



Ministry of Foreign Affairs and Trade

REPORT OF THE ADMINISTRATOR OF TOKELAU

FOR THE PERIOD ENDED
30 JUNE 2010

*Presented to the House of Representatives
Pursuant to Section 9 of the Tokelau Act 1948*

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Hon Murray McCully
Minister of Foreign Affairs
WELLINGTON

Sir,

I have the honour to submit this report on the administration of Tokelau for the four year period 1 July 2006 to 30 June 2010.

Following the results of two referenda in 2006 and 2007, the focus of the relationship has been on addressing the challenges of providing quality services to the people of Tokelau. Throughout the last four years, New Zealand has provided assistance through budget support and technical assistance as well as through specific projects.

Results have been mixed. Significant gains have been made in education and communication technology. However other areas, such as the increasing incidence of non-communicable diseases, are worrying. The difficulty of meeting the needs of a small, remote territory has continued to be challenging. New Zealand and Tokelau are currently negotiating the Joint Commitment for Development to agree key priorities across the next four year horizon.

Increasing the quality of life on the atolls remains the key focus for Tokelau. The strengthening of core services including in education and health requires ongoing effort. Reliable transport services are essential for Tokelau's economic development. Climate change has the potential to impact upon Tokelau's way of life and may become a major challenge in the future.

This report is compiled for the information of the House of Representatives. It will also be transmitted to the United Nations in accordance with Article 73e of the United Nations Charter. The Office for the Council for Ongoing Government of Tokelau has been consulted on the Report.

As before, the report has been compiled in collaboration with Audit New Zealand whose reports for the 2004/2005 to 2009/2010 period are included.

Yours sincerely

Jonathan Kings

Administrator of Tokelau

PART ONE: BACKGROUND

Tokelau comprises three small atolls separated from each other by 60 to 100kms of ocean. Its nearest neighbour is Samoa, located approximately 500kms to the south. Each atoll is a circular set of low lying islets around a central lagoon. The total land area is 12 sq. w of sand and coral; no strip of land is wider than 200 meters or more than five meters above sea level. There is virtually no soil and edible vegetation is mainly restricted to coconut and breadfruit trees.

The population is 1466 as recorded in the 2006 census. The vast majority of people on the atolls are Tokelauans, although small numbers of Samoan and Tuvaluan migrants with whom Tokelauans share strong linguistic and cultural links, have also settled in Tokelau's villages. Christianity is important in everyday life, with Congregational Christianity and Roman Catholicism the dominant denominations.

The Tokelau Act 1948 established Tokelau as a non-self-governing territory of New Zealand and Tokelauans are proud New Zealand citizens. Although Tokelau is part of New Zealand, it has a distinctive culture, and its own separate political, legal, social and economic system.

Tokelau has adopted the Tokelau National Strategic Plan 2010 -2015 (TNSP) to guide decision making over the next five years. The TNSP sets out strategic development goals in the areas of good governance, infrastructure development, human development and sustainability. New Zealand is working with Tokelau on how to best support implementation of the TNSP and the aspirations of the people of Tokelau.

This report outlines the milestones in the relationship between New Zealand and Tokelau over the last 4 years. The Tokelau National Strategic Plan (TNSP) and a review of the Economic Support Arrangement have been used to inform this report. The priority for New Zealand and Tokelau as established by these documents has been and continues to be providing the environment for sustainable economic development.

PART TWO: HISTORY OF ADMINISTRATION

Tokelau was made a British protectorate in 1877 and was formally annexed by Britain in 1889. Responsibility for Tokelau was passed to New Zealand in 1926 at which time Tokelau was effectively administered as an extension of Western Samoa. The Tokelau Act 1948 and its amendments establish the arrangements under which Tokelau is administered today.

The Tokelau system of governance, known as the Modern House of Tokelau, was developed in the 1990s. Under the Modern House, Tokelau's governance emanates from village councils, the traditional source of authority, and is supplemented by national bodies (the General Fono and the Council of Ongoing Government) dealing with issues that need to be handled at the national level. An important feature of this arrangement is that each village council assumes full responsibility for running all public services on its atoll. General Fono delegates are elected on the basis of proportional village representation through universal village suffrage. The statutory powers of the New Zealand-based Administrator of Tokelau were delegated to the Taupulega (village councils) in 2004. In turn, the Taupulega sub-delegated to the General Fono responsibility for specified matters (such as external relations, shipping services and fisheries policy) to be decided at a national level.

