PORTS AUTHORITY

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2016

Ports Authority
Annual Financial Report
For the year ended 30 June 2016

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Ports Authority
Annual Financial Report 2016
For the year ended 30 June 2016

Statement of responsibility

We are responsible for the preparation of Ports Authority's financial statements and statement of performance, and for the judgements made in them.

We are responsible for any end of year performance information provided by Ports Authority under section 68 of the Ports Authority Act 1994-95 Amendment.

We have the responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting.

In our opinion, these financial statements and statement of performance fairly reflect the financial position and operations of Ports Authority for the year ended 30 June 2016.

Signed on behalf of the Board:

Chairman of Board	**General Manager**
Sam Crocombe	Nooroa Tou
30 September 2016	30 September 2016

COOK ISLANDS GOVERNMENT

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Excellence in Public Sector Auditing

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF PORTS AUTHORITY

Report on the Financial Statements

We have audited the accompanying financial statements of Ports Authority on pages 6 to 27. The financial statements comprise of the statement of financial position as at 30 June 2016, the statement of comprehensive revenue and expense, the statement of changes in net assets and equity, the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the New Zealand Public Benefit Entity International Public Sector Accounting Standards – Tier 2 Reduced Disclosure Regime, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Other than in our capacity as auditor, we have no relationship with or interests in the Ports Authority.

AUDIT OFFICE COOK ISLANDS

Opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of Ports Authority as at 30 June 2016 and its financial performance and cash flows for the year then ended in accordance with the New Zealand Public Benefit Entity International Public Sector Accounting Standards – Tier 2 Reduced Disclosure Regime.

Our audit was completed on 30 September 2016 and our opinion is expressed as at that date.

APark

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

AUDIT OFFICE
COOK ISLANDS

Ports Authority
Statement of comprehensive revenue and expense
For the year ended 30 June 2016

	Notes	2016	2015
Revenue from exchange transactions			
Revenue from operations	4	2,742,622	2,688,320
Rental income		203,437	203,006
Other revenue	6	252,566	1,061,788
Revenue from non-exchange transactions			
Other revenue	6	572,755	310,401
Total revenue		**3,771,380**	**4,263,515**
Expenses			
Staff remuneration	7	(700,917)	(676,523)
Depreciation and amortisation		(1,302,965)	(1,236,346)
Maintenance of wharf, properties and equipment		(161,946)	(123,101)
Other operating expenses	9	(934,506)	(669,353)
Total expenses		**(3,100,334)**	**(2,705,323)**
Finance income	5	133,117	90,246
Finance expenses	8	(1,488,593)	(1,469,616)
Net finance costs		**(1,355,476)**	**(1,379,370)**
Operating (deficit)/surplus		**(684,430)**	**178,822**
Income tax benefit/(expense)	10	28,300	(77,895)
Net (deficit)/surplus for the year		**(656,130)**	**100,927**
Total comprehensive revenue and expense		**(656,130)**	**100,927**

The statement of comprehensive revenue and expense is to be read in conjunction with the notes on page 10 to page 27.

AUDIT OFFICE COOK ISLANDS

Ports Authority
Statement of changes in net assets/equity
For the year ended 30 June 2016

	Note	2016	2015 Restated
Balance at 1 July		15,625,283	15,600,142
Changes in net assets/equity			
(Deficit)/surplus for the period		(656,130)	100,927
Total comprehensive revenue and expense for the period		**(656,130)**	**100,927**
Transactions with owners			
Corporate social obligations	28	(90,365)	(75,786)
Balance at 30 June		**14,878,788**	**15,625,283**

The statement of changes in net assets/equity is to be read in conjunction with the notes on page 10 to page 27.

Ports Authority
Statement of financial position
For the year ended 30 June 2016

	Notes	2016	2015 Restated
Current assets			
Cash and cash equivalents	11	290,998	512,357
Investments	12	3,469,101	2,624,338
Receivables	13	607,839	624,874
Inventories	14	35,573	17,857
Other assets	15	51,731	44,103
Derivative financial instrument	16	-	854,887
Total current assets		**4,455,242**	**4,678,416**
Non-current assets			
Investment property	17	1,878,454	1,982,252
Property, plant and equipment	18	32,356,725	32,829,720
Total non-current assets		**34,235,179**	**34,811,972**
Total assets		**38,690,421**	**39,490,388**
Current liabilities			
Payables	19	150,578	173,282
Borrowings	20	497,471	241,657
Income taxes payable	10	45,816	32,455
Employee entitlements	21	17,265	17,833
Total current liabilities		**711,130**	**465,227**
Non-current liabilities			
Borrowings	20	22,696,161	22,935,684
Employee entitlements	21	26,987	26,200
Deferred tax liabilities	10	377,355	437,994
Total non-current liabilities		**23,100,503**	**23,399,878**
Total liabilities		**23,811,633**	**23,865,105**
Net assets		**14,878,788**	**15,625,283**
Equity			
Accumulated surplus/(deficit)	22	14,878,788	15,625,283
Total equity		**14,878,788**	**15,625,283**

Chairman of Board
Sam Crocombe

30 September 2016

General Manager
Nooroa Tou

30 September 2016

The statement of financial position is to be read in conjunction with the notes on page 10 to page 27.

