-	-
Total sovereign revenue	189,438	166,136	76,644	84,769	13,942	-	(92,625)	(84,911)	187,399	165,994
Sales of goods and services	451	-	6,685	6,646	44,805	-	(1,471)	-	50,470	6,646
Interest revenue	3,243	2,050	-	-	1,166	2,590	(760)	(2,590)	3,649	2,050
Rental revenue	4,202	-	-	-	3,417	-	(4,202)	-	3,417	-
Aid revenue	27,796	61,184	5,331	-	4,469	-	5,466	(7,730)	43,062	53,454
Total revenue earned through operations	35,692	63,234	12,016	6,646	53,857	2,590	(967)	(10,320)	100,598	62,150
Total revenue (excluding gains and minority interest)	225,130	229,370	88,660	91,415	67,799	2,590	(93,592)	(95,231)	287,997	228,144
Expenses										
Personnel expenses	1,472	4,030	53,183	56,241	12,155	-	2,359	-	69,169	60,271
Welfare payments	19,035	19,201	-	-	-	-	490	-	19,525	19,201
Audit Fees	-	-	27	-	447	-	(27)	-	447	-
Changes in provision for doubtful debts	-	-	575	-	959	-	-	-	1,534	-
Depreciation and amortisation	1,392	6,777	6,865	7,375	10,273	-	-	-	18,530	14,152
Finance costs	2,082	2,367	-	-	801	-	(760)	-	2,123	2,367
Aid expenses	20,061	53,454	3,546	-	-	-	(6,350)	-	17,257	53,454
Other expenses	131,981	48,827	18,865	21,152	31,232	-	(104,709)	(6,296)	77,369	63,683
Total expenses (excluding losses)	176,023	134,656	83,061	84,768	55,867	-	(108,997)	(6,296)	205,954	213,128
Operating balance before gains and losses (OBEGAL) & minority interest	49,107	94,714	5,599	6,647	11,932	2,590	15,405	(88,935)	82,043	15,016
Other gains / (losses) and minority interest										
Gain / (loss) on disposal of assets	(1)	-	(72)	-	(489)	-	-	-	(562)	-
Foreign exchange gain / (loss)	2,189	-	-	-	(44)	-	-	-	2,145	-
Share of profit of associate	-	-	-	-	-	-	5,071	-	5,071	-
Total other gains / (losses) and minority interest	2,188	-	(72)	-	(533)	-	5,071	-	6,654	-
Net surplus	51,295	94,714	5,527	6,647	11,399	2,590	20,476	(88,935)	88,697	15,016

Source of budget figures: Cook Islands Government Budget Estimates 2018/2019 Book 1 - Schedule 7.1 Statement of Financial Performance

Budget figures for State Owned Enterprises are not included in the above comparison as currently SOEs were not included in the preparation of the Government Budget Estimate 2018/2019.

The difference between the net surplus reported in schedule 7.1 of \$19,182 and the above reported surplus of \$15,016, is the result of inter-segment eliminations.

Refer to the Fiscal Overview section for explanations on significant variances to the budget.

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



Statement of Borrowings
For the year ended 30 June 2019
In New Zealand Dollars

	Loan start date	Loan end date	Loan currency	Original loan amount \$000	Interest rate	2019 \$000	2018 \$000
External borrowings							
Asian Development Bank							
<i>Loans guaranteed by New Zealand Government</i>							
1. LN0461 Multiproject Loan	Nov-80	Aug-20	USD	1,000	1.00%	163	274
2. LN0567 Cook Islands Development Bank Project	Jul-82	Apr-22	USD	1,500	1.00%	241	323
3. LN0849 Second Multiproject Loan	Dec-87	Aug-27	SDR	2,150	1.00%	1,413	1,587
4. LN1031 Outer Islands Telecommunications Project	Oct-90	Aug-30	SDR	2,578	1.00%	3,653	3,990
5. LN1155 Second Cook Islands Development Bank Project	Mar-92	Dec-31	SDR	1,085	1.00%	940	1,020
Total loans guaranteed by New Zealand Government						6,410	7,194
<i>Unguaranteed loans</i>							
6. LN1171 Emergency Telecommunications Rehabilitation	Aug-92	Jun-32	SDR	349	1.00%	326	353
7. LN1309 Pearl Industry Development Project	Dec-94	Aug-34	SDR	272	1.00%	380	407
8. LN1317 Education Development Project	Feb-95	Aug-34	SDR	1,852	1.00%	2,319	2,480
9. LN1380 Third Cook Islands Development Bank Project	Jan-96	Sep-35	SDR	1,977	1.00%	1,994	2,125
10. LN1466 Economic Restructuring Program	Sep-96	Sep-36	SDR	3,430	1.00%	4,561	4,844
11. LN1588 Cyclone Emergency Rehabilitation Project	Jan-97	Jan-38	SDR	583	1.00%	801	847
12. LN1832 Waste Management Project	Dec-01	Jun-33	SDR	1,695	1.50%	1,918	2,064
13. LN2174 Cyclone Emergency Assistance	Jun-05	Jan-45	SDR	1,895	1.00%	3,391	3,481
14. LN2473 Avatiu Port Development Project	Sep-09	Nov-40	SDR	4,524	1.50%	5,895	7,369
15. LN2472 Avatiu Port Development Project	Sep-09	Nov-33	NZD	8,697	5.77%	8,875	9,140
16. LN2565 Economic Recovery Support Program	Jan-10	Oct-24	NZD	11,053	2.52%	5,532	6,532
17. LN2739 Avatiu Port Development Project (Supplementary)	Dec-11	Nov-35	NZD	5,290	2.64%	4,964	5,079
18. LN2946 Economic Recovery Support Program	Dec-12	Oct-27	NZD	11,053	2.75%	5,135	5,740
19. LN3193 Renewable Energy Sector	Jan-15	Jan-37	NZD	12,980	2.13%	9,060	7,895
20. LN3479 Disaster Resilience Program	Feb-17	Feb-32	NZD	13,950	1.43%	(45)	(24)
21. LN3632 Improving Internet Connectivity for South Pacific	Nov-18	Nov-43	USD	15,000	0.88%	-	-
Total unguaranteed loans						55,106	58,332
Total Asian Development Bank borrowings						61,516	65,526
Caisse Francaise de Development							
1. Northern Group Solarisation Project Loan	Jan-99	Sep-18	EUR	1,159	0.75%	-	73
2. Rarotonga Water Supply & Electrification Loan	Jan-99	Sep-18	EUR	10,270	1.75%	-	257
Total Caisse Francaise de Development borrowings						-	330

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



Statement of Borrowings (Continued)

For the year ended 30 June 2019

In New Zealand Dollars

	Loan start date	Loan end date	Loan currency	Original loan amount \$000	Interest rate	2019 \$000	2018 \$000
Export - Import Bank of China							
1. Indoor Sports Stadium & Upgrade of Existing Sports Facilities	Aug-08	Aug-28	CNY	74,100	1.80%	9,394	10,394
2. Rarotonga Water Ring Main Upgrade Loan	Dec-12	Dec-32	CNY	118,000	2.00%	24,945	26,815
Total Export - Import Bank of China borrowings						34,339	37,209
Total external borrowings						95,855	103,065
Total borrowings						95,855	103,065

Total borrowings above includes both the Cook Islands Government and state owned enterprise loans. This equates to the amount in the Statement of the Financial Position and represents the complete picture of whole of Government debt obligations to external parties.

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

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



Statement of Borrowings (Continued)

For the year ended 30 June 2019

In New Zealand Dollars

	2020	2021	2022	2023	2024 to 2028	2028 and after	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Maturity profile as at 30 June 2019							
External borrowings							
Asian Development Bank	5,531	5,531	5,531	5,531	27,655	11,737	61,516
Caisse Francaise de Development	-	-	-	-	-	-	-
Export -Import Bank of China	2,552	2,552	2,552	2,552	12,760	11,371	34,339
Total external borrowings	8,083	8,083	8,083	8,083	40,415	23,108	95,855
Total borrowings	8,083	8,083	8,083	8,083	40,415	23,108	95,855
	2019	2020	2021	2022	2023 to 2027	2027 and after	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Maturity profile as at 30 June 2018							
External borrowings							
Asian Development Bank	5,531	5,531	5,531	5,531	27,655	15,747	65,526
Caisse Francaise de Development	330	-	-	-	-	-	330
Export -Import Bank of China	2,552	2,552	2,552	2,552	12,760	14,241	37,209
Total external borrowings	8,413	8,083	8,083	8,083	40,415	29,988	103,065
Total borrowings	8,413	8,083	8,083	8,083	40,415	29,988	103,065

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



Statement of Borrowings (Continued)
For the year ended 30 June 2019
In New Zealand Dollars

	1 July 2018 \$000	Additional loan \$000	Loan repayment \$000	Currency alignment \$000	30 June 2019 \$000
Movements during the year ended 30 June 2019					
External borrowings					
Asian Development Bank	65,526	1,416	(5,552)	126	61,516
Caisse Francaise de Development	330	-	(264)	(66)	-
Export -Import Bank of China	37,209	-	(2,630)	(240)	34,339
Total external borrowings	103,065	1,416	(8,446)	(180)	95,855
Total borrowings	103,065	1,416	(8,446)	(180)	95,855

	1 July 2017 \$000	Additional loan \$000	Loan repayment \$000	Currency alignment \$000	30 June 2018 \$000
Movements during the year ended 30 June 2018					
External borrowings					
Asian Development Bank	61,140	6,817	(5,391)	2,960	65,526
Caisse Francaise de Development	827	-	(592)	95	330
Export -Import Bank of China	33,338	-	(932)	4,803	37,209
Total external borrowings	95,305	6,817	(6,915)	7,858	103,065
Total borrowings	95,305	6,817	(6,915)	7,858	103,065

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



Statement of Borrowings (Continued)
For the year ended 30 June 2019
In New Zealand Dollars

