Te Aponga Uira O Tumu-Te-Varovaro

Annual Financial Report
For the Financial Year Ended: 30 June 2023

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Director's Declaration

In the opinion of the Directors of Te Aponga Uira O Tumu-Te-Varovaro ('the Authority') the financial statements and notes, on pages 8 to 22:

• comply with New Zealand generally accepted accounting practice (being New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime) and give a true and fair view of the financial position of the Authority as at 30 June 2023 and the results of its operations for the year ended on that date;

• have been prepared using the appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates.

The Directors consider that they have taken adequate steps to safeguard the assets of the Authority, and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide reasonable assurance as to the integrity and reliability of the financial statements.

The Directors are pleased to present the annual report including the financial statements of Te Aponga Uira O Tumu-Te-Varovaro for the year ended 30 June 2023.

Mata Nooroa
Director
Date: 06/12/23

Stuart Henry
Director
Date: 06/12/23

Directory

Nature of Business:	Generation and supply of electricity on Rarotonga, Cook Islands
Registered Office:	Tutakimoa, Avarua, Rarotonga, Cook Islands
Directors:	Mata Nooroa (Chairman) Stuart Henry (Vice Chairman) Jessie Sword Randolph George Don Buchanan Duane Malcolm
Shareholder:	Cook Islands Investment Corporation
Auditor:	KPMG, Rarotonga

KPMG

Independent Auditor's Report

To the shareholders of Te Aponga Uira O Tumu Te Varovaro

Report on the audit of the financial statements

Opinion

In our opinion, the financial statements of Te Aponga Uira O Tumu Te Varovaro (the 'Authority') on pages 8 to 22 present fairly, in all material respects:

i. the Authority's financial position as at 30 June 2023 and its financial performance and cash flows for the year ended on that date;

in accordance with New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime issued by the New Zealand Accounting Standards Board.

We have audited the accompanying financial statements which comprise:

— the statement of financial position as at 30 June 2023;

— the statements of comprehensive income, changes in equity and cash flows for the year then ended ; and

— notes, including a summary of significant accounting policies .

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Authority in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

Our firm has also provided other services to the Authority in relation to tax compliance services. Subject to certain restrictions, partners and employees of our firm may also deal with the Authority on normal terms within the ordinary course of trading activities of the business of the Authority. These matters have not impaired our independence as auditor of the Authority. The firm has no other relationship with, or interest in, the Authority.

Other information

The Directors, on behalf of the Authority, are responsible for the other information included in the entity's financial statements. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

Use of this independent auditor's report

This independent auditor's report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

Responsibilities of the Directors for the financial statements

The Directors, on behalf of the Authority, are responsible for:

— the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime) issued by the New Zealand Accounting Standards Board;

— implementing necessary internal control to enable the preparation of a set of financial statements that is free from material misstatement, whether due to fraud or error; and

Auditor's responsibilities for the audit of the financial statements

Our objective is:

— to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and

— to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate , they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (NZ), the auditor exercises professional judgement and maintains professional scepticism throughout the audit.

The auditor also:

— Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtains 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 entity's internal control.

— Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Concludes on the appropriateness of the use of the going concern basis of accounting by those charged with governance and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If the auditor concludes that a material uncertainty exists, the auditor is required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

— Evaluates the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The auditor communicates with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit.

KPMG

Rarotonga

7th December 2023

Statement of Financial Position

As at: 30 June 2023

In New Zealand Dollars

	Note	2022 $	2023 $
Assets			
Current Assets			
Cash and cash equivalents	9	8,653,445	8,426,198
Term deposits	9	20,201,860	18,629,274
Trade and other receivables	11	4,425,164	4,966,973
Income tax receivable	10	85,263	85,263
Inventories	12	7,111,242	7,213,181
Total Current Assets		*40,476,974*	*39,320,889*
Non-Current Assets			
Property, plant, and equipment	13	16,839,053	16,619,855
Intangible assets	14	1,317,376	1,091,445
Right-of-Use Asset	15	951,036	894,871
Capital work-in-progress		2,302,863	2,308,059
Deferred tax	10	360,184	517,821
Total Non-Current Assets		*21,770,512*	*21,432,051*
Total Assets		***62,247,486***	***60,752,940***
Liabilities			
Current Liabilities			
Lease Liabilities	15	34,676	37,045
Trade and other payables	16	2,913,345	2,265,984
Total Current Liabilities		*2,948,021*	*2,303,029*
Non-Current Liabilities			
Lease Liabilities	15	958,221	921,177
Total Current Liabilities		*958,221*	*921,177*
Total Liabilities		***3,906,242***	***3,224,206***
Total Net Assets		***58,341,244***	***57,528,734***
Equity			
Capital	19	13,167,708	13,167,708
Retained Earnings		45,173,536	44,361,026
Total Equity		***58,341,244***	***57,528,734***

This statement is to be read in conjunction with the notes to the financial statements included elsewhere in this report.