AUDIT OFFICE COOK ISLANDS

Ports Authority
Statement of cash flows
For the year ended 30 June 2016

	Note	2016	2015
Cash flows from operating activities			
Cash was provided from:			
Receipts from customers		3,785,374	3,469,346
Interest received		122,881	75,879
		3,908,255	**3,545,225**
Cash was applied to:			
Payments to employees		(553,399)	(528,935)
Payments to suppliers		(1,241,418)	(1,196,794)
Payment of income tax		(18,978)	-
Payment of interest		(860,329)	(881,853)
Net Vat paid		(345,550)	(316,677)
		(3,019,674)	**(2,924,259)**
Net cash inflow from operating activities		**888,581**	**620,966**
Cash flows from investing activities			
Cash was provided from:			
Aid funding		-	21,147
		-	**21,147**
Cash was applied to:			
Purchase of property, plant and equipment		(285,001)	(334,958)
Increase in investments		(833,673)	(1,077,678)
		(1,118,674)	**(1,412,636)**
Net cash flows from investing activities		**(1,118,674)**	**(1,391,489)**
Cash flows from financing activities			
Cash was applied to:			
Repayment of borrowings		(241,657)	(179,226)
		(241,657)	**(179,226)**
Net cash flows from financing activities		**(241,657)**	**(179,226)**
Net (decrease)/increase in cash and cash equivalents		**(471,750)**	**(949,749)**
Foreign currency translation		250,391	1,122,037
Cash and cash equivalents at beginning of the year		**512,357**	**340,069**
Cash and cash equivalents at the end of the year	11	**290,998**	**512,357**

The statement of cash flows is to be read in conjunction with the notes on page 10 to page 27.

Statement of accounting policies

1 Reporting Entity

The reporting entity is the Ports Authority of Cook Islands which was established by the Ports Authority Act 1994-1995 on 1 July 1995. The effect of the Act was to create a separate legal entity, which took over all the operational assets, liabilities and other obligations of the Waterfront Commission. The legal vesting and ownership of all the assets and liabilities as set out in the Ports Authority Act 1994-1995 was subsequently approved by the Leases Approval Tribunal on 17th August 2012.

The Ports Authority is a subsidiary of the Cook Islands Investment Corporation governed under the Cook Islands Investment Corporation Act 1998. Its operations are based at Avatiu in Rarotonga and Aitutaki.

The Ports Authority's primary objective is to provide efficient and reliable port services through a port infrastructure and facility that will enable and promote development of trade in the port.

The Ports Authority has designated itself as a public benefit entity for financial reporting purposes.

2 Basis of preparation

The financial statements have been prepared on a going concern basis, and the accounting policies have been applied consistently throughout the period.

(a) Statement of compliance

The financial statements have been prepared in accordance with New Zealand Tier 2 Public Benefit Entity (PBE) IPSAS accounting standards. The Ports Authority has designated itself a Public Benefit Entity whose primary objective is to provide port infrastructure and services for public benefit. The Ports Authority adopts the PBE accounting standards applicable under a Reduced Disclosure Regime (RDR) with an expense threshold greater than $2 million and less than $30 million. The financial statements also comply with the Ports Authority Act 1994-1995.

(b) Functional and presentation currency

The financial statements are presented in New Zealand dollars ($), which is the Authority's functional currency. All financial information presented in New Zealand dollars has been rounded to the nearest dollar.

(c) Standards issued and effective

In May 2013, the External Reporting Board issued a new suite of PBE accounting standards for application by public sector entities for reporting periods beginning on or after 1 July 2014. Ports Authority has applied these standards in preparing the 30 June 2015 financial statements representing a change in accounting policy from NZ IFRS RDR to NZ PBE Standards.

In October 2014, the PBE suite of accounting standards was updated to incorporate requirements and guidance for the not-for-profit sector. These updated standards apply to PBEs with reporting periods beginning on or after 1 April 2015. Ports Authority will apply these updated standards in preparing its 30 June 2016 financial statements. Ports Authority expects there will be minimal or no change in applying these updated accounting standards.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Changes in accounting policy

There was no changes in accounting policies.

(b) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits or service potential will flow to the Authority and the revenue can be reliably measured, regardless of when payment is made.

Statement of accounting policies *(continued)*

3 (b) Revenue *(continued)*

Revenue is measured at their fair value of the consideration received or receivable taking into account contractual defined terms of payment and excluding taxes.

The specific recognition criteria described below must also be met before revenue is recognised.

Revenue from non-exchange transactions

Government grants and funding
Revenues from non-exchange transactions with Government and other agencies is recognised when the Authority obtains control of the transferred assets (cash, goods, services or property), and:

It is probable that the economic benefits or service potential related to the asset will flow to the Authority and can be measured reliably; and

The transfer is free from conditions that require the asset to be refunded or returned to the Government if the conditions are not fulfilled.

Revenue from government grants and funding is measured at the fair value of the assets (cash, goods, services or property) transferred over to the Authority at the time of transfer.

To the extent that there is a condition attached that would give rise to a liability to repay the grant amount or to return the granted asset, a deferred revenue liability is recognised instead of the revenue. Revenue is then recognised instead only once the Authority has satisfied these conditions.