Tokelau holds elections every three years for the positions of Faipule (village leader, external affairs) and Pulemua (Mayor). The post of Ulu (titular head of Government) rotates yearly among the three Faipule. The General Fono (legislative assembly) meets three times per year in the village of the incumbent Ulu. Delegates to the General Fono are selected according to village rules which differ from atoll to atoll. While women can be elected to the General Fono, few are. In the 2008 election the three women elected to the General Fono were each chosen as representatives of their respective Fatupaepae (women's committee) rather than as general delegates.

In 2003, the *Joint Statement of the Principles of Partnership between New Zealand and Tokelau*, which set out for the first time the essential elements in the relationship, was signed by both partners. The statement addressed the management of the relationship, Tokelau's language and culture, New Zealand citizenship, Tokelau's right to self-determination, economic and technical assistance obligations and links with the Tokelauan communities in New Zealand.

Tokelau hosted a UN-observed self-determination referendum in February 2006 and a second in October 2007. In both instances the outcome of the vote determined that Tokelau would remain a territory of New Zealand rather than moving to self-government in free association with New Zealand. On the basis of discussions in February 2008 between members of Tokelau's Council and the New Zealand Government, there was agreement that deliberations on constitutional change would be set aside "for an appreciable period" while priority effort was given to improvement of economic and social services on the atolls. This situation continues.

In the period this report covers, the General Fono has met 12 times.

PART THREE: NEW ZEALAND ASSISTANCE TO TOKELAU

Around 85% of Tokelau's annual budget is funded through the New Zealand Aid Programme administered by the Special Relations Unit in the Ministry of Foreign Affairs and Trade. The remainder comes from fisheries revenues, stamps and coins, and local taxes, duties and levies.

Over the period covered by this report, New Zealand funding was designed to give Tokelau predictability for its planning and budget setting purposes. Most of the funding was in the form of budget support used to fund Tokelau's recurrent national and village budgets. The remainder was used for targeted support for asset maintenance, infrastructure and shipping projects and administrative assistance and technical advice. In 2009/10 New Zealand's funding to Tokelau was approximately \$15 million, \$11.8 million of which was budget support.

New Zealand also made substantial contributions to the Tokelau International Trust Fund over the period. The Trust Fund will provide annual disbursements to the Government of Tokelau from 2014/15 onwards. It was set up in 2004 with an initial deposit of \$5 million. The total contribution from New Zealand since 2004 has been \$36,730,000. The Fund has performed well in the six years to 30 June 2010. It now totals \$61 million. The Fund's resources were not affected during the financial crisis as they were (and still are) entirely invested in term deposits at New Zealand banks.¹

¹ The Board of Trustees is currently discussing investment diversification.

In 2010 a review was commissioned of the Economic Support Arrangement, the vehicle for support to Tokelau over the period 2007 to 2010. The review found that overall the assistance was relevant, effective, efficient and sustainable, but there remains room for improvement. The following overarching points were made:

- a New Zealand needs a consistent understanding of its relationship with Tokelau.
- b The constitutional relationships between Tokelau's governing bodies require greater clarity.
- c Tokelau needs to be less dependent upon development assistance.
- d Allocation of limited resources should be based upon established priorities and medium term planning.
- e Communication between New Zealand and Tokelau needs to be strengthened.

The review findings will inform future funding arrangements between New Zealand and Tokelau.

PART FOUR: SUSTAINABLE ECONOMIC DEVELOPMENT

While in a formal sense Tokelau has a limited economy, everyday economic interactions are diverse and vibrant. Distribution of village resources, including food and labour are, for the most part, communal. Village workers (Aumaga, literally 'able bodied men') receive small salaries from the village council. To some extent a traditional split exists between women's and men's work and income is generally distributed to the male head of the household who is a member of the Aumaga. Women, particularly those who have studied offshore, are well represented in professional positions within the public service.