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Statement of Comprehensive Income

For the year ended 30 June 2023

In New Zealand Dollars

	Note	2022 $	2023 $
Revenue	6	19,855,985	24,592,631
Discounts	6	(1,045,001)	(887,517)
Net Revenue		*18,810,984*	*23,705,114*
Other Income	6	135,179	122,373
Operating Expenses	7	(17,907,786)	(25,331,445)
Operating profit before financing income		***1,038,377***	***(1,503,958)***
Finance income	8	435,458	640,304
Finance expenses	8	(69,285)	(106,493)
Net financing income		*366,173*	*533,811*
Profit/(Loss) before income tax		***1,404,550***	***(970,147)***
Income tax (expense)/benefit	10	(232,301)	157,637
Profit/(Loss) for the year		***1,172,249***	***(812,510)***
Other comprehensive income for the year (net of tax)		-	-
Total comprehensive income/(loss) for the year		***1,172,249***	***(812,510)***

This statement is to be read in conjunction with the notes to the financial statements included elsewhere in this report.

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Statement of Changes in Equity

For the period ended: 30 June 2023

In New Zealand Dollars

	Note	Capital	Retained Earnings	Total Equity
		$	$	$
Balance as at 1 July 2021		***13,167,708***	***44,001,287***	***57,168,995***
Profit / (loss) for the year		-	1,172,249	1,172,249
Other comprehensive income		-	-	-
Total comprehensive income for the year		***-***	***1,172,249***	***1,172,249***
Distribution to owners		-	-	-
Tax on dividends paid during the year		-	-	-
Contributions from the Government		-	-	-
Total transactions with owners		***-***	***-***	***-***
Balance as at 30 June 2022		***13,167,708***	***45,173,536***	***58,341,244***
Profit / (loss) for the year		-	(812,510)	(812,510)
Other comprehensive income		-	-	-
Total comprehensive income for the year		***-***	***(812,510)***	***(812,510)***
Distribution to owners		-	-	-
Tax on dividends paid during the year		-	-	-
Contributions from the Government	**19**	-	-	-
Total transactions with owners		***-***	***-***	***-***
Balance as at 30 June 2023		***13,167,708***	***44,361,026***	***57,528,734***

This statement is to be read in conjunction with the notes to the financial statements included elsewhere in this report.

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Statement of Cash Flows

For the year ended 30 June 2023
In New Zealand Dollars

	Note	*2022* *$*	*2023* *$*
Cash flows from operating activities			
Cash received from customers		17,384,941	22,931,026
Cash bonds received from customers		57,550	71,060
Cash paid to suppliers		(14,023,053)	(21,138,839)
Cash paid to employees		(2,513,486)	(2,576,195)
Income tax paid		-	-
Interest received		300,539	414,526
Interest paid		-	-
Lease Liability Payments		(26,359)	(34,675)
Net cash flow from operating activities		***1,180,129***	***(333,096)***
Cash flows from investing activities			
Acquisition of term deposits		(734,250)	1,639,634
Net (Acquisition)/Disposal of property, plant and equipment and intangibles		(956,979)	(1,708,796)
Net cash flow from investing activities		***(1,691,229)***	***(69,162)***
Cash flows from financing activities			
Contributions from / (Distributions to) Government		-	-
Net cashflow from financing activities		-	-
Net increase / (decrease) in cash and cash equivalents		***(511,100)***	***(402,258)***
Add Opening cash and cash equivalents on 1st July		8,943,025	8,653,445
Net foreign exchange difference		98,361	138,675
Less (increase)/decrease in allowance for doubtful debts		123,159	36,336
Closing cash and cash equivalents		***8,653,445***	***8,426,198***
Total cash and cash equivalents	*9*	***8,653,445***	***8,426,198***

This statement is to be read in conjunction with the notes to the financial statements included elsewhere in this report.

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Notes to the Financial Statements

1 Reporting Entity

Te Aponga Uira O Tumu-Te-Varovaro (the 'Authority') is constituted under the Te Aponga Uira O Tumu-Te-Varovaro Act 1991.