Concessionary Loans
When the Authority receives a loan at an interest rate that is lower than market terms (concessionary loan), the difference between the loan proceeds and the fair value of the loan (calculated using market terms) is recognised as revenue if there are no conditions attached to the loan. To the extent that there are condition attached to the loan that would result in early repayment of the loan if these conditions are satisfied, a deferred revenue liability for the amount of the difference between the loan proceeds and the fair value of the loan is recognised. Revenue is then recognised as the Authority satisfies its conditions.

Rendering of services – subsidised
Rendering of services at a price that is not approximately equal to the value of the service provided is considered a non-exchange transaction. This also includes rendering of services where charges have been waived in lieu of special licensed for domestic shipping services and rental of port properties and facilities. Revenue from such subsidised services is recognised when the Authority issues the invoice or bills for the service.

Donated assets
Where a physical asset is gifted or acquired by Ports Authority for nil consideration 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 revenue.

Revenue from exchange transactions

Revenue from operations
Comprises gross inflows of economic benefits or service potential received and receivable from the rendering of port services and facilities in the ordinary course of the Authority's activities.

Rental
Rental revenue is derived from property leased under operating lease and recognized on a straight line basis and is included in the statement of financial performance due to its operating nature.

Statement of accounting policies *(continued)*

3 (b) Revenue *(continued)*

Finance income

All financial instruments and interest bearing financial assets are measured at amortised cost using the effective Interest rate method. Effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statement of financial performance.

(c) Borrowing costs

All borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(d) Foreign currency translations

Transactions in foreign currencies (including those for which forward foreign exchange contracts are held) are translated into the functional currency of the Authority at the spot exchange rates prevailing at the dates of the transactions. Foreign exchange gain and losses resulting from settlement of such transactions and from translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the surplus or deficit.

(e) Cash and cash equivalents

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

(f) Receivables

Receivables are recorded at their face value, less any provision for impairment.

A receivable is considered impaired when there is evidence that the Authority will not be able to collect the amount due. The amount of the impairment is the difference between the carrying amount of the receivable and the present value of the amounts expected to be collected.

(g) Investments

Bank Term Deposits

Investments in bank term deposits are initially measured at their fair value.

After initial recognition, investments in bank deposits are measured at amortised cost using the effective interest method, less any provision for impairment.

(h) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Classified at initial recognition, as financial assets at fair value through surplus or deficit, loans and receivables, held to maturity investments, available for sale financial assets, or as derivatives as appropriate. All financial assets are recognized at fair value plus, in the case of financial assets not recorded at fair value through surplus and deficit, transaction costs that are attributable to the acquisition of the financial asset.

The Authority's financial assets include: cash and term deposits, trade and other receivables, and derivative financial instruments.

Financial liabilities

Classified at initial recognition, as financial liabilities at fair value through surplus or deficit, loans and borrowings, and derivative financial instruments.

Statement of accounting policies *(continued)*

(h) Financial instruments *(continued)*

All financial liabilities are recognized initially at fair value and, in the case of payables and loans and borrowings, net of directly attributable transaction costs.

The Authority's financial liabilities include: trade and other payables, loans and borrowings and derivative financial instruments.

(i) Derivative Financial Instruments

Derivative financial instruments are used to manage foreign exchange risk exposure arising from the Authority's end of period valuations of its Loan 2473 denominated in SDR (Special Drawing Rights – Unit of account used by the International Monetary Fund and other international organizations. Its value is based on a basket of key international currencies that currently consists of the euro, yen, pound sterling and the US dollar).

The Authority does not hold or issue derivative financial instruments for trading purposes. The Ports Authority has not adopted hedge accounting.

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at each balance date with the resulting gain or loss recognized in surplus or deficit.

The full fair value of a forward foreign exchange derivative is classified as current as the contract is due for settlement within 12 months of balance date.

(j) Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost of for a nominal cost), the cost of the inventory is measured as its fair value at the date of acquisition.

Inventories comprise of consumable stores, stationery and equipment spare parts. The costs of the inventories comprise of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location. Inventories are mainly for consumption in the course of the Authority's operations or rendering services and are not supplied on a commercial basis. These are measured at cost (using FIFO method), adjusted, when applicable, for any loss of service potential.

The Authority does not hold any inventory acquired through a non-exchange transaction.

The amount of any write-down for the loss of service potential or from cost to net realizable value is recognized in surplus or deficit in the period of write down.

(k) Property, plant and equipment

Initial recognition and subsequent expenditure:

Property, plant and equipment is measured initially at cost. Cost includes expenditure that is directly attributable to the acquisition of the items. The cost of an item of property, plant and equipment is recognised only when it is probable that future economic benefit or service potential associated with the item will flow to the Authority, and if the item's cost or fair value can be measured reliably. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

Subsequent costs that meet the recognition criteria above are recognised in the carrying value of the item of property, plant and equipment. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long term construction projects if the recognition criteria are met.

Statement of accounting policies *(continued)*

(k) Property, plant and equipment *(continued)*

When significant parts of property, plant and equipment are required to be replaced at intervals, the Authority recognises such parts as individual assets with specific useful lives and depreciates them accordingly. All other repairs and maintenance costs are recognised in surplus or deficit as incurred.

Measurement subsequent to initial recognition

All asset classes consisting of buildings, wharf structure, wharf fixtures, barges and boats vehicle and machinery, general plant and equipment and furniture and office equipment are measured at cost, less accumulated depreciation and impairment losses.