Tokelau's ability to achieve financial independence is limited by its population size, isolation, limited land mass and poor soil. However, there are opportunities to increase Tokelau's income. The TNSP sets out thematic objectives and priorities which are designed to strengthen Tokelau's economic position. Tokelau's fisheries resources in particular have been identified as having the potential to increase Tokelau's income and reduce aid dependence.

Transport

Transport is a leading constraint for sustainable development in Tokelau. Currently the only access to Tokelau is a 24 hour plus voyage on the Samoan cargo-passenger ferry Lady Naomi or the MV Tokelau from Apia. Difficulties with transport affect the growth of all industries in Tokelau. Access to markets including tourism and fisheries is challenging and costly. Training opportunities, particularly ongoing professional development, are difficult to access and therefore costly for the employer, generally the Government of Tokelau.

Over many years Tokelau and New Zealand have attempted to address Tokelau's long term transport needs. For a number of years the MV Tokelau provided Tokelau's main transport service. Following an audit in mid 2010 the passengers which the MV Tokelau was permitted to carry was greatly reduced. The service provided by the MV Tokelau has as a consequence been supplemented by additional charters of a mixed passenger and cargo vessel the Samoa Shipping Corporation's Lady Naomi and of the Samoa Express. The need to replace the MV

Tokelau has caused Tokelau and New Zealand to investigate whether it is feasible to provide a regular air service as Tokelau's principal passenger link supplemented by a cargo shipping service. If pursued an air service has the potential to make Tokelau far more accessible than it is today.

Fisheries

Fisheries are Tokelau's largest and most important natural resource. After assistance from New Zealand, fisheries provide Tokelau's largest form of income. Tokelau receives slightly more than \$1 million per year from the US Tuna Treaty (USTT) and through the sale of long-line licences to access fisheries within the Tokelau EEZ. Fisheries resources also play an essential role in food security. Challenges for Tokelau in capitalising more fully on its fisheries resources include lack of support and coordination as well as limited resources and capacity. The potential loss of traditional knowledge and over fishing of inshore resources are also a concern.

New Zealand and Tokelau are working together to develop policy and legislation to further progress Tokelau's fisheries development.

PART FIVE: INFRASTRUCTURE

Infrastructure Development Programme

The Economic Support Arrangement provided assistance for construction of key buildings under an Infrastructure Development Programme. New school buildings for Fakaofu and Atafu and a new hospital on Nukunonu were identified as initial projects. Construction faced a number of delays, primarily due to issues with project scope and budget. These have since been addressed and responsibility for management of the programme has now been handed over to Tokelau. Construction will be completed over the next year.

Waste management, Water and Sanitation

Waste Management, water and sanitation issues have an ongoing impact on health and living standards on the atolls. Rainwater is relied upon for drinking and household use. While improvements have been made, a lack of capacity impedes sound waste management and water and sanitation practices.

A Waste Management, Water and Sanitation review was funded by the New Zealand Aid Programme in 2010. This provided a number of atolls specific recommendations to improve standards. An implementation plan is currently being finalised to address these recommendations.

Energy and Climate Change

Climate change has the potential to impact upon livelihoods, food security and culture. The impact of climate change on the environment is already noticeable, including a rise in the sea levels and the bleaching of coral in the atoll lagoons.

Tokelau is understandably concerned about the ongoing impact of climate change and is putting in place measures to mitigate the effects. This includes updating its Disaster Risk Reduction Plan with support from the New Zealand Ministry for Civil Defence and Emergency Management.

Tokelau is also demonstrating its own commitment to change through plans to switch from a reliance on diesel electricity generation to 100% renewable energy sources. In 2009 a feasibility study was undertaken by the Government of Tokelau, and engineering work on how the project might be implemented is ongoing. New Zealand sees real value in this project.

PART SIX: SOCIAL DEVELOPMENT

Challenges remain in providing good quality education and health care for Tokelau – two of the most important drivers of population drift to New Zealand or further afield. More innovative ways of providing quality education and health services need to be implemented.

Health

The Department of Health is responsible for the overall management of the health care system in Tokelau. The Taupulega has responsibility for health care in each village. The Director of Health works closely with the villages, New Zealand and others in rolling out programmes and working for change. Tokelau also has a longstanding relationship with Capital and Coast District Health Board and Pacific Health Services.