The financial statements of the Authority as at and for the year ended 30 June 2023 were authorised for issue by the Directors on the date specified on page 3.

2 Basis of Preparation

The financial statements have been prepared on a going concern basis.
The Directors have performed an assessment of the Authority's ability to continue as a going concern from twelve months from the date of this declaration. In this assessment, the Directors considered management's budget forecasts, the Letter of Support from Government (ultimate parent) and the sufficient level of cash-reserves on-hand are able meet the level of expenditure required to continue operations into the foreseeable future, being at minimum twelve months from balance date.

a) *Statement of compliance*

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with the New Zealand Equivalents to International Financial Reporting Standards - Reduced Disclosure Regime ('NZ IFRS RDR') as a Tier 2 for-profit entity in accordance with XRB A1 Accounting Standards Framework (For-Profit Entities Update), and other applicable Financial Reporting Standards as appropriate to profit-oriented entities. The Authority qualifies to report under Tier 2 as it has no public accountability and it is also not a large public sector for profit entity.

b) *Basis of measurement*

The financial statements have been prepared using the historical cost basis.

c) *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, except when otherwise indicated.

d) *Use of estimates and judgements*

The preparation of the financial statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 10 Income tax, on the probability of the existence of future taxable profits for the recognition of deferred tax asset;
- Note 11 - Electricity unbilled relates to the electricity supplied to consumers from the last invoiced date to balance date. No charge has been made to the customer debtor account for this.
- Note 13 - Property, plant and equipment where the Authority has considered impairment under NZ IAS 36 Impairment by applying the Discounted Cash Flow (DCF) approach.
- Note 20 - Financial Instruments being the calculation of impairment using the Expected Credit Loss (ECL) model under NZ IFRS 9 Financial Instruments.

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Notes to the Financial Statements (continued)

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 the Authority.

a) *Financial instruments*

(i) Financial Assets

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

(ii) Finanicial liabilities

The Authority classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Refer to Note 20 Financial Instruments for explanation of how the Authority classifies and measures financial instruments.

b) *Determination of fair values*

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

A number of the Authority's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

4 Leases

The Authority applies NZ IFRS 16 Leases "IFRS 16" using the modified retrospective approach. Further details are disclosed within Note 15.

Definition of a lease
The Authority now assesses whether a contract is or contains a lease based on if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Authority assesses whether:
- The contract involves the use of an identified asset;
- The Authority has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- The Authority has the right to direct use of the asset.

As a lessee
Previously the Authority classified any property lease as an operating lease under IAS17 based on its assessment that the lease did not transfer significantly all of the risk and rewards incidental to ownership of the underlying asset to the Authority. Under IFRS16, the Authority recognises a right-of-use asset and lease liability for these leases – i.e. these leases are on-balance sheet.

5 COVID-19 pandemic

On 11 March 2020, the World Health Organisation declared a global pandemic as a result of the spread of Covid-19. Following this, the Cook Islands Government imposed significant restrictions on travel to the Cook Islands which resulted in a complete cessation of international arrivals into the Cook Islands, and in particular, tourists.

The Authority provided community relief in the form of temporary discounts on monthly invoices to all customers. All Government entities (including state-owned enterprises) were not eligible to receive the second round of discounts. The details of the discounts in the reporting period are as below:

8 June to 15 July 2021, Domestic customers received a credit of up to $30 per month, and Commercial and Demand customers received 30% with the same conditions above.

For the 2 months, December 2021 and January 2022, the Authority once again provided discounts to customers who declared financial hardship. These were as follows: domestic customers received a $50 discount and commercial and demand received 50%.

Since January 2022, the Cook Islands borders have opened for tourist and remained open. In this time, the Authority has seen the increase of revenues towards pre-covid levels as economic activity has begun to rebound in the country. Going forward, the Authority still remains cautious due to the large financial impact incurred during the 2019-20 to 2021-22 finacial years.

With regards to the financial statements contained within this set of statutory accounts, the long-term effects of Covid-19 has a continuing impact in certain areas in regards to judgements/estimates made in areas such as doubtful debt provisions, considerations of any impairment triggers relevant to PP&E and intangible assets, and going concern as the authority transitions to the post-covid economic period. To date the impact on these areas has been limited.

Where relevant, further disclosures have been made within these accounts to provide more information around areas impacted by the Covid-19 pandemic.