	United States Dollar USD \$000	Euro EUR \$000	New Zealand Dollar NZD \$000	Chinese Yuan RMB \$000	Total \$000
Currency analysis as at 30 June 2019					
External borrowings					
Asian Development Bank	27,995	-	33,521	-	61,516
Caisse Francaise de Development	-	-	-	-	-
Export -Import Bank of China	-	-	-	34,339	34,339
Total external borrowings	27,995	-	33,521	34,339	95,855
Total borrowings	27,995	-	33,521	34,339	95,855
	29.2%	0.0%	35.0%	35.8%	
Currency analysis as at 30 June 2018					
External borrowings					
Asian Development Bank	31,164	-	34,362	-	65,526
Caisse Francaise de Development	-	330	-	-	330
New Zealand Government	-	-	-	-	-
Export -Import Bank of China	-	-	-	37,209	37,209
Total external borrowings	31,164	330	34,362	37,209	103,065
Total borrowings	31,164	330	34,362	37,209	103,065
	30.2%	0.3%	33.3%	36.1%	

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

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



Statement of Commitments
For the year ended 30 June 2019
In New Zealand Dollars

	2019 \$000	2018 \$000
Commitments by type		
Lease commitments	4,546	4,546
Undisbursed bank loan facilities (Bank of the Cook Islands)	4,484	4,484
Total quantifiable commitments	9,030	9,030
Lease commitments by term		
One year or less	-	-
From one to two years	276	276
From two to five years	1,033	1,033
Over five years	3,237	3,237
Total lease commitments	4,546	4,546

Lease commitments

The Cook Islands Government has commitments relating to land leases held by the Cook Islands Government Property Corporation. These are long term, usually for a 20-30 year period with perpetual renewal rights.

Capital expenditure

Government was not able to obtain a Capital Commitment Schedule due to insufficient information available from Government agencies responsible or administering major capital projects. The information currently available are tailored to account for budget versus actual expenditure instead of expenditure committed during the financial year via project contractual agreements.

Government will aim to have this compiled in future financial reports.

Undisbursed bank loan facilities

Bank of the Cook Islands has committed to lending a number of loans in the future that have not yet been drawn down. As at 30 June 2019 these undrawn loans total \$4,484,415 (2018: \$4,484,415).

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

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



Statement of Contingent Liabilities**For the year ended 30 June 2019***In New Zealand Dollars*

	2019	2018
	\$000	\$000
Contingent liabilities		
Uncalled capital - Asian Development Bank	1,775	1,762
Legal proceedings	5,912	5,912
Total quantifiable contingent liabilities	7,687	7,674

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 30 June 2019 USD foreign exchange rate of 0.6694, this equates to \$1,774,724 in NZD (2018: \$1,762,350 at 0.6741).

Legal Proceedings

- A \$77,000 claim has been lodged against the Ministry of Justice over a land matter dispute.
- A \$435,000 claim has been lodged against the Ministry of Health over medical negligence by health officials treatment of a former patient.
- A \$5,400,000 claim has been lodged against the Crown Law Office over wrongful prosecution.

Contingent assets

There are no contingent assets at year end (2018: nil)

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



**Statement of Accounting Policies
For the year ended 30 June 2019**

Note 1: Basis of reporting

Statement of compliance

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

The use of public resources by the Government is primarily governed by the Ministry of Finance and Economic Management Act 1995/96.

These financial statements were authorised for issue by the Minister of Finance on 30 November 2020.

Reporting period

The reporting period for these financial statements is for the year ended 30 June 2019.

Basis of preparation

These financial statements have been prepared on the basis of historical cost modified by the revaluation of certain assets and liabilities, and prepared on an accrual basis, unless otherwise specified (for example, the Statement of Cash Flows and Taxation Revenue).

The financial statements are presented in New Zealand dollars rounded to the nearest thousand (\$000), unless separately identified.

The accounting policies included in these financial statements are the significant accounting policies for the Financial Statements of the Government and are listed in Note 3.

Comparatives

When presentation or classification of items in the financial statements are amended or accounting policies are changed voluntarily, comparative figures have been restated to ensure consistency with the current period unless it is impracticable to do so.

Accounting Standards issued and not yet effective and not early adopted

The following standard has been issued and not yet effective at reporting date and which the Government has not early adopted:

IPSAS 41: Financial instruments
Issue date: 1 Aug 2018
Effective date: 1 Jan 2022

IPSAS 42: Social benefits
Issue date: 1 Jan 2019
Effective date: 1 Jan 2022

Accounting Standards effective for the year but not yet adopted

The following standards were effective at reporting date:

IPSAS 35: Consolidated financial statements
IPSAS 36: Investments in associates and joint ventures
IPSAS 39 - Employee benefits

The new standard above has been reflected in the preparation of these financial statements.

Government Reporting Entity as at 30 June 2019

The description "Consolidated Financial Statements of the Government reporting entity" and the description "Financial Statements of the Government" have the same meaning and can be used interchangeably.

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



Statement of Accounting Policies (continued)
For the year ended 30 June 2019

Basis of combination

These financial statements combine the following entities using the acquisition method of combination:

Crown Parent

Crown entities (45)

Ministries (13)
Crown agencies and offices (15)
Island administrations (10)
Ministerial support offices (7)

State owned enterprises (16)

The Government has a full residual interest in all the above entities with the exception of Telecom Cook Islands Limited and CIIC Seabed Resources Limited.

Corresponding assets, liabilities, revenue and expenses, are added together line by line. Transactions and balances between these sub-entities are eliminated on combination. Where necessary, adjustments are made to the financial statements of controlled entities to bring the accounting policies into line with those used by the Government reporting entity.

Refer to Schedule of Government entities on page 29 of the financial statements for a listing of the individual entities making up each segment.

Note 2: Key assumptions and judgements

These financial statements reflect the Government's financial position (service potential and financial capacity) as at 30 June 2019, and the financial results of operations and cash flows for the year ended on that date. Underpinning these financial statements are a number of judgements, estimations and assumptions. These include assumptions and judgements about the future, in particular, the service benefits and future cash flows in relation to existing assets and liabilities.

Key assumptions

The assumptions in these financial statements are based on the best information available at the time of their preparation. Given the inherent uncertainty of predicting the future, actual events are likely to differ from these assumptions, which may have a material impact on the results reported in these financial statements. Key assumptions are discussed below.

Foreign exchange rates

That foreign currency denominated financial assets and liabilities will be able to be 'translated' to New Zealand dollars at the exchange rate prevailing at balance date.

Depreciation rates

That the economic useful life of assets (used to determine depreciation rates) will equate to the estimates determined using a combination of engineering and historical evidence.

Taxation revenue

Government currently recognises taxation revenue on a cash basis as opposed to an accrual basis. Government is required to account for all activities on an accrual basis. The current tax system does not fully enable Government to account for taxation revenue on an accrual basis.

The current tax system also does not allow Government to distinguish taxation receipts received during the year into the periods the tax receipts relate to. The assumption is that all tax receipts received during the year are treated as current year taxation revenue.

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



Statement of Accounting Policies (continued)
For the year ended 30 June 2019

Tax receivables

Government has not undertaken an assessment on the recoverability of tax receivables. Tax receivables is assumed to be fully recoverable and free from impairment.

Areas of significant estimation

These financial statements include estimated amounts that have a number of uncertainties (discussed below).

Banking portfolio investments - credit provisioning (Bank of the Cook Islands)

Government applies three-stage approach to measuring expected credit losses (“ECL”) on Banking portfolio investments. Assets migrate through the following three stages based on the change of their credit quality, since initial recognition.

Stage 1: 12-month ECL - For financial instruments with no significant increase in credit risk (SICR) after initial recognition, (internal risk grade = “Pass”), expected credit losses in the next 12 months are recognised.

Stage 2: Lifetime ECL – not credit impaired – For financial instruments with significant increase in credit risk (SICR) since initial recognition (internal risk grade = “Special mention”), but no objective evidence of impairment, lifetime expected credit losses are recognised.

Stage 3: Lifetime ECL – credit impaired – For financial assets that show objective evidence of impairment at the end of the reporting period, lifetime expected credit losses are recognised. This stage comprises all accounts that are credit impaired or in default (internal risk grades = “Substandard”, “Doubtful” or “Loss”).

Key judgements

Borrowings

Government has obtained a number of concessional loans, mainly from the Asian Development Bank (ADB) and the Export Import Bank of China (EXIM Bank), with terms that are favourable than what is available on the open market. Under IPSAS 29, the Government is required to disclose these concessional loans at fair value by discounting all future cash payments at the prevailing market interest rate for a similar financial instrument.

At this point in time, Government have opted not to comply with this requirement due to the additional costs of compliance. Additionally, Government has considered the impact and risk of non-compliance to be very low.

Valuation of selected fixed assets

Certain fixed assets have been included in the Statement of Financial Position based on valuations performed by the individual entities. This is due to difficulties experienced in obtaining information relating to these assets. This treatment is a departure from IPSAS 17 Property, Plant, and Equipment. The audit report of these financial statements is qualified in this regard. Refer to Note 17 and 18.

Other uncertainties

In addition to those items in the statement of financial position there are a number of liabilities or assets that may arise in the future but are not currently recognised. This is because they are dependent on uncertain future events occurring or the liability/asset cannot be measured reliably. If these contingencies crystallise, there will be an associated impact on the operating balance and net worth of Government. These contingencies are reported in the Statement of Contingencies of these financial statements.

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



Statement of Accounting Policies (continued)
For the year ended 30 June 2019

Risk management

The Government's current risk management framework generally involves holding individual government reporting entities responsible for managing the risks that they individually face, subject to legislation and central guidance such as the MFEM Act 1995-96 and Treasury Instructions. Government-wide financial resilience is supported through relatively low debt levels, a strong financial position and effective budgeting.

With respect to its financial portfolios, the Government's financial instrument holdings expose it primarily to the financial risks of changes in interest rates, foreign exchange rates, risk of default and liquidity risk. Detailed information on the exposure to market risk and policies for managing this risk are available in the separate financial statements prepared by the entities who manage each portfolio.

There has been no significant change from the previous year to the manner in which the Government reporting entities that manage the Government's portfolios, manage and measure risks.