Depreciation

Depreciation is charged on a straight-line basis on all property, plant and equipment at rates that will write off the cost of the asset over the assets' useful lives. The useful lives and associate depreciation rates of major classes of property, plant and equipment have been estimated as follows:

Barges and boat	- 20%
Buildings-5%	- 10%
General plant & equipment	- 20%
Furniture and office equipment	- 20%
Heavy Machinery	- 20%
Motor Vehicles	- 20% - 25%
Wharf Structure	- 2.5%
Wharf Fixtures	- 5% - 20%

Disposals

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits or service potential are expected from its use or disposal.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. These are reported net in surplus or deficit.

(l) Investment property

Investment property compromises of buildings (warehouses) held by the Authority to earn rental income and these properties is not used for the production of and supply of goods or services or for administrative purposes.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met, and excludes the costs of day to day maintenance of an investment property. The Authority adopts a cost model approach for measurement after its initial recognition.

Transfers are made to investment property when, and only when there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when there is a change in use, evidenced by commencement of owner-occupation or commencement with a view to sell.

Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its disposal.

Statement of accounting policies *(continued)*

(m) Impairment of property, plant and equipment and investment property

The Authority holds property, plant and equipment that are classified as cash generating assets and non-cash generating assets. Assets considered cash-generating where their primary objective is to generate a commercial return.

The Authority determines the appropriate classification by establishing the primary objective of the respective assets and considers those assets established as a public good are classified as non-cash generating assets. All other assets are treated as cash generating assets.

The Authority assesses at each reporting date whether there is an indication that a non-cash generating asset may be impaired. If any indication exists, or when an annual impairment testing for an asset is required, the Authority estimates the asset's recoverable service amount.

Impairment of cash generating assets

For cash generating assets, recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets, in which case recoverable amount is determined for the cash generating unit (CGU) to which the asset belongs. An asset's or CGU's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted prices or other available fair value indicators.

Impairment of non-cash generating assets

For non-cash generating assets, the Authority estimates the asset's recoverable service amount. An assets recoverable service amount is the higher of the non-cash generating asset's fair value less costs to sell and its value in use.

Where the carrying amount of an asset exceeds its recoverable service amount, the asset is considered impaired and is written down to its recoverable service amount.

In assessing value in use, the Authority has adopted the depreciation replacement cost approach. Under this approach, the present value of the remaining service potential of an asset is determined as the depreciated replacement cost of the asset, whichever is the lower, and less accumulated depreciation calculated on the basis of such cost, to reflect already consumed or expired service potential of the asset.

In determining fair value less costs to sell, the price of the asset in a binding agreement in an arm's length transaction, adjusted for incremental costs that would be directly attributed to the disposal of the asset, is used. If there is no binding agreement, but the asset is traded on an active market, fair value less cost to sell is the asset's market price less cost of disposal. If there is no binding sale agreement or active market for an asset, the Authority determines the fair value less cost to sell based on the best available information.

Statement of accounting policies *(continued)*

(m) Impairment of property, plant and equipment and investment property *(continued)*

If an asset's carrying amount exceeds its recoverable service amount, the asset is regarded as impaired and the carrying amount is written down to the recoverable amount. The total impairment loss is recognised in surplus or deficit. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in surplus or deficit.

(n) Payables

Short-term payables are recorded at their amortised cost and undiscounted due to their short-term nature.

(o) Borrowings

Borrowings are initially recognised at their fair value plus transaction costs. After initial recognition, all borrowings are measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Authority has an unconditional right to defer settlement of the liability for at least 12 months after balance date.

(p) Employee entitlements

Short-term employee entitlements

Employee benefits that are due to be settled within 12 months after the end of the period in which the employee renders the related service are measured based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to the balance date and annual leave earned to but not yet taken at balance date.

Long-term benefits

Employee benefits that are due to be settled beyond 12 months after the end of period in which the employee renders the related service in this case long service leave. . The liability for long service leave is measured as the present value of expected future payments to be made in respect of services provided up to reporting date. Consideration is given to the expected future wage and salary levels, experience of departures and periods of service. Expected future payments are discounted using market yields at the reporting date using New Zealand Government Bonds.

Defined contribution plans

Obligations for contributions to the Cook Islands National Superannuation Fund are accounted for as defined contribution superannuation schemes and are recognised as an expense in the surplus or deficit as incurred.

(q) Provisions

A provision is recognized for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that an outflow of future economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

(r) Equity

Equity is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into the following components.

- Contributed capital; and
- Accumulated surplus/ (deficit).

Statement of accounting policies *(continued)*

(s) Value added tax (VAT)

All items in the financial statements are presented exclusive of VAT, except for receivables and payables, which are presented on a VAT-inclusive basis. Where VAT is not recoverable as input tax, it is recognised as part of the related asset or expense. The net amount of VAT recoverable from, or payable to, MFEM is included as part of the receivables or payables in the statement of financial position. The net VAT paid to, or received from, MFEM including the VAT relating to investing and financing activities, is classified as a net operating cash flow in the statement of cash flows. The applicable VAT rate is 15%.

(t) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the income statement except to the extent that it is related to items recognized directly in equity in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income account for the year using tax rates enacted or substantively enacted at the reporting date and any adjustments to tax payable in respect of prior years.

Deferred tax is recognized using the balance sheet method providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary difference when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which temporary difference can be recognized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be recognized.