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Notes to the Financial Statements (continued)

	2022 $	2023 $
6 Revenue		
Electricity	19,646,440	21,386,666
Fuel surcharge (Temporary)	-	3,056,226
Consumer services	209,545	149,739
Social responsibility cost recoveries	-	-
Total revenue	***19,855,985***	***24,592,631***
Other income		
Other revenue	135,179	122,373
Total other income	***135,179***	***122,373***
Discounts		
Trade discounts	673,838	887,388
Other discounts	79,365	222
Discounts provided to customers for Covid-19 relief	291,797	(93)
Total discounts	*1,045,001*	*887,517*

Accounting Policy:

Goods Sold

Revenue comprises the amounts received and receivable for goods and services supplied to customers in the ordinary course of business. Revenue is stated exclusive of Value Added Tax. Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists that the significant risks and rewards of ownership have been transferred to the customer, and the revenue and associated costs can be estimated and measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised. A 5% discount on current power bills came into effect on 1 December 2012 and is given to customers who pay their current bill in full before the due date and whom also have no outstanding balances.

Refer to Note 5 for details of the Covid-19 relief discounts.

Temporary Fuel Surcharge

From October 2022, the Authority levied a temporary fuel surcharge on all customers via the monthly invoice. This was to partially offset the significantly increased fuel costs incurred due to impacts on freight and fuel prices from the Ukraine-Russian war. These increased costs were substantial.

From October 2022 to April 2023 the surcharge was $0.15 per unit invoiced to customers. From May 2023 to June 2023, this rate reduced to $0.10 per unit as fuel prices slowly began to reduce.

Services

Revenue from services rendered is recognised in profit or loss as the service is provided or if applicable in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

Social Responsibility Cost Recoveries

In some instances, the Authority carries out non-economic work and services (at the approval of the Government) which provide a social service to the community. These would include the construction, operation and maintenance of street lights and other amenity lighting, and also the installation of line extensions which provide no economic benefit to the business. In these instances, the costs are recovered from the Government of the Cook Islands. The Authority has not received any cost recoveries from the Government during the 2022-23 financial year (2021-22: nil).

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Notes to the Financial Statements (continued)

	2022 $	2023 $
7 Operating expenses		
Amortisation of intangible assets	226,248	225,931
Communications	51,704	55,815
Depreciation of property, plant and equipment	2,001,918	1,826,908
Depreciation of right-of-use assets	40,877	56,165
Directors expenses	24,229	14,067
Directors fees	94,869	96,100
Bad debts written off	-	(0)
Increase/ (Decrease) in doubtful debts provision	(337,815)	413,932
Electricity purchases	846,498	815,032
Fees paid to auditor - audit services	63,314	63,314
Non audit services	4,800	-
Fuel costs	8,228,182	14,507,187
(Gain) / loss on disposal of assets	-	95,890
Insurance	894,474	932,318
Motor Vehicle expenses	63,407	81,048
Operating lease expense	5,410	7,187
Printing & Stationery	17,104	13,169
Professional fees	322,933	359,226
Repairs & maintenance	2,210,961	2,735,082
Salaries and wages	2,525,773	2,484,684
Superannuation expense	163,987	151,989
Other Operating Expenses	458,913	396,401
Total operating expenses	***17,907,786***	***25,331,445***

Employee benefits

(i) Short term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under outstanding annual leave balances if the Authority has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be estimated reliably.

(ii) Defined contribution plans

The Authority contributes to the Cook Islands National Superannuation Fund. This fund is a State defined contribution fund.

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

	2022	2023
8 Net financing income		
Interest income	239,630	511,037
Net foreign exchange gain	195,828	129,267
Finance income	*435,458*	*640,304*
Finance costs	(69,285)	(106,493)
Net foreign exchange loss	-	-
Finance expense	*(69,285)*	*(106,493)*
Net finance income	***366,173***	***533,811***

Accounting policy:

Finance income comprises interest income on funds invested, and foreign exchange gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, and foreign exchange losses. Included in the current year finance costs is the interest on lease liabilities. Refer Note 15 for detail.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether the foreign currency movements are in a net gain or net loss position.

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency of the Authority at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary items in a foreign currency that are measured based on historical costs are translated using the exchange rate at the date of the transaction.