Derivative financial instruments are currently not used by Government (2018: nil)

Note 3: Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Government

Investment in associates

Associates are those entities in which Government has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when Government holds between 20% and 50% of the voting power of another entity.

Investments in associates and jointly controlled entities are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include Government's share of the surplus or deficit, after adjustments to align the accounting policies with those of Government, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When the Government's share of losses exceeds its interest in an equity accounted investee, the carrying amount of the investment, including any long-term investments that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that Government has an obligation or has made payments on behalf of the investee.

Revenue recognition

Sovereign revenue

The Government provides many services and benefits that do not give rise to revenue. Further, 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 sovereign power of the Crown in Parliament.

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



Statement of Accounting Policies (continued)
For the year ended 30 June 2019

Taxation revenue

Taxation revenue is recognised when a tax recognition point has occurred and the tax revenue can be reliably measured as described in the table below. Government recognises taxation revenue on a cash receipt basis.

Revenue Type	Revenue Recognition Point
Individual income tax	Individual income tax is recognised when individual tax return forms are filed and payment has been received by Revenue Management Division.
Company income tax	Company income tax is recognised when individual company tax return forms are filed and payment has been received by Revenue Management Division.
Withholding tax	Withholding tax is recognised upon payment being received by Revenue Management Division.
Value added tax (VAT)	VAT is recognised when individual monthly VAT return forms are filed and payment has been received by Revenue Management Division.
Customs levies	Customs levies are recognised upon payment being received by Revenue Management Division.
Departure tax	Departure tax is included in the cost of airfares charged by Airlines to its customers. Departure tax is recognised upon payment being received by Revenue Management Division from the respective Airlines.

Sales of goods and services

Revenue from the supply of goods and services to third parties is measured at the fair value of consideration received.

Revenue from the supply of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from the supply of services is recognised on a straight-line basis over the specified period for the services unless an alternative pattern of recognition better represents the stage of completion of the transaction.

Rental revenue

Rental revenue is recognised in the statement of financial performance on a straight-line basis over the term of the lease. Lease incentives granted are recognised evenly over the term of the lease as a reduction in total rental revenue.

Dividend revenue

Dividend revenue from investments is recognised when the Government's rights as a shareholder to receive payment have been established.

Interest income

Interest income is accrued using the effective interest rate method. The effective interest rate discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

Aid revenue, aid expenses and aid liability

Aid revenue relates to funding received from aid donors for specified projects. Funding received in advance is recorded as aid liability and recognised as revenue when allowable costs, capital or non-capital, are incurred and any conditions are met. Where allowable costs have been incurred but funding not received, Government recognises a receivable up to the amount of approved funding. Aid funding received that do not have any conditions are recognised as revenue.

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



Statement of Accounting Policies (continued)
For the year ended 30 June 2019

Donated assets

Where a physical asset is gifted or acquired by Government for nil or at a subsidised cost, the asset is recognised at fair value and the difference between the consideration provided and the fair value of the asset is recognised as aid revenue.

Fines

Fines are economic benefits or services potentially received by the Government 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.

Expenses recognition

Expenses are recognised in the Statement of Financial Performance on an accrual basis.

Personnel expenses

Personnel expenses are recognised on an accrual basis and include employer contributions for the government superannuation scheme.

Welfare payments

Welfare benefits and entitlements are recognised as an expense in the period the payment has been made.

Grants and subsidies

Where grants and subsidies are at the Government's discretion until payment, the expense is recognised when the payment is made. Otherwise, the expense is recognised when the specified criteria for the grant or subsidy have been fulfilled and notice has been given to the government.

Operating lease

Operating leases, where the lessor substantially retains the risks and rewards of ownership, are recognised in a systematic manner over the term of the lease. Leasehold improvements are capitalised and the cost is amortised over the unexpired period of the lease or the estimated useful life of the improvements, whichever is shorter. Lease incentives received are recognised evenly over the term of the lease as a reduction in rental expense.

Interest expense

Interest expense on financial liabilities measured at amortised cost is recognised in the statement of financial performance as it accrues using the effective interest method.

Borrowing costs

Borrowing costs are interest expenses calculated using the effective interest method
Borrowing costs are recognised as an expense in the period in which they are incurred.

Foreign currency transactions

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

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

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



Statement of Accounting Policies (continued)

For the year ended 30 June 2019

Depreciation

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

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

Asset type	Useful life
Office and computer equipment	3 – 4 years
Motor vehicles	5 years
Furniture and fittings	4 – 10 years
Plant and equipment	5 - 15years
Buildings and improvements	10 - 40 years
Coastal protection	25 years
Power distribution network	20 years
Road network	30 years
Water network	15 years
Airport runways	15 – 100 years
Harbour and ports structures	10 – 20 years
Waste management facilities	15 years
Plant and equipment Tools	4 – 5 years
Marine equipment	5 years
Leased land and leasehold improvements	Term of the lease
Specialised buildings and other buildings	15 years

Non-financial assets

Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at cost less accumulated depreciation.

Residential buildings held for the primary purpose of providing low income housing have been classified as property, plant, and equipment.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in the statement of financial performance.

Property, plant and equipment

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

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

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

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

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



Statement of Accounting Policies (continued)

For the year ended 30 June 2019

Impairment

If the estimated recoverable amount of an asset is less than its carrying amount, the asset is written down to its estimated recoverable amount and an impairment loss is recognised in the statement of financial performance.

Additions

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

Work in progress

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

Infrastructure assets

Infrastructure assets are recorded at cost less accumulated depreciation.

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

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

Intangible assets

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

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

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

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

Asset Type	Useful Life
Software, databases	3 - 5 years

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.

Financial assets

Categories of financial assets

Government does not have any financial assets classified as financial assets at fair value through surplus or deficit, held-to-maturity investments or available-for-sale financial assets. Government only holds financial assets classified as loans and receivables.

Recognition

Financial assets are measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

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



Statement of Accounting Policies (continued)

For the year ended 30 June 2019

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognised in the statement of financial performance.

Cash and cash equivalents

Cash and cash equivalents include cash holdings, foreign currency cash holdings, short term cash investments and are carried at amortised cost in the statement of financial position.

Term deposits

This comprises interest-bearing deposits held with other banks and are measured at amortised cost in the statement of financial position.

Trust accounts

Trust accounts contain funding that Government has received which have conditions attached on how the funding can be utilised. A corresponding liability is recognised upon the receipt of funding that have conditions attached.

Banking portfolio investments (loans)

Within Government, Bank of the Cook Islands ("the Bank") issues loans. These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the group does not intend to sell immediately or in the near term. They arise when the Bank provides money to a debtor with no intention of trading the loans and advances. After initial recognition they are measured at amortised cost using the effective interest method less any impairment loss.

Loans include direct finance provided to customers such as current accounts and term loans.

Debtors and other receivables

Receivables are initially recognised at fair value and are subsequently adjusted for penalties and interest as they are charged, and as they are tested for impairment.

Identification and measurement of impairment

Banking portfolio investments (loans)

Refer to Note 2 Areas of significant estimation: Banking portfolio investments - credit provisioning (Bank of the Cook Islands).

Tax receivable

Government has not undertaken an assessment on the recoverability of tax receivables. The assumption is that tax receivable is fully recoverable and free from impairment.

Other receivables

A receivable is considered uncollectable when there is evidence the amount will not be fully collected. The amount that is uncollectible is the difference between the amount due and the present value of the amount expected to be collected. The assessment of uncollectability is performed on a individual basis, based on past collection history and write offs.

Derecognition of financial assets

Government derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by Government is recognised as a separate asset or liability.

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



Statement of Accounting Policies (continued)

For the year ended 30 June 2019

Financial liabilities

Categories of financial liabilities

All financial liabilities are classified as other financial liabilities.

Recognition

Financial liabilities are measured initially at fair value plus, for an item not at fair value through surplus or deficit, transaction costs that are directly attributable to its acquisition or issue.

Other financial liabilities

Other financial liabilities are subsequently measured at amortised cost using the effective interest rate and include: Creditors and other payables and banking customer deposits.

Employee entitlements

Employee entitlements to salaries and wages and annual leave and other similar benefits are recognised as an expense in the statement of financial performance when they accrue to employees. Employee entitlements to be settled within 12 months are reported at the amount expected to be paid.

Provisions

Government recognises provisions when there is a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognised is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation at the reporting date. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Borrowings

Borrowing liabilities are accounted for at amortised cost on the statement of financial position. Any changes are recognised in the statement of financial performance. Borrowings or the proportion of borrowings expected to be settled within 12 months of balance date are disclosed as current liabilities in the statement of the financial position. All other borrowings are disclosed as non-current liabilities.

Pension liabilities

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

Other liabilities

All other liabilities are recorded at the estimated obligation to pay. No liability for ongoing welfare payments has been recognised because no legal entitlement is considered to exist beyond the end of the current financial year until a new Appropriation Act is passed and is provided for on a pro-rata basis in the statement of financial position.

Derecognition

Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

Cash flow

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

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

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

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

Both the direct and indirect cash flow methods have been applied in these financial statements.

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



Statement of Accounting Policies (continued)

For the year ended 30 June 2019

Commitments

Commitments are future expenses and liabilities to be incurred on contracts that have been entered into at balance date.

Commitments are classified as:

--> Capital commitments: aggregate amount of capital expenditure contracted for but not recognised as paid or provided for at balance date, and

--> Lease commitments: non-cancellable operating leases with a lease term exceeding one year.

Interest commitments on debts, commitments for funding, inventory and commitments relating to employment contracts are not separately reported as commitments.

Contingent liabilities and contingent assets

Contingent liabilities and contingent assets are reported at the point at which the contingency is evident or when a present liability is unable to be measured with sufficient reliability to be recorded in the financial statements (unquantifiable liability). Contingent liabilities, including unquantifiable liabilities, are disclosed if the possibility that they will crystallise is more than remote. Contingent assets are disclosed if it is probable that the benefits will be realised.

Changes in accounting policies

The accounting policies are consistent with the those applied in the preparation of Governments annual financial statements for the year ended 30 June 2018.