(u) Comparative figures

Where necessary, comparative information has been re-classified to achieve consistency in disclosure with current financial year amounts.

(v) Critical accounting estimates and assumptions

Preparation of the financial statements requires management to make estimates and assumptions concerning the future.

These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities affecting future periods are discussed below;

- Note i – Property, plant and equipment requiring estimation of the assets useful lives.
- Note n – Long term benefits requiring estimation of long service leave obligations using present value calculations.

(w) Critical judgments in applying accounting policies

In particular, information about significant areas of requiring critical judgments in applying accounting policies that have significant effect on the amount recognized in the financial statements, are detailed below;

- Note j – Classification of assets under Investment Properties
- Note k – Impairment of property, plant and equipment

		Notes	2016	2015
4	**Revenue from operations**			
	Vessel Operations		714,931	772,878
	Port Operations		1,847,800	1,713,215
	Facility Services		179,891	202,227
	Total revenue from operations		**2,742,622**	**2,688,320**
5	**Finance income**			
	Interest accrued		133,117	90,246
	Total finance income		**133,117**	**90,246**
6	**Other revenue**			
	Exchange transactions			
	Realised foreign currency exchange		250,203	1,019,664
	Reduction in doubtful debt provision		-	35,550
	Others		2,363	6,574
			252,566	**1,061,788**
	Non-exchange transactions			
	Grant funding	(a)	241,380	94,573
	Plant & equipment acquired from non-exchange	18	241,010	140,042
	Revenue waived under Corporate Social Obligations	28	90,365	75,786
			572,755	**310,401**

(a) Funding was received from the Cook Islands Government through Cook Islands Investment Corporation for the facilitation of the Orongo Project in Aitutaki $241,380.

		2016	2015
7	**Staff remuneration**		
	Wages and salaries	556,476	537,043
	Wages casual	54,604	41,764
	Over-time	43,366	55,851
	Bonus	6,081	4,817
	Allowances	9,583	7,590
	Superannuation	30,587	29,667
	Leave entitlement	220	(209)
	Total staff remuneration	**700,917**	**676,523**
8	**Finance expense**		
	Interest expense on ADB Loan 2472	562,501	572,233
	Interest expense on ADB Loan 2473	626,412	538,004
	Interest expense on ADB Loan 2739	299,680	359,379
	Total finance expense	**1,488,593**	**1,469,616**

9 Other operating expenses

	2016	2015
Auditor's fees	15,000	15,000
Accounting fees	-	231
Bad debts written off	-	189
Communications	13,913	15,214
Consultants	42,574	11,780
Directors fees	41,800	34,300
Directors' expenses	21,152	19,114
Electricity	41,481	93,565
Fuel	85,301	84,714
Insurance expenses	106,652	103,403
Lease expense	1,042	2,500
Loss on sale of plant and equipment	381	10,765
Loss on unrealised foreign exchange	484,383	203,277
Office stationery and printing expenses	12,642	11,680
Training expenses	549	2,914
Travel expenses	23,746	18,083
Other expenses	43,890	42,624
Total operating expenses	**934,506**	**669,353**

10 Income tax

	2016	2015
a) Current income tax:		
Current income tax charge	32,339	189,744
Deferred tax:		
Relating to origination and reversal of temporary differences	(60,639)	(111,849)
Income tax (benefit)/expense reported in the statement of financial performance	**(28,300)**	**77,895**
b) Reconciliation of tax expense and the accounting profit		
Accounting (loss)/profit before income tax	**(684,430)**	**178,822**
At statutory rate of 20% (2015: 20%)	(136,886)	35,764
Other non-taxable income	(114,551)	(62,080)
Non-deductible expenses for tax purposes	223,137	104,211
	(28,300)	**77,895**
c) Income tax liability/(asset)		
Opening balance	32,455	(157,289)
Current year tax expense/(benefit)	32,339	189,744
Income tax paid	(18,978)	-
Closing balance	**45,816**	**32,455**
d) Deferred tax liability		
Difference arising from the carrying amount of assets	**377,355**	**437,994**

	2016	2015

11 Cash and cash equivalents

Cash and cash equivalents include cash at bank and cash on hand.

Cash at bank	290,998	512,357
Total	**290,998**	**512,357**

12 Investments

Term deposits held at banks	3,469,101	2,624,338
Total investments	**3,469,101**	**2,624,338**

The Authority holds various term deposits with ANZ Bank and BCI. The terms of maturity ranges from 3 months to a maximum of 12 months. The rates on these deposits range from 2.92% to 4.5%.