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Notes to the Financial Statements (continued)

	2022 $	2023 $
9 Cash and cash equivalents		
Cash at bank (NZD)	7,654,142	7,683,597
Cash at bank USD (NZD equivalent)	676,727	404,921
Cash at bank AUD (NZD equivalent)	364,373	343,142
Cash float	110	110
Petty cash	600	600
Total cash and cash equivalents	***8,695,953***	***8,432,370***
Less Allowance for Doubtful Debt	(42,508)	(6,172)
Net cash and cash equivalents	***8,653,445***	***8,426,198***
Term deposits		
Due within one year:		
Australia New Zealand Bank	9,500,000	7,605,000
Bank of Cook Islands	-	-
Bank of South Pacific	10,858,879	11,114,245
Total term deposits due within one year	***20,358,879***	***18,719,245***
Less Allowance for Doubtful Debt	(157,019)	(89,971)
Net Term deposits	***20,201,860***	***18,629,274***

ANZ deposits are invested at terms of 12 months and earn interest at rates at 2.8% (2022: 1.4% and 2.5%).

There are no BCI term deposits held at 30 June 2023 (2022: nil).

BSP deposits are invested at terms of 6 and 12 months and earn interest at rates between 2.01% and 5.00% (2022: 1.45% and 3.25%).

	2022 $	2023 $
10 Income tax		
Current tax expense		
Current period	-	-
Adjustment for prior periods	-	-
Total current tax expense	-	-
Deferred tax expense		
Origination and reversal of temporary differences	(65,996)	(48,561)
Origination and reversal of temporary differences relating to provisions	17,439	82,786
Recognition/(utilisation) of tax losses	(183,742)	123,412
Total deferred tax (expense) / credit	*(232,301)*	*157,637*
Total income tax (expense) / credit	***(232,301)***	***157,637***
Reconciliation of effective tax rate:		
Profit / (loss) before tax	1,404,550	(970,147)
Income tax using the Authority's tax rate of 20%	(280,910)	194,029
Impairment in prior periods now written off	-	-
Non-deductable expenditure	(36,393)	(36,393)
Changes in estimates related to prior periods	85,002	-
Total reconciled income tax	***(232,301)***	***157,637***
Recognised deferred tax assets / (liabilities)		
The Authority has deferred tax attributed to the following:		
- Unused tax losses	415,024	538,434
- Provisions and other liabilities	372,502	455,289
- Property, plant, and equipment	(427,341)	(475,902)
Total deferred tax	***360,184***	***517,821***

The current tax receivable of $85,263 (2022: $85,263) represents the amount of income taxes over paid in respect of current and prior periods.

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Notes to the Financial Statements (continued)

Accounting policy:

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax also includes any tax benefits arising from the declaration of dividends.

Deferred tax is recognised in respect of 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 recognised when it arises from:
- The initial recognition of goodwill;
- The initial recognition of an asset/ liability in a transaction that is not a business combination which at the time of the transaction affects neither the accounting profit nor the taxable profit;
- Contain temporary differences arising from investment in subsidiaries, associates and/or joint ventures.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. 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 realised.

Judgements

In determining the amount of current and deferred tax the Authority takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Authority believes that it is probable that future taxable profits will be available against which the unused tax losses can be utilised. In addition, the Authority believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events.

11 Trade and other receivables

	2022 *$*	*2023* *$*
Trade receivables	3,427,996	4,578,474
Electricity unbilled	682,352	726,635
Accrued Interest	97,128	193,640
Prepayments	742,853	809,007
VAT Receivable	598,715	178,351
Sundry receivables	539,104	661,166
Total trade and other receivables	*6,088,149*	*7,147,273*
Less: Allowance for doubtful debts	(1,662,985)	(2,180,300)
Net trade and other receivables	***4,425,164***	***4,966,973***
Allowance for doubtful debts		
Opening balance	(1,609,689)	(1,662,985)
(Increase)/Decrease in additional bad debts provided for	(53,296)	(517,315)
Closing balance of doubtful debts	*(1,662,985)*	*(2,180,300)*

Accounting policy:

Trade and other receivables are recognised initially at fair value, subsequently measured at amortised cost and adjusted for any impairment losses which may impact.

Electricity unbilled relates to the electricity supplied to consumers from the last invoiced date to balance date, 30 June 2023. No charge has been made to the customer debtor account for this.

Trade and other receivables held by the Authority are short-term assets and therefore the carrying amounts materially equate to fair value.

An impairment loss in respect of a trade and other receivables is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in allowance for doubtful debt account against trade and other receivables. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

In assessing impairment the Authority uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. The Authority has temporarily suspended the updating of these historical default rates due to the heavy impact on these trends from large reductions in revenue, and the provision of widespread customer discounts to provide relief during the Covid-19 pandemic. Both of these would have a dramatic impact on the default rates calculated. This data will be updated for the 2023-24 accounts and beyond. Refer to Note 20.