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



Notes to the Financial Statements
For the year ended 30 June 2019

	Budget 2019 \$000	Actual 2019 \$000	Actual 2018 \$000
Note 4: Taxation revenue			
Direct taxation			
Individual income tax	28,866	36,929	28,197
Company income tax	23,190	21,521	18,999
Withholding tax	2,508	1,504	1,842
Total direct taxation	54,564	59,954	49,038
Indirect taxation			
Value added tax	68,124	72,958	63,580
Customs levies	14,159	14,566	14,179
Departure tax	11,307	11,729	10,771
Total indirect taxation	93,590	99,253	88,530
Total taxation revenue	148,154	159,207	137,568

Source of budget figures: Cook Islands Government Budget Estimates 2018/2019 Book 1 - Schedule 17 Revenue Levied on Behalf of the Crown

Taxation Revenue

The Cook Islands tax system is predicated on self-assessment where taxpayers are expected to understand the tax laws and comply with them. This has an impact on the completeness of tax revenues when tax payers fail to comply with tax laws, for example, if they do not report all of their income.

Recognition

Government currently recognises taxation revenue on a cash basis as opposed to an accrual basis. Accrual basis recognises taxation revenue in the period the taxable event occurs. Government is required to account for all activities on an accrual basis. The current tax system does not fully enable Government to account for taxation revenue on an accrual basis.

Key assumptions

Government recognises taxation revenue on a daily basis based on the Cashier Tax Revenue Summary Reports generated by the Revenue Management Division. The Cashier Tax Revenue Summary Reports details the total tax receipts received per major tax type, however, it does not distinguish the period the tax receipts relate to. The assumption is that all tax receipts received during the year are treated as current year taxation revenue.

As taxation revenue is accounted for on a cash receipt basis, Government currently does not account for the following:

1. Taxpayers that have not filed their respective tax returns
2. Taxpayers that have filed their respective tax returns but have not paid

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



Notes to the Financial Statements (continued)
For the year ended 30 June 2019

Note 4: Taxation revenue (continued)

Tax Amnesty

In June 2017, there was an amendment to the Income Tax Act 1997 and the Value Added Tax Act 1997 (Tax Acts), giving legal effect to the Tax Amnesty. The Tax Amnesty came into effect on 1 August 2017.

The main purpose of the Tax Amnesty was to put a large number of taxpayers in an improved financial position, through the remission of additional taxes (and other taxes where appropriate), so that these taxpayers could better contribute to the future economic growth of the Cook Islands. The Tax Amnesty allowed taxpayers who had unpaid tax and outstanding tax returns, to come forward and be compliant with their tax obligations into the future. It provided taxpayers relief from paying additional taxes if the outstanding core tax was paid or placed under payment arrangement.

In January 2018, a further amendment was made to the Tax Acts. The amendment allows for the remission of all tax liabilities for periods before 1 January 2010. This means, that taxpayers were not required to file outstanding tax returns or pay outstanding tax liabilities for tax periods before 1 January 2010.

A total of 1,182 Tax Amnesty applications was received and from these applications, \$21.8 million of core tax was assessed. Of the \$21.8 million assessed, \$19.4 million was received and \$2.4 million is currently under payment arrangements.

Apart from tax recovered, the Tax Amnesty also allowed for remittance of additional tax and writing off of tax prior to January 2010. Total tax written off during the Tax Amnesty amounted to \$23.5 million. Due to Governments tax recognition criteria being on a cash basis, the \$23.5 million Tax Amnesty write off has not been accounted for in these financial statements. Refer to breakdown of the Tax Amnesty write off below.

Breakdown of tax amnesty write-off

Tax Year	Individual Income tax \$000	Company Income tax \$000	Withholding tax \$000	Value added tax \$000	Turnover tax \$000	Grand Total \$000
2000 and prior	1,018	481	167	254	778	2,698
2001	564	39	27	177	-	807
2002	398	115	30	636	-	1,179
2003	694	152	44	408	-	1,298
2004	581	119	36	562	-	1,298
2005	853	64	153	1,124	-	2,194
2006	921	353	73	984	-	2,331
2007	839	140	8	1,119	-	2,106
2008	838	79	107	1,331	-	2,355
2009	901	68	24	1,082	-	2,075
2010	349	160	1	181	-	691
2011	303	262	7	186	-	758
2012	281	222	1	148	-	652
2013	325	310	6	152	-	793
2014	210	316	3	162	-	691
2015	229	205	9	258	-	701
2016	158	166	3	198	-	525
2017	28	158	7	95	-	288
2018	3	10	1	8	-	22
Total	9,493	3,419	707	9,065	778	23,462
Percentage of total	40%	15%	3%	39%	3%	100%

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

Notes to the Financial Statements (continued)
For the year ended 30 June 2019

	Budget 2019 \$000	Actual 2019 \$000	Actual 2018 \$000
Note 5: Other sovereign revenue			
Fees, fines, penalties and licenses			
Registration fees	1,874	1,959	2,173
Road transport licensing	1,078	1,202	1,247
Court fines	130	35	47
Other fees, fines and levies	203	2,346	245
Total fees, fines, penalties and licenses	3,285	5,542	3,712
Other Crown revenue			
Currency and numismatic revenue	1,050	541	511
Fisheries revenue	13,310	20,522	12,797
Tattslotto income	120	193	172
Other	75	1,394	1,205
Total other Crown revenue	14,555	22,650	14,685
Total other sovereign revenue	17,840	28,192	18,397
<i>Source of budget figures: Cook Islands Government Budget Estimates 2018/2019 Book 1 - Schedule 17 Revenue Levied on Behalf of the Crown</i>			
Note 6: Sales of goods and services			
Crown parent			
Sales of goods	-	451	441
Total Crown parent sales of goods	-	451	441
Crown entities			
Sales of goods	-	106	317
Rendering of services	6,646	6,355	6,385
Total Crown entities sales of goods and services	6,646	6,461	6,702
<i>Source of budget figures: Cook Islands Government Budget Estimates 2018/2019 Book 1 - Schedule 18.1 Statement of Financial Performance</i>			
State owned enterprises (SOEs)			
Airport landing fees		7,799	6,707
Electricity sales		21,396	20,608
Fees and interest on banking portfolio assets		8,372	8,230
Port services		3,548	3,423
Other		2,443	2,139
Total State owned enterprises sales of goods and services		43,558	41,107
Total sales of goods and services		50,470	48,250

* There are no budget figures for revenue generated by SOEs as they are not included in the preparation of the Government Budget Estimate 2018/2019

Notes to the Financial Statements (continued)

For the year ended 30 June 2019

	Budget 2019 \$000	Actual 2019 \$000	Actual 2018 \$000
Note 7: Personnel expenses			
Gross salaries and wages - Crown Entities	56,241	53,183	50,851
Gross salaries and wages - State Owned Enterprise	-	12,155	11,031
Gross salaries and wages - Head of Ministries	1,582	1,472	1,269
Gross salaries and wages - Members of Parliament	2,448	2,359	2,034
Total personnel expenses	60,271	69,169	65,185
<i>Source of budget figures: Cook Islands Government Budget Estimates 2018/2019 Book 1</i>			
Note 8: Welfare payments			
Old age benefits	12,456	13,095	12,294
Child benefits	4,666	4,571	4,117
Destitute and infirm benefits	528	547	529
Caregiver's allowance	356	302	317
Christmas Bonus	278	308	281
Other	917	702	733
Total welfare payments	19,201	19,525	18,271
<i>Source of budget figures: Cook Islands Government Budget Estimates 2018/2019 Book 1</i>			
Note 9: Finance costs			
Interest expenses on foreign-sourced loans	2,367	2,082	2,198
Interest expenses on domestic loans	-	41	2,243
Total finance costs	2,367	2,123	4,441
<i>Source of budget figures: Cook Islands Government Budget Estimates 2018/2019 Book 1 - Schedule 18.1 Statement of Financial Performance</i>			
Note 10: Other expenses			
Administered payments			
Private school funding	2,230	-	-
Tertiary training institutions	915	733	-
Air New Zealand underwrite	12,523	12,925	11,208
Tourism marketing	5,072	301	1,813
Patient referrals and pharmaceutical supplies	1,918	539	373
Te Maeva Nui cost	3,694	3,670	757
National superannuation fund	-	-	67
Community cleaning program (Vaka maintenance)	400	398	401
Land rental payments	714	-	449
Government Funded Scholarships	660	673	-
Waste management	545	494	494
Inter Island Shipping	500	174	37
Welfare organisations grants	881	773	1,115
Legal cost	1,159	1,157	-
Repairs and maintenance	2,580	2,336	-
CISNOC grant	767	720	-
Other	5,443	3,933	4,618
Total administered payments	40,001	28,826	21,332
<i>Source of budget figures: Cook Islands Government Budget Estimates 2018/2019 Book 1 Administered payments</i>			

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



Notes to the Financial Statements (continued)

For the year ended 30 June 2019

	Budget 2019 \$000	Actual 2019 \$000	Actual 2018 \$000
Note 10: Other expenses (continued)			
Payments on behalf of the Crown			
Members of Parliament travel cost	600	532	443
International subscriptions	737	627	707
CICC mission training center grant	-	-	650
Other expenses	778	716	358
Total payments on behalf of the Crown	2,115	1,875	2,158
<i>Source of budget figures: Cook Islands Government Budget Estimates 2018/2019 Book 1 Payments on Behalf of the Crown(POBOC)</i>			
Other operating expenses			
Fuel and oil	-	10,823	9,574
Communications	-	1,700	1,689
Repairs and maintenance	-	7,098	7,126
Office supplies and consumables	-	1,188	976
Professional services	-	2,056	1,727
Advertising and marketing	-	1,815	795
Insurance	-	1,570	1,311
Travel costs	-	1,816	1,847
Rentals and operating lease costs	-	1,005	48
Contingency funds	415	308	1,034
Unsubstantiated consolidated eliminating entries	-	174	(941)
Other expenses	-	17,115	14,834
Total other operating expenses	415	46,668	40,020
Total other expenses	42,531	77,369	63,510