13 Receivables

Gross receivables	556,072	574,882
	556,072	574,882
Accrued receivables	5,884	-
Other receivables	6,436	9,445
	568,392	**584,327**
Interest accrued	39,447	40,547
Total receivables	**607,839**	**624,874**

The ageing of trade receivables at reporting date was:

Current	269,814	241,772
Past due 30 – 60 days	63,857	86,733
Past due 60 – 90 days	31,052	47,112
More than 90 days	191,349	199,265
Total	**556,072**	**574,882**

Receivables are non-interest bearing and are generally on terms 30 to 60 days.
Impairment of trade receivables is taken up when identified. Movements in the provision for impairment of trade receivables were as follows:

Opening balance	-	35,550
Reversed during the period	-	(35,550)
Balance as at 30 June	-	-

14 Inventories

Forklift tyres	31,451	14,695
Others	4,122	3,162
Total	**35,573**	**17,857**

15 Other assets

	2016	2015
Prepayments	49,381	40,711
Other assets	2,350	3,392
Total	**51,731**	**44,103**

16 Derivative financial instruments

	2016	2015
Current asset		
Derivative instrument – Foreign exchange contract	-	**854,887**

There was no outstanding forward foreign exchange contract at report date. During the year the existing contract was closed out on 31st March 2016 with a contract value of $9.77 million against a market value of $10.02 million. The foreign currency principal amounts were US$6.99million (2015: US$6.99 million) The forward foreign exchange contracts were measured using quoted ANZ Bank rates.

17 Investment property

	2016	2015
Balance at 1 July – Cost	2,210,198	2,210,198
Acquisitions/construction	6,817	-
	2,217,015	2,210,198
Accumulated Depreciation	(338,561)	(227,946)
Balance 30 June	**1,878,454**	**1,982,252**

Investment property comprises of buildings and wharf sheds leased on annual tenancy agreements. Subsequent renewals are negotiated with the lessee and on average of one to two year renewals. Property values are carried at initial cost on and after recognition. The depreciation rate for the investment property is 5% per annum.

18 Property, plant and equipment

	Wharf Structure	Wharf Fixtures & Fittings	Buildings	Heavy Duty Machinery	Barges & Boats	Motor Vehicles	General plant & equipment	Office equipment & furn.	Work in progress	Total
Gross carrying amount:										
Balance at 1 July 2014	32,991,833	81,020	542,025	501,554	245,772	254,101	79,601	59,457	487,132	35,242,495
Additions	-	144,768	209,062	163,726	25,235	-	49,857	8,590	132,955	734,193
Disposals	-	-	-	(16,115)	(11,765)	-	(400)	(8,582)	-	(36,862)
Transfers from work in progress	-	-	-	-	-	-	22,246	-	(159,802)	(137,556)
Balance at 30 June 2015	**32,991,833**	**225,788**	**751,087**	**649,165**	**259,242**	**254,101**	**151,304**	**59,465**	**460,285**	**35,802,270**
Gross carrying amount										
Balance at 1 July 2015	32,991,833	225,788	751,087	649,165	259,242	254,101	151,304	59,465	460,285	35,802,270
Additions	92,080	28,277	263,552	12,427	2,346	-	22,679	15,397	283,500	720,258
Disposals	-	-	-	-	-	-	(2,681)	(3,833)	-	(6,514)
Transfers from work in progress	-	55,543	77,412	-	-	-	-	-	(132,955)	-
Balance at 30 June 2016	**33,083,913**	**309,608**	**1,092,051**	**661,592**	**261,588**	**254,101**	**171,302**	**71,029**	**610,830**	**36,516,014**
Accumulated depreciation and impairment:										
Balance at 1 July 2014	1,379,957	24,906	35,081	187,359	98,308	90,390	26,443	25,373		1,867,817
Depreciation	824,847	15,970	36,683	98,136	51,061	56,460	27,767	15,237		1,126,161
Disposals	-	-	-	(7,495)	(6,863)	-	(233)	(6,837)	-	(21,428)
Balance at 30 June 2015	**2,204,804**	**40,876**	**71,764**	**278,000**	**142,506**	**146,850**	**53,977**	**33,773**	**-**	**2,972,550**
Balance at 1 July 2015	2,204,804	40,876	71,764	278,000	142,506	146,850	53,977	33,773	-	2,972,550
Depreciation	826,629	28,854	52,671	129,383	51,926	55,993	31,291	15,602		1,192,349
Disposals	-	-	-	-	-	-	(1,999)	(3,611)	-	(5,610)
Balance at 30 June 2016	**3,031,433**	**69,730**	**124,435**	**407,383**	**194,432**	**202,843**	**83,269**	**45,764**	**-**	**4,159,289**
Carrying amounts										
Net book value as at 1 July 2014	**31,611,876**	**56,114**	**506,944**	**314,195**	**147,464**	**163,711**	**53,158**	**34,084**	**487,132**	**33,374,678**
Net book value as at 30 June 2015	**30,787,029**	**184,912**	**679,323**	**371,165**	**116,736**	**107,251**	**97,327**	**25,692**	**460,285**	**32,829,720**
Net book value as at 30 June 2016	**30,052,480**	**239,878**	**967,616**	**254,209**	**67,156**	**51,258**	**88,033**	**25,265**	**610,830**	**32,356,725**

	Notes	2016	2015
18 Property, plant and equipment *(continued)*			
Plant and equipment acquired in non-exchange transactions;			
Building	a	234,712	-
Plant and equipment	b	6,298	140,042
		241,010	140,042

a) The Are Tapaeanga Project was an initiative to construct a Cruise Ship reception facility at the Western Marina Basin. This was a joint venture initiative between the Ports Authority and the Cook Islands Tourism (CIT). The facility was part funded by the CIT ($234,712) and recognised at the fair value of contribution towards the construction.

b) The Authority received 4 x desktops from the Government's IT department as part of its system upgrade ($4,098) and a Solar Air-Conditioning unit ($2,200). The equipment's were recognised at fair value.