Healthcare is expensive for Tokelau given its isolation and high incidence of non-communicable diseases (NCD). During 2010 the Department of Health undertook a population wide screening to assess the general health status and ongoing health needs of each population group. Adults and children were screened for sight and hearing impairments, oral health, NCD prevalence and a range of other conditions. The screening found that Tokelau has an obesity rate of 86.7%, the highest in the Pacific. The data gathered will be used as baseline information to measure improvements sought under Tokelau's Strategic Health Plan 2010-15.

Tokelau's Department of Health dealt effectively with an outbreak of influenza-like-infection in March 2009 with staff from the New Zealand Ministry of Health and Capital and Coast District Health Board mobilised to provide assistance with a universal flu vaccination programme. Tokelau also dealt effectively with the 2009 H1N1 threat and recorded no instances of infection.

The Tokelau Patient Referral Scheme (TPRS) provides for the transfer of patients to Samoa or New Zealand to receive medical care unavailable in Tokelau. The TPRS was originally set up in 2000 as a fully subsidised service for patients needing care for acute or chronic conditions that could not be treated in Tokelau.² Costs were never low, but a 2008 decision by the General Fono to increase travel allowances has resulted in a significant increase in the cost of the scheme. The result has been a reduction in resources available to meet the priorities identified in Tokelau's Strategic Health Plan. The TPRS was identified by the Economic Support Arrangement Review as an area where spending is neither efficient nor sustainable. Attempts to better manage the TPRS have led to better use of Samoan Health Services before or instead

² Tokelau has basic hospital facilities in each village as well as a small number of qualified medical practitioners.

of sending patients direct to New Zealand and a greater focus on primary healthcare and promoting public health. The Taupulega and the Department of Health accept that they need to work together to meet the off-atoll health needs of Tokelauans in a more cost effective way.

Education

Under Tokelau's compulsory education system, primary and secondary education is available to everyone. This has meant Tokelau is on track to achieving key targets for Millennium Development Goals 2 and 3.³ Education quality on the atolls however remains relatively low and is a key reason why some families leave the atolls to seek improved educational opportunities for their children in Samoa, New Zealand and elsewhere.

Reviews conducted in 2006 and 2008 highlighted the challenges facing Tokelau's education system. As a result, following the development of a National Policy Curriculum Framework, the national curriculum was overhauled and new learning standards introduced. This has already led to better outcomes for students including Years 12 and 13 now being delivered in Tokelau schools. Much remains to be done particularly in bedding down the new framework, as well as addressing school governance, leadership and teacher quality. New Zealand is working with Tokelau on these issues and the relationship is strengthened by the ongoing presence of Volunteer Service Abroad volunteers on the atolls.

Tokelau manages a scholarships scheme which is mainly used for scholarships in the Pacific region. Tokelau has decided not to award scholarships for students to study in New Zealand in recent years; instead students attend institutions in Fiji and Samoa. This is due to academic and financial difficulties faced by students in New Zealand. Tokelau has recently developed a policy to enable better use of the scheme.

Traditional Community Organisations

Tokelau's traditional community groups, the Fatupaepae, women's group; the Tupulaga, youth group; and the Aumaga, able men's group; continue to play an essential role in the working of the villages. These groups are the focus of communal labour activities and also provide vital support services. The TNSP identifies the need to strengthen the activities of the traditional groups and provide a more collaborative and cooperative approach between Taupulega, Government Departments and external assistance.

The Taupulega and the Government of Tokelau provide wages for the active members of these groups as they undertake work of significance. This means that most adults receive some form of income from the Government.

PART SEVEN: EXTERNAL RELATIONS

Tokelau continues to develop its own relationships with a range of regional and international bodies and other countries. New Zealand is responsible for entering into any formal legal international obligations on behalf of, and in consultation with, Tokelau. Tokelau participates in some regional and international organisations in its own right to the extent that those organisations provide for such participation.

³ Achieve universal primary education and promote gender equality and empower women

Tokelau is a member of the Forum Fisheries Agency, the Secretariat of the Pacific Community, the Council of the University of the South Pacific and the South Pacific Regional Environment Programme. It is also an Associate Member of the WHO and of the United Nations Educational, Scientific and Cultural Organization. Tokelau participates as an observer of the Pacific Islands Forum meeting and attended the 15th UN Climate Change Conference as part of the New Zealand delegation.