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



Notes to the Financial Statements (continued)
For the year ended 30 June 2019

	%	Total 2019 - 2017 \$000	Budget 2019 \$000	Actual 2019 \$000	Actual 2018 \$000	Restated 2017 \$000
Note 11: Aid activities						
Aid revenue						
New Zealand	56.9%	57,466	34,698	19,118	23,177	15,171
China	11.7%	11,816	2,560	11,816	-	-
European Union	3.7%	3,692	3,455	945	2,302	445
Green Climate Fund	2.1%	2,165	9,520	1,823	223	119
Global Environment Fund	9.3%	9,408	3,277	3,140	5,360	908
Germany	0.6%	579	206	241	317	21
India	0.9%	941	105	76	162	703
Japan	1.5%	1,504	3,552	1,268	150	86
United Nations Development	3.4%	3,463	377	431	848	2,184
Others	9.8%	9,936	3,435	4,204	4,020	1,712
Total aid revenue	100%	100,970	61,184	43,062	36,559	21,349
<i>Source of budget figures: Cook Islands Government Budget Estimates 2018/2019 Book 1 - Table 16.1</i>						
<i>Official Development Assistance Budget by Development Partner</i>						
Aid expenses						
Economic Development	0.9%	410	452	127	61	222
Environmental Protection	28.7%	13,405	17,693	4,990	4,361	4,054
Health Development	1.5%	722	359	101	500	121
Housing & Community Amenities	4.0%	1,867	1,621	457	485	925
Public Order	0.0%	6	21	6	-	-
Public Sector Reform	56.5%	26,433	34,387	9,698	9,372	7,363
Social Protection	1.0%	445	715	202	243	-
Others	7.4%	3,483	5,938	1,676	1,807	-
Total aid expenses	100%	46,771	61,184	17,257	16,829	12,685
Aid capital expenses						
Aid funded property, plant and equipment		54,199	-	25,805	19,730	8,664
Total aid capital expenses		54,199	-	25,805	19,730	8,664
Total aid expenses		100,970	61,184	43,062	36,559	21,349
Breakdown of Aid funded property, plant and equipment						
Renewable Energy Project - South		9,823		4,143	5,680	-
Te Mato Vai		10,926		3,592	7,334	-
Apii Nikao		11,816		11,816	-	-
Manatua Submarine Cable		4,469		4,469	-	-
Tereora College		10,790		-	4,665	6,125
Palmerston Cyclone Centre		935		935	-	-
Various assets		5,440		850	2,051	2,539
Total aid funded property, plant and equipment		54,199	-	25,805	19,730	8,664

Aid funding received from donors

Aid revenue relates to funding received from aid donors for specified projects. Funding received in advance is recorded as aid liability and recognised as revenue when allowable costs, capital or non-capital, are incurred and any conditions are met. Where allowable costs have been incurred but funding not received, Government recognises a receivable up to the amount of approved funding. Aid funding received that do not have any conditions are recognised as revenue.

Donated assets

Where a physical asset is gifted or acquired by Government for nil or at a subsidised cost, the asset is recognised at fair value and the difference between the consideration provided and the fair value of the asset is recognised as aid revenue.

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



Notes to the Financial Statements (continued)
For the year ended 30 June 2019

Project Name	%	Total 2019 - 2017 \$000	Budget 2019 \$000	Actual 2019 \$000	Actual 2018 \$000	Restated 2017 \$000
Aid funded projects						
New Zealand						
Activity: NZA0096 - Te Mato Vai	10.7%	10,774		3,469	7,220	85
Activity: NZA0165 - Core Sector Support	26.4%	26,616		9,410	9,248	7,959
Activity: NZA0168 - Sanitation Upgrade Programme - Manihiki Lagoon	0.4%	422		-	87	335
Activity: NZA0169 - MTVKTV - Sanitation Upgrade Programme	3.6%	3,613		1,478	1,607	528
Activity: NZA0184 - Tereora Reconstruction Phase One	10.6%	10,706		-	4,680	6,026
Activity: NZA0198 - PCP Manatua Submarine Cable Contribution	4.6%	4,601		4,491	110	-
Other New Zealand Projects	0.7%	733		269	225	239
Total New Zealand projects	56.9%	57,466	34,698	19,118	23,177	15,171
China						
Activity: CHN0142 - Apii Nikao Construction	11.7%	11,816		11,816	-	-
Total China project	11.7%	11,816	2,560	11,816	-	-
European Union						
Activity: EUF0019 - Renewable Energy (Southern Group)	1.9%	1,960		272	1,688	-
Activity: EUF0199 - EU-CKI Sustainable Fisheries Partnership Programme	1.5%	1,473		553	594	325
Other European Union Projects	0.3%	260		120	20	120
Total European Union projects	3.7%	3,692	3,455	945	2,302	445
Green Climate Fund						
Activity: GCF0170 - Green Climate Funds Southern Group	1.5%	1,507		1,507	-	-
Activity: GCF0173 - Green Climate Fund - Readiness 2	0.5%	526		315	211	-
Other Green Climate Fund Projects	0.1%	131		-	13	119
Total Green Climate Fund projects	2.1%	2,165	9,520	1,823	223	119
Global Environment Fund						
Activity: GEF0098 - Ridge to Reef (National)	3.8%	3,871		2,062	1,314	495
Activity: GEF0148 - Southern Group Renewable Project	4.8%	4,874		951	3,923	-
Other Global Environment Fund Projects	0.7%	662		127	123	412
Total Global Environment Fund projects	9.3%	9,407	3,277	3,140	5,360	908
Germany						
Activity: GIZ0185 - Northern Water Project - Phase 2	0.6%	578		241	317	21
Total Germany project	0.6%	578	206	241	317	21
India						
Activity: IND0029 - India Grant Fund 2016-17	0.9%	933		76	154	703
Other India Projects	0.0%	8		-	8	-
Total India projects	0.9%	940	105	76	162	703

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



Notes to the Financial Statements (continued)
For the year ended 30 June 2019

Project Name	%	Total 2019 - 2017 \$000	Budget 2019 \$000	Actual 2019 \$000	Actual 2018 \$000	Restated 2017 \$000
Aid funded projects (continued)						
Japan						
Activity: JPN0153 - NPGA Palmerston Cyclone Centre Project	0.9%	935		935	-	-
Other Japan Projects	0.6%	569		333	150	86
Total Japan projects	1.5%	1,504	3,552	1,268	150	86
United Nations Development						
Activity: UND0067 - Western Pacific Multi Country Integrated HIV TB Programme	0.7%	722	-	101	500	121
Activity: UNF0067 - Strengthening Resilience of Island Communities	1.9%	1,943	-	-	280	1,664
Other United Nations Development Projects	0.8%	798	-	329	69	400
Total United Nations Development projects	3.4%	3,463	377	431	848	2,184
Other aid funded projects						
Other aid funded projects	9.8%	9,940	-	4,206	4,021	1,713
Total other aid funded projects	9.8%	9,940	3,435	4,206	4,021	1,713
Total aid funded projects	100%	100,970	61,184	43,062	36,559	21,349

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



Notes to the Financial Statements (continued)
For the year ended 30 June 2019

	2019 \$000	2018 \$000
Note 12: Cash and cash equivalents		
Cash on hand	2,321	1,345
Cash at bank	65,464	40,527
Total cash and cash equivalents	67,785	41,872
Term Deposits		
Less than 12 months	99,538	124,477
Over 12 months	9,666	1,000
Total term deposits	109,204	125,477

Short term deposits are made for varying periods, depending on the immediate cash requirements of the Crown and earn interest at the respective short term deposit rates. Interest rates range from 1.50% to 4.25% (2018: 1.50% to 4.25%).

Cook Islands Loan Repayment Fund

Included in the above cash at bank and term deposits are funds that have been quarantined for the repayment of borrowings as per the Cook Islands Loan Repayment Fund 2014.

	2019 \$000	2018 \$000
Loan repayment funds		
Opening balance	21,277	18,420
Plus: Interest earned	426	373
Plus: Current year contributions	7,665	9,399
Less: Current year loan repayments	8,446	6,915
Total loan repayment funds	20,922	21,277

Note 13: Inventory

Inventory held of use

Diesel and oil for electricity generation	5,794	5,860
Bitumen and spare parts	405	297
Pharmaceuticals and hospital Supplies	1,075	930
Other	342	286
Total inventory held for use	7,616	7,373

Inventory held for sale

Numismatic coins	1,063	1,146
Pearls	307	155
Other	35	-
Total inventory held for sale	1,405	1,301

Provision for obsolete stock	-	-
Total inventory	9,021	8,674

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



Notes to the Financial Statements (continued)
For the year ended 30 June 2019

	2019	2018
	\$000	\$000
Note 14: Debtors and other receivables		
Taxes receivable	24,312	9,270
Accounts receivable	11,467	11,752
Prepayments	1,140	1,374
Interest receivable	904	1,624
Accrued revenue	377	375
Dividends receivable	-	784
Aid receivable	1,989	1,514
Total debtors and other receivables (gross)	40,189	26,693
Provision for doubtful debts	(883)	(39)
Total debtors and other receivables (net)	39,306	26,654
Movements in the provision for uncollectibility of accounts receivables are as follows:		
Balance at 1 July	(39)	(1,247)
Additional provisions made during the year	(1,534)	(927)
Receivables written off during the year	-	-
Provisions reversed during the year	690	2,135
Balance at 30 June	(883)	(39)

Tax receivables

Recognition

Year-end tax receivable figures are provided by the Revenue Management Division. Due to the current limitations of the tax system, Government recognises taxation revenue on a cash basis as opposed to on an accrual basis. The tax receivable balances above do not take into consideration taxpayers that have not filed their respective tax returns. It only accounts for taxpayers that have filed their respective returns but have not paid.

Key assumptions

Government has not undertaken an assessment on the recoverability of tax receivables. The assumption is that tax receivable is fully recoverable and free from impairment.

Refer to Note 4 Taxation revenue for further information regarding the \$23.5 million Tax Amnesty write off.