At balance date a provision was calculated in line with IFRS 9 but an additional management overlay of $424,133 was added (2022: $297,313) to reflect the economic environment following the impacts of the Covid pandemic. Refer to Note 20.

Value-added tax

All amounts are shown exclusive of Value Added Tax (VAT). Exceptions to this are receivables and payables which are stated inclusive of VAT.

Notes to the Financial Statements (continued)

	2022 $	2023 $
12 Inventories		
Trading stock	4,590,412	4,277,955
Diesel	2,323,294	2,672,023
Lubricating oil	234,132	263,203
Total inventories	*7,147,838*	*7,213,181*
Less: Obsolete inventory	(36,597)	-
Total net inventory	***7,111,242***	***7,213,181***

Accounting policy:

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is determined on a weighted average basis, with the exception of fuel stock, which is determined using the first-in first-out principle. The cost of inventories includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

The fair value of inventories is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

13 Property, plant, and equipment

Cost:	*Buildings* $	*Plant & equipment* $	*Office equipment* $	*Distribution network* $	*Generation spares* $	*Motor vehicles* $	*Total* $
Balance as at 1 July 2021	4,111,540	20,194,298	731,754	21,899,722	688,944	641,692	48,267,950
Additions	43,008	53,354	83,243	92,130	-	44,656	316,391
Disposals	-	-	(2,283)	-	-	(73,911)	(76,194)
Other adjustments	-	-	-	-	3,696	-	3,696
Balance as at 30 June 2022	*4,154,548*	*20,247,652*	*812,714*	*21,991,852*	*692,640*	*612,437*	*48,511,843*
Depreciation and impairment losses:							
Balance as at 1 July 2021	(1,505,676)	(12,147,730)	(622,618)	(14,922,621)	(30,702)	(517,720)	(29,747,067)
Depreciation for the year	(155,433)	(1,052,076)	(52,560)	(675,139)	-	(66,709)	(2,001,917)
Disposals	-	-	2,283	-	-	73,911	76,194
Other adjustments	-	-	-	-	-	-	-
Balance as at 30 June 2022	*(1,661,109)*	*(13,199,806)*	*(672,895)*	*(15,597,760)*	*(30,702)*	*(510,518)*	*(31,672,790)*
Net book value 30 June 2022	***2,493,439***	***7,047,846***	***139,819***	***6,394,092***	***661,938***	***101,919***	***16,839,053***

Cost:	*Buildings* $	*Plant & equipment* $	*Office equipment* $	*Distribution network* $	*Generation spares* $	*Motor vehicles* $	*Total* $
Balance as at 1 July 2022	4,154,548	20,247,652	812,714	21,991,852	692,640	612,437	48,511,843
Additions	56,567	468,029	51,908	886,647	24,195	170,527	1,657,873
Disposals	-	(205,478)	(84,322)	-	-	(24,090)	(313,890)
Other adjustments	-	-	-	-	-	-	-
Balance as at 30 June 2023	*4,211,115*	*20,510,203*	*780,300*	*22,878,499*	*716,836*	*758,874*	*49,855,826*
Depreciation and impairment losses:							
Balance as at 1 July 2022	(1,661,109)	(13,199,806)	(672,895)	(15,597,760)	(30,702)	(510,518)	(31,672,790)
Depreciation for the year	(158,440)	(942,116)	(47,221)	(683,881)	-	(74,425)	(1,906,083)
Disposals	-	124,612	84,322	-	-	24,090	233,024
Other adjustments	-	79,176	-	-	30,702	-	109,878
Balance as at 30 June 2023	*(1,819,549)*	*(13,938,134)*	*(635,794)*	*(16,281,642)*	-	*(560,853)*	*(33,235,971)*
Net book value 30 June 2023	***2,391,566***	***6,572,069***	***144,506***	***6,596,857***	***716,836***	***198,021***	***16,619,855***

Accounting policy:

Recognition and measurement

Items of plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset and includes the following:

- the cost of materials and direct labour;
- any other costs directly attributable to bringing the assets to a working condition for their intended use;
- capitalised borrowing costs

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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Notes to the Financial Statements (continued)

13 Property, plant, and equipment cont...

Subsequent events

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Authority. Ongoing repairs and maintenance is expensed as incurred.

Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Authority will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

• Buildings	10-50 years
• Plant and equipment	2-20 years
• Office equipment	2-10 years
• Distribution network	3-20 years
• Motor vehicles	3-10 years

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

The carrying amounts of the Authority's property, plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 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 or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

Impairment losses are recognised in profit or loss.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Post-Covid-19 impacts on plant, property, and equipment and intangibles

A significant assessment was carried out by the Authority in order to asses whether an impairment against the plant, property, and equipment (PPE) was required as a result of the economic impacts of high inflation and high fuel costs in the post-Covid-19 economic environment in accordance with NZ IAS 36 Impairment of Assets. This assessment included judgement over whether the level of assets held is in excess of what is required.

The Authority has forecasted a slight increase in consumption of electricity for the financial year 2023-24 and has forecasted steady increases in positive cash flows over the following 4 years.The forecasts are based on the information available to the Authority at the time of preparing these financial statements and are based on financial results incurred during period to date, which includes the recent recovery period, and high inflationary period. Material changes in any of these factors might have a material impact on the Authority's estimates of income and cashflows used in these forecasts.

In determining whether an impairment was required, these forecasts were assessed and cash flows were discounted to a present value at an appropriate, market derived discount rate to determine fair value under the Discounted Cash Flow (DCF) approach.

It was determined through this process an impairment was not required at this time.

Notes to the Financial Statements (continued)

	2022 $	2023 $
14 Intangible assets		
Cost and valuation		
Balance as at 1 July 2021		2,653,057
Additions		20,976
Disposals		-
Balance as at 30 June 2022		*2,674,033*
Amortisation and impairment losses		
Balance as at 1 July 2021		(1,130,408)
Amortisation for the year		(226,249)
Disposals		-
Impairment losses		-
Balance as at 30 June 2022		*(1,356,657)*
Net book value 30 June 2022		***1,317,376***
		Software $
Cost and valuation		
Balance as at 1 July 2022		2,674,033
Additions		-
Disposals		(373,854)
Balance as at 30 June 2023		*2,300,179*
Amortisation and impairment losses		
Balance as at 1 July 2022		(1,356,657)
Amortisation for the year		(225,931)
Disposals		373,854
Impairment losses		-
Balance as at 30 June 2023		*(1,208,734)*
Net book value 30 June 2023		***1,091,445***

Accounting policy

Intangible assets that are acquired by the Authority and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

Refer to Note 13 Property, plant and equipment for the Covid-19 impact on intangible assets.

Amortisation

Intangible assets are amortised on a straight-line basis in profit or loss over estimated useful lives, from the date that they are available for

The estimated useful lives for the current and comparative periods are as follows:

- Software (General) 33%
- Software (IT Platform) 10%

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

The fair value of intangible assets is based on discounted cash flows expected to be derived from the use and eventual sale of the assets.

15 Leases

Right of Use Asset
Under IFRS 16, a right-of-use (ROU) asset is created on all significant leases held by the Authority. The Authority holds three significant leases recognised as a ROU asset.

	2022 $	2023 $
Amount recognised in the Statement of Financial Position		
Right-of-Use Asset		
Cost and valuation		
Balance as at 1st July	482,174	951,036
Adjustments due to changes in lease terms	-	-
Additional right-of-use assets	509,739	-
Depreciation charge for the year	(40,877)	(56,165)
Balance as at 30 June	*951,036*	*894,871*
Lease Liabilities		
Current	34,676	37,045
Non-Current	958,221	921,177
Closing balance	*992,897*	*958,222*
Amount recognised in the Statement of Comprehensive Income		
Interest on Lease Liabilities	43,695	66,722

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Notes to the Financial Statements (continued)

	2022 $	2023 $

Accounting policy

The Authority has applied the modified retrospective approach on transition. Under this approach, a right-of-use asset and a lease liability is recognised at the lease commencement date. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to end of the lease term. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Authority's incremental borrowing rate. The incremental borrowing rate is the interest rate equal to what is available for commercial terms from relevant financial institutions for a similar asset. The interest on lease liabilities has been included within Finance Costs (Note 8).

The Authority occupies leased lands for their substations. These leases are of low-value and the Authority has elected not to recognise right-of-use assets and lease liabilities for these leases. Refer Note 17.

16 Trade and other payables

	2022 $	2023 $
Trade payables	585,423	212,842
Customer reciepts in advance	447,351	478,072
Customer bonds	1,122,217	1,193,276
Employee entitlements	247,706	156,194
Other payables & accruals	510,649	225,600
VAT payable	-	-
Related party payables	-	-
Total trade and other payables	***2,913,345***	***2,265,984***

Accounting policy

Trade and other payables are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities including trade and other payables held by the Authority are short-term liabilities and therefore the carrying amounts materially equate to fair value.