Tokelau continues to look to New Zealand to support its bid for membership with organisations that it believes will provide support in achieving the Tokelau National Strategic Plan. These organisations include the United Nations Food and Agricultural Organisation (FAO), United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), and the Alliance of Small Island States (AOSIS).

In terms of Article 73 of the United Nations Charter, Tokelau is a territory "...whose people have not yet attained a full measure of self-government". New Zealand has accepted its obligation under the Charter to promote the well-being of Tokelau's inhabitants and to, among other things, develop self-government in Tokelau. Both New Zealand and Tokelau have participated actively in the work of the United Nations' Special Committee on Decolonisation. New Zealand and Tokelau are frequently held up as an example of how administering powers and dependent territories should work together – and cooperate with the United Nations – towards the objectives laid down in the Charter.

PART EIGHT: FINANCIAL REPORTS

The inclusion of the last 6 years financial statements within this report brings the presentation of the annual financial statements of the Government of Tokelau up to date.

2005 was the first year in which the Tokelau Telecommunications Company, accounts were consolidated with the Government of Tokelau accounts. A delay in completing the audits of the accounts for the years 2005 to 2007 arose from the consolidation process. For this reason, the 2004/2005 audit report is included within this Administrators Report rather than the previous one. The 2008 financial statement audit sign off allowed the outstanding years to be signed off at the end of 2008. 2009 and 2010 were completed satisfactorily and signed off on a timely basis. It is pleasing to note that the recommendations in the audit management letter reflect a well managed organisation with only minor improvements required.

The financial deficits in the years up to, and including 2004, led to an unsustainable accumulated deficit and saw Tokelau and New Zealand in the years following 2004 focus on addressing the accumulated deficit. Although 2005 also saw a small deficit, from a consolidated perspective, this was achieved by 2008. However, addressing the deficit affected Tokelau's ability to improve infrastructure and so the net surplus achieved in the years 2006 to 2009 came at a cost. All targets for improving working capital have now been achieved, including a significant reduction in the Government's liability to the Tokelau Savings Bank which has now been fully eliminated.

Income

Over the 6 years of financial statements, there was an average annual increase in funding from New Zealand of approximately 7%. The larger than usual increases in 2009 and 2010 were to meet infrastructure development needs previously forfeited to address the financial

deficit mentioned above. The one-off increase in the 2006 financial year was in response to damages that arose from a cyclone in February 2005.

The average annual increase from “other” revenue was approximately 8%. The main contributor was fishing licensing fees from vessels fishing within Tokelau’s exclusive economic zone. Other than fisheries income, income was generated by transport fees, duties and taxes. Note 1 in each year’s financial statements provides an analysis of that year’s revenue.

Expenditure

Levels of expenditure in health, education and transport have been significant. It should be noted that in this regard the expenditure classifications are disclosed on a departmental basis rather than on a functional classification basis. As such, there is further expenditure associated with education and health within the expenditure reported for the 3 villages. With these village based expenditures included for functional classification purposes, the average spending on health over the last 3 years was generally around 11% of total expenditure and on education it was around 10% of total expenditure.

The Department of Transport total average expenditure of approximately 10% - 18% of total expenditure illustrates the significant challenges arising from the geographical location, the separation of each of the atolls and the costs of operating the service. This is further complicated by ship to shore difficulties which presents unique challenges, some of which have been referred to elsewhere within this report.

Other than the demand generated movements in Health and Transport, most areas of expenditure have remained reasonably static over the 6 years. Note 2 within each year’s financial statements provides high level detail of items in that year’s expenditure.

Liabilities

Delays in implementing an Infrastructure Development Programme have caused large increases in the liability for projects. While the funding has been received, and fully committed, it has not yet been disbursed. Disbursement will follow receipt of project materials already contracted for.

As referred to above, the liability that existed to the savings scheme has been eliminated. It should be noted that the total funds of the savings scheme, which are invested in term deposits, and the corresponding liability to depositors, are not included within these accounts as they are neither an asset nor liability of the Government. Details are, however, shown in Note 8 in each years accounts.

Financial Position

The Statement of Financial Position (Balance Sheet) is in a more reasonable position compared with earlier years, although the deficit in the most recent year has eliminated a significant portion of the surplus built up in the two years prior.