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

	2019	2018
	\$000	\$000
Note 15: Investments in shares and associates		
Investment in shares		
Asian Development Bank	161	161
Total investments in shares	161	161

There have been no changes to investments in shares during the 2019 period.

Shares held at year end relate to the Group's investment in Asian Development Bank (ADB). The shares are held within the Group by Cook Islands Government Property Corporation.

As at 31 December 2019, ADB had total equity of USD51.918 million. CIGPC holds Cook Islands share being 0.003%. This equates to USD1.558 million.



Notes to the Financial Statements (continued)
For the year ended 30 June 2019

	2019 \$000	2018 \$000
Note 15: Investments in shares and associates (continued)		
Share of net assets of associate		
Carrying amount at beginning of year	10,983	9,718
Investment at cost	-	26
Equity accounted earnings of associate	5,071	4,439
Dividends from associate	(5,000)	(3,200)
Total share of net assets of associate	11,054	10,983
Total investments in shares and associate	11,215	11,144

These financial statements include the financial statements of Government and the controlled entities listed in the following table:

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

Telecom Cook Islands Limited is incorporated in the Cook Islands and provides telecommunication services to the Cook Islands. Government's interest in Telecom Cook Islands Limited is held by Cook Islands Telecommunication Holdings Limited.

CIIC Seabed Resources Limited was established during the 2018 period. The principal activity of CIIC Seabed Resources Limited is the exploration, classification, exploitation, marketing and selling of polymetallic nodules within the Cook Islands Exclusive Economic Zone and the Cook Islands assigned area within the Clarion Clipperton Zone. The Company is 50% owned by the Cook Islands Investment Corporation and 50% by GSR-CI Limited. The ultimate Parent Company of GSR-CI Limited is Global Sea Mineral Resources NV, a Company incorporated and registered in Belgium.

	Ownership	Total Assets	Total Liabilities	Total Income	Total Profit/ (Loss)
2018					
Telecom Cook Islands Limited (12 months to 31/12/17)	40%	36,216	28,291	27,751	9,162
CIIC Seabed Resources Limited (8 months to 30/6/18)	50%	3,798	3,800	-	(51)
2019					
Telecom Cook Islands Limited (12 months to 31/12/18)	40%	41,539	11,706	30,500	15,103
CIIC Seabed Resources Limited (12 months to 30/6/19)	50%	3,788	4,148	-	(211)

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



Notes to the Financial Statements (continued)
For the year ended 30 June 2019

	2019 \$000	2018 \$000
Note 16: Banking portfolio investments (held by Bank of the Cook Islands)		
Summary of loans portfolio by industry sector		
Agriculture	-	3
Fishing	295	40
Pearls	-	-
Consumer	10,768	10,601
Business	21,209	20,104
Housing	40,614	38,648
Staff	3,652	3,350
Tourism	10,874	11,730
Hire purchase loans	-	-
Total banking portfolio investments (gross)	87,412	84,476
Summary of loans portfolio by maturity		
Current banking portfolio investments	9,842	10,064
Non-current banking portfolio investments	72,049	67,876
Total banking portfolio investments (gross)	81,891	77,940
Current banking portfolio investments		
Current banking portfolio investments	9,842	10,064
Provision for bad and doubtful loans	-	-
Net current banking portfolio investments	9,842	10,064
Non-current banking portfolio investments		
Non-current banking portfolio investments	77,571	74,412
Provision for bad and doubtful loans	(5,522)	(6,536)
Net non-current banking portfolio investments	72,049	67,876
Total banking portfolio investments (net)	81,891	77,940

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

- Housing - 5.40% to 16.5% (2018: 5.40% to 16.5%)
- Development (including business) - 7.75% to 20.50% (2018: 7.75% to 20.50%)
- Consumer - 10.50% to 16.50% (2018: 10.50% to 16.50%)
- Government - 5.25% (2018: 5.25%)



Notes to the Financial Statements (continued)

For the year ended 30 June 2019

Note 17: Property, plant, and equipment

Breakdown of property, plant and equipment and further information

Movement for each class of property, plant and equipment are as follows:

	Computer Equipment \$000	Furniture & Fittings \$000	Motor Vehicles \$000	Plant & Equipment \$000	Buildings \$000	Land \$000	Work in Progress \$000	Unexplained Movements \$000	Total \$000
Cost									
Balance as at 1 July 2017	7,875	3,716	12,921	73,712	82,494	16,143	318	-	197,179
Opening balance adjustments	(39)	(3)	(151)	(4,853)	(536)	-	(26)	-	(5,608)
Adjusted balance 1 July 2017	7,836	3,713	12,770	68,859	81,958	16,143	292	-	191,571
Additions	780	126	839	7,861	14,341	-	-	-	23,947
Disposals	495	78	344	477	(19)	-	15	-	1,390
Transfers	1	-	-	415	-	-	-	-	416
Balance as at 30 June 2018	8,122	3,761	13,265	76,658	96,318	16,143	277	-	214,544
Accumulated depreciation and impairment losses									
Balance as at 1 July 2017	6,293	2,715	9,928	38,450	29,572	363	9	-	87,330
Opening balance adjustments	-	-	-	-	-	-	-	-	-
Adjusted accumulated balance 1 July 2017	6,293	2,715	9,928	38,450	29,572	363	9	-	87,330
Depreciation	806	200	889	5,087	2,745	6	-	-	9,733
Accumulated depreciation on disposals	486	71	406	486	-	-	-	-	1,449
Transfers	(1)	-	-	3,022	-	-	-	-	3,021
Unexplained movements	-	-	-	-	-	-	-	-	-
Balance as at 30 June 2018	6,612	2,844	10,411	46,073	32,317	369	9	-	98,635
Carrying amount									
As at 30 June 2018	1,510	917	2,854	30,585	64,001	15,774	268	-	115,909
Cost									
Balance as at 1 July 2018	8,122	3,761	13,265	76,658	96,318	16,143	277	-	214,544
Opening balance adjustments	27	621	177	639	-	-	607	-	2,071
Adjusted balance 1 July 2018	8,149	4,382	13,442	77,297	96,318	16,143	884	-	216,615
Additions	717	420	1,902	4,644	11,859	-	668	-	20,210
Disposals	771	29	477	1,159	-	-	-	-	2,436
Transfers	(222)	-	466	2,140	172	-	512	-	3,068
Unexplained movements	-	-	-	-	-	-	-	-	-
Balance as at 30 June 2019	7,873	4,773	15,333	82,922	108,349	16,143	2,064	-	237,457
Accumulated depreciation and impairment losses									
Adjusted balance 1 July 2018	6,612	2,844	10,411	46,073	32,317	369	9	-	98,635
Opening balance adjustments	23	30	95	503	-	-	-	-	651
Adjusted accumulated balance 1 July 2018	6,635	2,874	10,506	46,576	32,317	369	9	-	99,286
Depreciation	843	249	1,120	6,611	2,826	94	-	-	11,743
Accumulated depreciation on disposals	770	27	462	636	-	-	-	-	1,895
Transfers	(477)	-	9	-	-	-	-	-	(468)
Unexplained movements	-	-	-	-	-	-	-	-	-
Balance as at 30 June 2019	6,231	3,096	11,173	52,551	35,143	463	9	-	108,666
Carrying amount									
As at 30 June 2019	1,642	1,677	4,160	30,371	73,206	15,680	2,055	-	128,791

Ownership and completeness of assets

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

Entities valuation

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

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

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

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



Notes to the Financial Statements (continued)
For the Year Ended 30 June 2019

Note 18: Infrastructure assets
Breakdown of infrastructure assets and further information
Movement for each class of infrastructure assets are as follows:

	Roading	Power Network	Harbour & Ports	Airport	Coastal Protection &	Water	Waste Management	Work in Progress	Renewable Energy	Unexplained Movements	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Cost											
Balance as at 1 July 2017	21,202	22,327	41,026	52,253	929	7,332	3,388	47,586	603	(1,743)	194,903
Opening balance adjustments	-	-	-	-	-	-	-	-	-	1,743	1,743
Adjusted balance 1 July 2017	21,202	22,327	41,026	52,253	929	7,332	3,388	47,586	603	-	196,646
Additions	-	1,698	107	276	-	4	-	34,888	(1)	-	36,972
Disposals	-	-	18	(67)	-	-	-	23	-	-	(26)
Transfers	-	-	8	-	-	-	-	(251)	-	245	2
Unexplained movements	-	-	-	-	-	-	-	-	-	-	-
Balance as at 30 June 2018	21,202	24,025	41,123	52,596	929	7,336	3,388	82,200	602	245	233,646
Accumulated depreciation and impairment losses											
Balance as at 1 July 2017	5,603	12,402	6,333	9,541	696	3,178	1,345	270	-	245	39,613
Opening balance adjustments	-	-	-	-	-	-	-	-	-	(245)	(245)
Adjusted accumulated balance 1 July 2017	5,603	12,402	6,333	9,541	696	3,178	1,345	270	-	-	39,368
Depreciation	772	801	1,675	1,621	37	492	294	22	-	1,214	6,928
Transfers	-	109	-	-	-	-	-	-	-	-	109
Accumulated depreciation on disposals	-	-	18	-	-	-	-	-	-	-	18
Balance as at 30 June 2018	6,375	13,312	7,990	11,162	733	3,670	1,639	292	-	1,214	46,387
Carrying amount											
As at 30 June 2018	14,827	10,713	33,133	41,434	196	3,666	1,749	81,908	602	(969)	187,259
Cost											
Balance as at 1 July 2018	21,202	24,025	41,123	52,596	929	7,336	3,388	82,200	602	245	233,646
Opening balance adjustments	-	-	-	(116)	239	-	-	(9,640)	1	(245)	(9,761)
Adjusted balance 1 July 2018	21,202	24,025	41,123	52,480	1,168	7,336	3,388	72,560	603	-	223,885
Additions	1,768	570	139	73	333	583	-	51,694	-	-	55,160
Disposals	-	-	-	-	-	-	-	4,264	-	-	4,264
Asset Transfers	-	-	-	512	-	-	-	1,005	-	-	1,517
Unexplained movements	-	-	-	-	-	-	-	-	-	-	-
Balance as at 30 June 2019	22,970	24,595	41,262	53,065	1,501	7,919	3,388	120,995	603	-	276,298
Accumulated depreciation and impairment losses											
Balance as at 1 July 2018	6,375	13,312	7,990	11,162	733	3,670	1,639	292	-	1,214	46,387
Opening balance adjustments	-	-	-	(56)	90	-	-	1,228	-	(1,214)	48
Adjusted accumulated balance 1 July 2018	6,375	13,312	7,990	11,106	823	3,670	1,639	1,520	-	-	46,435
Depreciation	779	826	1,594	1,318	88	545	294	37	-	-	5,481
Transfers	-	26	-	-	-	-	-	-	-	-	26
Accumulated depreciation on disposals	-	-	-	-	-	-	-	-	-	-	-
Balance as at 30 June 2019	7,154	14,164	9,584	12,424	911	4,215	1,933	1,557	-	-	51,942
Carrying amount											
As at 30 June 2019	15,816	10,431	31,678	40,641	590	3,704	1,455	119,438	603	-	224,356