	2016	2015
19 Payables		
Trade payables	58,768	105,680
Accruals	45,857	30,040
Income received in advance	1,869	1,555
Vat payables	41,789	33,811
Others	2,295	2,196
Total payables	**150,578**	**173,282**

20 Borrowings

	Maturity	2016	2015
Current liability			
ADB Loan 2472		217,850	197,597
ADB Loan 2473		184,782	-
ADB Loan 2739		94,839	44,060
Total		**497,471**	**241,657**
Non-current liability	**Maturity**		
ADB Loan 2472	15-Nov 2033	9,377,205	9,594,991
ADB Loan 2473	15-Nov 2040	8,202,302	8,226,228
ADB Loan 2739	15-Nov 2035	5,116,654	5,114,465
Total		**22,696,161**	**22,935,684**
Total		**23,193,632**	**23,177,341**

The Asian Development Bank (ADB) approved two loans (L2472-COO and L2473-COO) on November 2008 for the funding of the Avatiu Port Development Project. The ADB signed the two loan agreements for these two loans with the Government of the Cook Islands on 5 May 2009 and the Government on lent to the Ports Authority by way of a subsidiary loan agreement signed on 31 July 2009. ADB further approved and signed a supplementary loan (L2739-COO) to loans (L2472-COO and L2473-COO) on 24 March 2011 and 30 December 2011 respectively with the Government of the Cook Islands as part of the funding of the Avatiu Port Development project. The Government on provides the funds to Ports Authority by effect of the subsidiary loan agreement signed on 31 July 2009.

20 Borrowings *(continued)*

The borrowings were drawn through the Cook Islands Government. The Authority received concessionary interest rates for the three loans which were the same rates as in the subsidiary loan agreements between Government and the Authority.

ADB L2472
This loan is for a period of 20 years plus a 5 year grace period with repayments commencing on 15 May 2014.This concessionary loan was fully drawn by May 2013. The full draw down was US$8,419,792.

ADB L2473
The Loan is fixed for a period of 24 years plus an 8 year grace period with equal repayments commencing on 15 May 2017. This concessionary loan was fully drawn by February 2014. The full draw down was SDR 4,519,038. The nominal interest rate for Loan 2473 is 1% per annum for the 8 year grace period and 1.5% thereafter.

The Authority is responsible for any changes in the amounts payable arising due to exchange rate fluctuations. Accordingly, all exchange rate risks are carried by the Authority. The borrowings are recorded in NZD at the exchange rate at the date of the drawdown and are restated using the closing rate at balance date. Any changes in exchange rate fluctuations are recorded in the Statement of revenue and expense.

ADB L2739
Loan 2739 is supplementary to L2473 and L2472 for USD $4.7 million and is fixed for a period of 20 years plus a 5 year interest grace period with repayments commencing on 15 May 2016. The full draw down was US$4,428,273 by May 2013 and a further NZ$32,425 was drawn on January 2014 after the loan was converted to NZD currency.

Loan 2472 and Loan 2739 was converted to NZD on 15th May 2013 with a fixed interest rate of 5.77% and an average floating interest rate of 3.7% (2015: 4.2%) for the respective loans.

	L2472	L2473	L2739	Total
As at 1 July 2015	9,792,588	8,226,228	5,158,525	23,177,341
Interest accrued during the year	562,501	626,412	299,680	1,488,593
Repayments	(760,034)	(95,240)	(246,712)	(1,101,986)
Movement during the year	-	(370,316)	-	(370,316)
As at 30 June 2016	**9,595,056**	**8,387,084**	**5,211,493**	**23,193,632**
Current liability	**217,850**	**184,782**	**94,839**	**497,471**
Non-current liability	**9,377,205**	**8,202,302**	**5,116,654**	**22,696,161**

21 Employee entitlements

	2016	2015
Current Liability		
Annual leave	17,265	17,833
Non-current liability		
Long service leave	26,987	26,200

21 Employee entitlements *(continued)*

Key assumptions in measuring long service leave obligations

The liability measured is the present value of the long service leave obligations and depends on the discount rate used and the salary inflation factor. Any changes in these assumptions will affect the carrying amount of the liability. Expected future payments are discounted using forward discount rates from New Zealand Government bonds. The discount rate used have maturities that match closely as possible to the estimated future cash outflows. The salary inflation factor has been determined internally with a growth rate of 1.5% (2015 : 1.5%) and an average discount factor of 2.2% (2015 : 3.2%)

22 Equity

	2016	2015
Accumulated surplus/(deficit)		
Balance at 1 July	15,796,142	15,695,215
Surplus/(deficit) for the year	(656,130)	100,927
Balance at 30 June	15,140,012	15,796,142
Corporate Social Obligations		
Balance at 1 July	(170,859)	(95,073)
Current year	(90,365)	(75,786)
Balance at 30 June	(261,224)	(170,859)
Total equity	**14,878,788**	**15,625,283**

23 Commitments and Contingencies

Commitments

There were no significant commitments standing at report date. (2015: nil)

Contingencies

There were no recognition made for any contingent asset and liability. (2015: nil)

24 Prior year restatement

Prior year figures were restated to adjust downward the balances of current assets by $1,838 with a corresponding effect on the accumulated surplus and deficit account for 2015. The adjustment was to correct the overstatement of prepayment by the same amount in prior years.