17 Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2022 $	2023 $
Less than one year	6,174	6,174
Between one and five years	24,696	24,696
More than five years	161,474	155,302
Operating leases	***192,344***	***186,172***

Accounting policy
The Authority has elected not to recognise right-of-use assets and leases liabilities for leases of low-value assets, including the substation land leases. The Authority recognises the lease payments associated with these leases as an expense on a straight line basis over the lease term within the Statement of Comprehensive Income.
Operating lease commitments relating to land total $186,172 (2022: $192,344).

18 Related parties

The parent of the Authority is Cook Islands Investment Corporation with the ultimate parent being the Cook Islands Government.

Related parties include Government ministries, agencies, state owned enterprises by way of common owner, and some small contracts of service offered to staff (eg. grounds maintenance, cleaning etc).

Electricity goods and services supplied to related parties are transacted on normal trading terms.

The related party balances are interest free, unsecured, and are repayable on demand.

Dividends

During the current year the Authority did not declare any dividends (2022: nil) and as at balance date there was no amount payable to CIIC, the sole equity holder of the Authority.

Interest income

The Authority holds an operating account totalling $207,627 and a provision of $123 with BCI as at 30 June 2023 (2022: $782,149). The account earns interest at market rates. The sole equity holder of BCI is CIIC (through intermediary subsidiaries), which is also the sole equity holder of the Authority. Interest earned and receivable from BCI are detailed below:

	2022 $	2023 $
Interest earned from BCI	81,414	1,213
Interest receivable from BCI	0	0

The Authority supplies its directors, CIIC and all Rarotonga based government entities with power at normal commercial rates.

Total key management personnel compensation for the year totalled $769,300 (2022: $662,389). Key management personnel consist of board members and senior management.

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Notes to the Financial Statements (continued)

	2022	*2023*
	$	*$*
19 Equity		
Capital Contributions		
Balance ast at 1st July	13,167,708	13,167,708
Capital contributions during the financial year	-	-
Balance as at 30th June	*13,167,708*	*13,167,708*

As at 30 June 2023, capital contributions comprised the original capital contribution by the Government of the Cook Islands and is made up of net assets taken over by the Authority on 1st December, 1991 ($8,200,441) and further contributions in subsequent

There were no Capital contributions during the financial year.

20 Financial Instruments

Financial Assets

Financial assets comprise Cash and cash equivalents, term deposits, trade and other.These are all classified as amortised cost as they are :
- held within a business model whose objective is to hold assets in order to collect contractual cashflows; and
- the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest (if applicable).

These assets are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost.

Financial liabilities

Financial liabilities comprises trade and other payables. These are measured at amortised cost.
A financial liability is derecognised when the Authority has discharged it's obligation or the contract is cancelled or expired.

Impairment

The Authority considers impairment using the expected credit loss (ECL) model for the following financial assets that are not measured at FVTPL:
- Cash and cash equivalents
- Term Deposits
- Trade and other receivables

Measurement of Expected Credit Loss

Expected credit loss (ECL) is calculated based on a function of the probability of default, loss given default and exposure at default.
The Authority appplies ECL model separately for each financial asset category measured at amortised cost. ECL is calculated based on the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cashflows that the Authority expects to receive).

ECL for Cash and cash equivalents and Term deposits is calculated based on industry standard Probability of default and loss given default based on the credit rating of each financial instituion where funds are held. Funds are held with ANZ Cook Islands, BSP Cook Islands, and BCI Cook Islands. The Standards and Poors' credit rating is AA- for ANZ, and B+ for BSP.

As trade and other receivables are normally paid within 30 days and do not have a significant financing component the Authority has applied the simplified approach in NZ IFRS 9 and therefore only recognising lifetime ECL. The Authority has developed a provision matrix to determine ECL. As the Authority operates in only one geographic segment the matrix is based on customer type (Demand, Commercial or Domestic) and debt age (no. days) taking into account historical loss experience for each segment adjusted for forward looking estimates.

The Authority has temporarily suspended the updating of these historical default rates due to the heavy impact on these trends from large reductions in revenue, and the provision of widespread customer discounts to provide relief during the Covid-19 pandemic. Both of these would have a dramatic impact on the default rates calculated. This data will be updated for the 2023-24 accounts and beyond

21 Capital committments

There are no capital committments at balance date (2022 Nil).

22 Contingencies

There are no contigent liabilities at balance date (2022 Nil).

23 Subsequent events

Nil

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