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



Notes to the Financial Statements (continued)
For the Year Ended 30 June 2019

Note 19: Intangible assets
Breakdown of intangible assets and further information
Movement for each class of intangible assets are as follows:

	Purchased Software \$000	Developed Software \$000	Naming Rights \$000	Unexplained Movements \$000	Total \$000
Cost					
Balance as at 1 July 2017	4,585	249	109	-	4,943
Opening balance adjustments	-	-	-	(190)	(190)
Adjusted balance 1 July 2017	4,585	249	109	(190)	4,753
Additions	1,624	-	-	-	1,624
Disposals	3	-	-	-	3
Transfers	-	-	-	-	-
Balance as at 30 June 2018	6,206	249	109	(190)	6,374
Accumulated amortisation and impairment losses					
Balance as at 1 July 2017	3,219	249	109	(89)	3,488
Opening balance adjustments	(2,443)	-	-	-	(2,443)
Adjusted accumulated balance 1 July 2017	776	249	109	(89)	1,045
Amortisation expense	393	-	-	-	393
Accumulated amortisation on disposals	3	-	-	-	3
Impairment losses	-	-	-	-	-
Balance as at 30 June 2018	1,166	249	109	(89)	1,435
Carrying amount					
As at 30 June 2018	5,040	-	-	(101)	4,939
Cost					
Balance as at 1 July 2018	6,206	249	109	-	6,564
Opening balance adjustments	-	-	-	-	-
Adjusted balance 1 July 2018	6,206	249	109	-	6,564
Additions	1,435	-	-	-	1,435
Disposals	-	-	-	-	-
Transfers	226	-	-	-	226
Balance as at 30 June 2019	7,867	249	109	-	8,225
Accumulated amortisation and impairment losses					
Balance as at 1 July 2018	1,166	249	109	(89)	1,435
Opening balance adjustments	192	-	-	89	281
Adjusted accumulated balance 1 July 2018	1,358	249	109	-	1,716
Amortisation expense	1,075	-	-	-	1,075
Accumulated amortisation on disposals	-	-	-	-	-
Transfers	94	-	-	-	94
Unexplained movements	-	-	-	-	-
Balance as at 30 June 2019	2,339	249	109	-	2,885
Carrying amount					
As at 30 June 2019	5,528	-	-	-	5,340

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



Notes to the Financial Statements (continued)
For the year ended 30 June 2019

	2019	2018
	\$000	\$000
Note 20: Investment Property		
Opening Balance 1 July	5,300	5,499
Additions	252	14
Disposals	964	-
Depreciation	(232)	(213)
Closing Balance as at 30 June	6,284	5,300

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

Note 21: Related parties

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

Related parties of the Government include:

* Ministers of the Crown, who are key management personnel because they have authority and responsibility for planning, directing and controlling the activities of the Government, directly or indirectly

* Ministers' spouses, children and dependants who are close family members of key management personnel, and

* Private-sector entities owned or jointly controlled by Ministers, their spouses, children and dependants.

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

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

	2019	2018
Aggregate remuneration	\$ 540,000	\$ 540,000
Number of persons	6	6

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

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



Notes to the Financial Statements (continued)
For the year ended 30 June 2019

	2019	2018
	\$000	\$000
Note 22: Creditors and other payables		
Creditors, accruals and provisions	21,532	15,702
Customer bonds	1,009	959
Members of Parliament pension liability	1,286	1,286
Taxation refunds payable	-	1,320
Other creditors and payables	(5,619)	(2,412)
Total creditors and other payables	18,208	16,855
Note 23: Employee entitlements		
Current employee entitlements		
Provision for annual leave	4,383	3,783
Total Employee Entitlements	4,383	3,783
Note 24: Trustee liabilities		
Aid funding liabilities	47,279	25,433
Land trust liability	9,327	8,404
Workers compensation liability	1,798	1,631
Law trust liability	426	411
Customs bond trust liability	213	193
Insurance trust liability	43	42
Other trust liabilities	361	1,787
Immigration trust liability	151	120
Total trustee liabilities	59,598	38,021
Trust Accounts		
Aid trust account	37,153	12,886
Land trust account	8,083	7,122
Workers compensation account	1,797	1,757
Law trust account	426	411
Customs bond account	213	193
Insurance deposits account	43	-
Total trust accounts	47,715	22,369

Aid funding liabilities

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

Land trust liability

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

Workers compensation liability

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



Notes to the Financial Statements (continued)
For the Year Ended 30 June 2019

	2019 \$000	2018 \$000
Note 25: Banking customer deposits (held by the Bank of the Cook Islands)		
Current customer deposits less than 12 months	58,703	64,241
Customer deposits between 12 to 24 months	4,049	1,802
Total banking customer deposits	62,752	66,043

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

Note 26: Financial Instruments - financial risk management

The Government has devolved responsibility for the financial management of its main financial portfolios to its sub-entities such as Treasury, Revenue Management Division and the Bank of the Cook Islands. The financial management objectives of each of these portfolios are influenced by the purpose and associated governance framework for which the portfolio is held. The purposes of a portfolio may cover:

Treasury portfolio

Treasury are responsible for making all Crown payments, the management of Governments cash flow and the management of Government borrowings. The principles of responsible fiscal management are outlined in the Ministry of Finance and Economic Management Act 1995-96.

Revenue Management Division

Revenue management division are responsible for the administration of tax laws, the collection and management of tax on behalf of Government. Refer to Note 1 and Note 11 for further information.

Bank of the Cook Islands portfolio

The Bank of the Cook Islands provides banking services and only operates within one geographical segment being the Cook Islands. Detailed information on the exposure to market risk and policies for managing this risk are available in the Bank of the Cook Islands financial statements.

Exposure to currency, interest rate, liquidity and credit risk arises in the normal course of Cook Islands Government's operations. This note presents information about exposure to each of the above risks, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these financial statements.

Derivative financial instruments

Derivative financial instruments are currently not used by Government (2018:nil)

Financial assets

All financial assets are categorised as loans and receivables. Financial assets are initially recognised at fair value and subsequently measured at amortised cost. Interest, impairment losses and foreign exchange gains and losses are recognised in the statement of financial performance.

The maximum loss due to default on any financial asset is the carrying value reported in the statement of financial position.

Financial liabilities

All financial liabilities are categorised as other liabilities. Financial liabilities are initially recognised at fair value and subsequently measured at amortised cost. Gains or losses from interest and foreign exchange movements are recognised in the statement of financial performance.

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



Notes to the Financial Statements (continued)
For the Year Ended 30 June 2019

Note 26: Financial Instruments - financial risk management (continued)

2019	Notes	Crown Parent \$000	Crown Entities \$000	SOEs \$000	Total \$000
Classification of financial assets and financial liabilities					
Financial Assets					
Cash and cash equivalents	12	35,347	12,008	20,430	67,785
Term deposits	12	76,185	3,023	29,996	109,204
Trust accounts	24	31,425	16,290	-	47,715
Debtors and other receivables	14	35,545	2,937	824	39,306
Banking portfolio investments	16	-	-	81,891	81,891
Investments in shares and associate	15	33	-	11,182	11,215
Total financial assets		178,535	34,258	144,323	357,116
Financial Liabilities					
Creditors and other payables	22	5,248	5,514	7,446	18,208
Employee entitlements	23	129	3,362	892	4,383
Trustee liabilities	24	39,714	19,884	-	59,598
Banking customer deposits	25	-	-	62,752	62,752
Borrowings	Borrowings	95,855	-	-	95,855
Total financial liabilities		140,946	28,760	71,090	240,796
2018					
2018	Notes	Crown Parent \$000	Crown Entities \$000	SOEs \$000	Total \$000
Classification of financial assets and financial liabilities					
Financial Assets					
Cash and cash equivalents	12	21,996	10,020	9,856	41,872
Term deposits	12	84,032	2,909	38,536	125,477
Trust accounts	24	14,416	7,953	-	22,369
Debtors and other receivables	14	10,800	3,902	11,952	26,654
Banking portfolio investments	16	-	-	77,940	77,940
Investments in shares and associate	15	-	-	11,144	11,144
Total financial assets		131,244	24,784	149,428	305,456
Financial Liabilities					
Creditors and other payables	22	6,626	4,663	5,566	16,855
Employee entitlements	23	76	3,239	468	3,783
Trustee liabilities	24	26,066	11,955	-	38,021
Banking customer deposits	25	-	-	66,043	66,043
Borrowings	Borrowings	103,065	-	-	103,065
Total financial liabilities		135,833	19,857	72,077	227,767

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



Notes to the Financial Statements (continued)
For the Year Ended 30 June 2019

Note 26: Financial Instruments - financial risk management (continued)

Credit Risk

Credit risk is the risk that a third party will default on its contractual obligations resulting in financial loss to the Government. The carrying value of financial assets equates to the maximum exposure to credit risk at balance date. Credit risk is managed at the entity level in accordance with their capital objectives and risk management policies.