25 Related party transactions

Parent and controlling party

Transactions involving its owners of capital, the Government of Cook Islands relates to grants received during the year as follows;

	2016	2015
Grant funding – Government	241,380	234,615

Transaction with its parent company Cook Islands Investment Corporation Ltd was nil and by way of grants provided through the Government of the Cook Islands. The Authority facilitates the phased implementation of the Orongo Project with funds provided by Government and paid directly to the contractors.

Key Management Personnel

Key Management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity directly or indirectly, including any director (whether executive or otherwise) of that entity.

The names of persons who are directors of Ports Authority Cook Islands at any time during the financial year were as follows: Sam Crocombe (Chairman from September 2015) William Kauvai (Chairman for July and August 2015 and was Vice Chairman thereafter to date), Makiroa Mitchell John, Mr Lucky Matapuku (appointment ceased August 2015), Teariki George and Geoffrey Vazey. Mr Geoffrey Vazey is a New Zealand based Director and Mr Teariki George is based in Aitutaki.

	2016	2015
Director Fees	41,800	34,300

During the year the following persons were identified as key management personnel, with the greatest authority and responsibility for the planning, directing and controlling the activities of the company were Nooroa (Bim) Tou (General Manager), Rasmussen Saungaki (Harbour Master), Andre Tuiravakai (Asset & Operations Manager) and Alfereti Vamarasi (Financial Controller). Emi Carl took over the responsibilities of the Port Aitutaki Supervisor from November 2015 replacing Toru Hewett during the year.

	2016	2015
Key management salaries and benefits – 5 personnel	267,036	258,210

26 Principal activities

The principal activity of the Authority is providing and managing port infrastructure and services within declared ports at Rarotonga and Aitutaki.

27 Subsequent Events

There were no significant events after balance date.

28 Community Service Obligation (CSO)

Pursuant to the Ports Authority Act 1994-95, Community Service Obligations (CSO) consists of domestic shipping service operations, the Cook Islands Government Patrol Boat service charges with its Administration Building rentals, and any Board waived charges approved on behalf of the Cook Islands Government under its Community Service Obligations.

The Authority recognizes these transactions under Community Social Obligations as operating revenue arising from non-exchange transactions and at fair value, with a debit to equity in lieu of services provided under its community service obligations.

Social Costs Report for the year ended 30 June 2016

Rarotonga	Total	Berthage	Marine	Port Services	Lease rental	Equipment Hire	Cargo
Christmas Box - Vaine George	437	-	-	-	-	-	437
Cook Islands Towage	4,285	4,285	-	-	-	-	-
Lady Naomi	9,093	1,430	6,964	699	-	-	-
Ministry of Marine Resources	9,600	-	-	-	9,600	-	-
Maritime Surveillance	15,391	4,111	-	-	11,280	-	-
Matavera CICC - Ekalesia	220	-	-	-	-	-	220
Office of the Prime Minister – 50th Constitution Celebrations	1,768	-	-	-	-	1,768	-
P B Matua	4,357	850	3,135	372	-	-	-
Pacific Maritime - Otago Patrol/ Kwai	11,074	7,703	3,290	81	-	-	-
Revi - Patrol Boat	7,347	2,604	3,482	1,261	-	-	-
Taio Shipping	13,979	13,979	-	-	-	-	-
Tiare Taporo	4,068	4,068	-	-	-	-	-
Transam	366	-	-	-	-	-	366
Tahiti Nui	6,300	1,229	4,534	537	-	-	-
Total Rarotonga	**88,285**	**40,259**	**21,405**	**2,950**	**20,880**	**1,768**	**1,023**

Aitutaki	Total	Cargo
Aitutaki Women Fishing Community	51	51
Araura Primary School	307	307
Ports Authority - Orongo Project	158	158
Vaka Te Au Tonga	90	90
Vaipae Sports Centre	1,423	1,423
Rangnui Retreat	51	51
Total	**2,080**	**2,080**
Total Social Costs	**90,365**	

Social Costs Report for the year ended 30 June 2015

Rarotonga	Total	Berthage	Wharfage	Cargo Dues	Lease rental	Forklift Charges	Others
Ministry of Marine Resources	9,600	-	-	-	9,600	-	-
CI Vaka Voyaging Society	1,074	-	1,074	-	-	-	-
Office of the Prime Minister – Renewable Energy	1,240	-	-	-	-	1,240	-
Pacific Maritime - Kwai	419	143	-	21	-	-	255
Taio Shipping	19,895	19,895	-	-	-	-	-
Cook Islands Towage	7,021	7,021	-	-	-	-	-
Oneroa CICC Church	472	-	150	-	-	322	-
Transam	3,019	3,019	-	-	-	-	-
Excil Shipping	680	-	270	-	-	410	-
Maritime Surveillance	13,470	2,190	-	-	11,280	-	-
Total	**56,890**	**32,268**	**1,494**	**21**	**20,880**	**1,972**	**255**

Aitutaki	Total	Storage	Port Ops
Ports Authority	583	-	583
Aitutaki Conservation	98	-	98
Tautu CICC	191	-	191
Rangnui Retreat	817	-	817
Aitutaki Administration	13,860	-	13,860
Aitutaki Cyclone relief	3,347	-	3,347
Total	**18,896**	**-**	**18,896**
Total Social Costs	**75,786**		