	Notes	2019 \$000	2018 \$000
Maximum exposure to credit risk			
Financial Assets			
Cash and cash equivalents	12	65,464	40,527
Term deposits	12	109,204	125,477
Trust accounts	24	47,715	22,369
Debtors and other receivables	14	39,306	26,654
Banking portfolio investments	16	81,891	77,940
Investments in shares and associate	15	11,215	11,144
Maximum exposure to credit risk		354,795	304,111

In the normal course of business, Government incurs credit risk from sovereign and trade debtors, cash and cash equivalents, term deposits and trust accounts held with other financial institutions and banking portfolio investments (loans receivable from customers).

The majority of financial assets held with other financial institutions are with: (1) Australia New Zealand Bank with a credit rating AA- (2) Bank of South Pacific with a credit rating BBB-.

Credit risk for the Government arises principally from banking portfolio investments held by the Bank of the Cook Islands. Detailed information on the exposure to credit risk are available in the Bank of the Cook Islands financial statements.

Liquidity Risk

Liquidity risk is the risk that the Government will encounter difficulty raising liquid funds to meet commitments as they fall due.

Liquidity risk is managed on an individual entity basis generally by maintaining adequate reserves, banking facilities and by continuously monitoring forecast and actual cash flows.

The following table details the Government's remaining contractual maturity for its financial liabilities. The table was compiled based on:

- the undiscounted cash flows of financial liabilities based on the earliest date on which the Government can be required to pay, and
- both interest and principal cash flows.

	2019 \$000	2018 \$000
Financial Liabilities		
Less than 1 year	148,975	131,313
1-2 years	12,132	9,885
2-7 years	56,581	56,581
More than 7 years	23,108	29,988
Total contractual cash flows	240,796	227,767

The Government must also ensure that there is sufficient cash reserves available to meet at least 12 months of loan repayment requirements in accordance with the Cook Islands Loan Repayment Fund Act 2014. Refer to Note 12.

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



Notes to the Financial Statements (continued)
For the Year Ended 30 June 2019

Note 26: Financial Instruments - financial risk management (continued)

Liquidity risk is also prevalent in the banking operations of the Bank of the Cook Islands. Detailed information on the exposure to liquidity risk are available in the Bank of the Cook Islands financial statements.

The Government has access to financing facilities, of which the total unused amount at 30 June 2019 was \$14.0 million (2018: \$14.0 million). This financing facility relates to loan LN3479 Disaster Resilience Program with the Asian Development Bank. This facility allows Government to rapidly access financing in the event of a disaster. The Government expects to meet its obligations from operating cash flows and proceeds of maturing financial assets.

Given financial assets of \$357,116 (2018: \$305,456) and financial liabilities of \$240,796 (2018: \$227,767) there is sufficient liquid reserves to repay current debts.

Foreign Currency Risk

The Government undertakes transactions denominated in foreign currencies, and therefore is exposed to exchange rate fluctuations. Exchange rate exposures are managed by way of natural hedging. Whereby, when the exchange rates are favourable, foreign currency is purchased by Government.

The main source of foreign currency risk for Government is from foreign denominated borrowings. Historically Government has been subject to volatile fluctuations as 65% (67% |2018) of total borrowings of \$95.9 million (\$103.1 million |2018) are denominated in foreign currency. As shown in the table below, the fluctuations in the yearly foreign exchange gains and losses is due to unrealised gains and losses which is mainly due to the translation of borrowings at reporting date.

Given the mechanisms in place to hedge against foreign loans, this exposes Government to low to medium levels of currency risk.

	2019 %	2019 \$000	2018 \$000
Foreign borrowings per currency			
New Zealand Dollar	35.0%	33,521	34,362
United States Dollar	29.2%	27,995	31,164
Chinese Yuan	35.8%	34,339	37,209
Euro	0.0%	-	330
Total foreign borrowings per currency		95,855	103,065
Foreign exchange gain / (loss)			
Realised foreign exchange gain / (loss)		(48)	50
Unrealised foreign exchange gain / (loss)		2,193	(7,238)
Net foreign exchange gain / (loss)		2,145	(7,188)

	2019 %	2019 \$000	2018 \$000
Carrying amounts of foreign currency denominated financial assets and financial liabilities			
Financial Assets			
New Zealand Dollar	94.8%	338,677	295,963
United States Dollar	5.0%	17,960	8,371
Chinese Yuan	0.0%	-	56
Euro	0.1%	479	1,066
Total financial assets		357,116	305,456
Financial Liabilities			
New Zealand Dollar	74.1%	178,462	159,064
United States Dollar	11.6%	27,995	31,164
Chinese Yuan	14.3%	34,339	37,209
Euro	0.0%	-	330
Total financial liabilities		240,796	227,767

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



Notes to the Financial Statements (continued)
For the Year Ended 30 June 2019

Note 26: Financial Instruments - financial risk management (continued)

Currency	2019	2018
Exchange Rates		
Euros	0.5889	0.5828
United States dollars	0.6694	0.6741
Chinese Yuan	4.6038	4.4750

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

Sensitivity analysis	Impact on operating balance		Impact on net worth	
	2019	2018	2019	2018
	\$000	\$000	\$000	\$000
NZ dollar exchange rate strengthens by 10%	\$ 3,989	\$ 7,232	\$ 3,989	\$ 7,232
NZ dollar exchange rate weakens by 10%	\$ (8,643)	\$ (6,305)	\$ (8,643)	\$ (6,305)

Interest Rate Risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate, or the cash flows from a financial instrument will fluctuate, due to changes in market interest rates.

The following financial instruments are sensitive to changes in interest rates: cash and cash equivalents, term deposits, trust accounts, banking portfolio investments, banking customer deposits and borrowings.

Cash and cash equivalents, term deposits, trust accounts earn interest revenue at normal floating commercial rates. Refer to Note 12 for further details.

Detailed information on interest rate risk relating to banking portfolio investments and banking customer deposits are available in the Bank of the Cook Islands financial statements.

\$71.2 million (74%) (\$77.8 million (76%) | 2018) of total borrowings have been entered into by Government on fixed interest rates over the term of the loan. These loans do not expose Government to interest rate risk.

\$24.7 million (26%) (\$25.2 million (25%) | 2018) of total borrowings have been entered into by Government on variable interest rates over the term of the loan. These loans expose Government to interest rate risk. Refer to the statement of borrowings for further information.

Given the lengthy term to maturity of Government foreign loans at low fixed or floating concessionary interest rates, interest rate risk is low.



Notes to the Financial Statements (continued)
For the Year Ended 30 June 2019

Note 27: Subsequent events

Te Mato Vai – Rarotonga water upgrade

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

The project is divided into two stages – Stage 1 being the replacement of the ring main (Contract awarded to China Civil Engineering Construction Company (CCECC)) ; Stage 2 being the refurbishment of intakes and provision of storage, filtration and trunk mains. (Contract awarded to McConnell Dowell Contractors Limited)

Stage 1 Ring main replacement

Stage 1 of the project was completed in December 2016 by CCECC.

Stage 1 Remedial work

Landholdings Limited were awarded the contract for the remedial work to replace 17km of the pipework, approximately 25% of the ring main. The remedial work will provide a 100 year design life for critical sectors of the network. Remedial work commenced in November 2018, all physical work has been completed with the 12 month defect liability period ending in the 2021 financial year.

Stage 2 Water intakes

All physical work relating to the water intakes have been completed. McConnell Dowell are currently commissioning the trunk mains. The handover of the management of the water intakes to To Tatou Vai has commenced. The handover process is expected to be completed in the 2021 financial year.

Current status of the project as at November 2020:

Project budget	
New Zealand Aid	\$15.0 million
Chinese Government loan	\$23.5 million
Cook Islands Government	\$51.1 million
Total project budget	\$89.6 million
Stage 1 remedial work budget	
New Zealand Aid	\$13.0 million
Total stage 1 remedial work budget	\$13.0 million
Total revised project budget	
	\$102.6 million
Percentage complete:	
Stage 1: Ring main replacement:	100%
Stage 2: Upgrade of the 10 water intakes:	95%
Total amount spent on project:	
Total amount spent on stage 1 & stage 2	\$80.9 million
Total amount spent on stage 1 remedial work	\$9.8 million
Total amount spent on project:	\$90.6 million

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



Notes to the Financial Statements (continued)
For the Year Ended 30 June 2019

Note 27: Subsequent events (continued)

Manatua cable

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

Avarua Cable Limited is the Manatua Consortium member for the Cook Islands. The Government of New Zealand has granted NZ \$15.0 million to support the project, and a Grant Funding Agreement (GFA) was signed for the disbursement of the funds in April 2018. The Asian Development Bank has approved a loan allocation of up to US \$15.0 million, equivalent to NZ \$21.3 million.

The project is expected to be completed by 31 December 2021.

Current status of the project as at November 2020:

New Zealand Aid	\$15.0 million
ADB Loan	\$21.3 million
Total Budget for the project:	\$36.3 million
Percentage complete:	80%
Total amount spent on project:	\$30.6 million

Southern Group Renewable Energy Project

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

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

Current status of the project as at November 2020:

Asian Development Bank	\$9.9 million
European Union	\$7.6 million
Global Environment Fund	\$5.2 million
Green Climate Fund	\$8.8 million
PEC Grant Fund	\$5.0 million
Cook Islands Government	\$3.9 million
Total Budget for the project:	\$59.3 million
Percentage complete:	83%
Total amount spent on project:	\$40.4 million

Covid-19 Outbreak

The Covid-19 outbreak, which has become a global pandemic subsequent to the 30 June 2019 reporting date, presents strategic, operational and commercial uncertainties for the Government. The situation is changing rapidly and there are increased uncertainties around the duration, scale and impact of the Coronavirus/Covid-19 outbreak. The Government is taking various measures to mitigate the impact of Coronavirus/Covid-19 on the Cook Islands and the economy. The Government together with the Ministry of Finance continue to assess the potential impacts on Government's financial position, however given the continued uncertainties the future financial impacts have not been determined at this stage.