Overall, it is pleasing to note the overall improvements in Tokelau’s financial position over the 6 years. Continuing improvements are anticipated along with a move towards adoption of International Financial Reporting Standards.

**AUDIT REPORT*****TO THE READERS OF THE FINANCIAL STATEMENTS OF THE GOVERNMENT
OF TOKELAU FOR THE YEAR ENDED 30 JUNE 2005***

I have audited the attached financial statements of the Government of Tokelau (the Government) using my staff and resources. The financial statements provide information about the past financial performance of the Government and its financial position as at 30 June 2005, pursuant to Rule 9 of the Tokelau Finance Rules 1998.

Unqualified opinion

In our opinion:

- The attached financial statements of the Government:
 - have been prepared in accordance with the accounting policies set out at the front of the financial statements; and
 - give a true and fair view, in accordance with those policies, of:
 - the Government's financial position at 30 June 2005; and
 - the results of its operations and cash flows for the year ended on that date.
- Based on our examination the Government kept proper accounting records.

The audit was completed on 5 December 2008, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Government and the Auditor, and explain our independence.

Basis of opinion

We carried out the audit in accordance with the Auditor-General of New Zealand's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transaction and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Government;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statements disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Government and the Auditor

The Government is responsible for preparing financial statements in accordance with generally accepted accounting practice as determined by the Government. Those financial statements must give a true and fair view of the financial position of the Government as at 30 June 2005. They must also give a true and fair view of the results of its operations and cash flows for the year ended on that date. The Government's responsibilities arise from the Tokelau Finance Rules 1998.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from Rule 11 and Rule 13 of the Tokelau Finance Rules of 1998.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

Other than the audit, we have no relationship with or interests in the Government.

K B Brady
Auditor-General of New Zealand
Wellington
New Zealand

STATEMENT OF ACCOUNTING POLICIES

Reporting Entity

These are the financial statements of the Government of Tokelau, including the Telecommunications Tokelau Corporation and the Tokelau Transport Corporation, prepared pursuant to the Tokelau Finance Rules 1998.

Measurement System

The financial statements have been prepared in accordance with generally accepted accounting practice as determined by the Government of Tokelau. The measurement base adopted is that of historical cost. Modified accrual accounting is used to match expenses and revenue.

Accounting Policies

- i. All amounts are expressed in New Zealand currency. Foreign currency transactions are translated at the average of the buy/sell exchange rate at the beginning of the month. Differences arising from variation between actual and average rates are recorded in an Exchange Fluctuation Account. Any surplus or deficit in this account at balance date is transferred to the Statement of Financial Performance within Administrative Services and Supplies..
- ii. Investments in New Zealand currency are recorded at cost. Other investments are recorded at foreign currency cost converted to New Zealand dollars at balance date. Exchange variances are transferred to the Statement of Financial Performance.
- iii. Stock on hand is recorded at the lower of cost and net realisable value. Stock on hand is determined on a FIFO basis.
- iv. Co-Operative Store Accounts are recorded at historical cost.
- v. Debtors are recorded at historical cost less provision for doubtful debts.
- vi. Fixed Assets purchased on or before 30 June 1999 have been expensed. Fixed Assets purchased after 30 June 1999, other than infrastructure, are recorded in the Statement of Financial Position at historical cost less accumulated depreciation. Infrastructure assets have not been recognised.

Fixed Assets are depreciated on a Straight Line basis as follows:

| | |
|---------------------------------|------------|
| Out-fittings | 2 Years |
| Computer Hardware & Software | 2 Years |
| Office Equipment | 3 Years |
| MV Tokelau, Boats & Accessories | 2-5 Years |
| Furniture & Fittings | 2 Years |
| Plant & Equipment | 3 Years |
| Motor Vehicles | 3 Years |
| Telecommunications equipment | 5-20 Years |

- vii. Expenditure incurred in respect of projects funded by specific contributions from donor agencies is recognised in the statement of financial performance as it is incurred. The aid funding received from donor agencies for those projects is recognised as revenue when,

and to the extent that, the relevant expenditure is incurred unless there is no obligation to return any unspent funds, in which case the revenue is recognised in the statement of financial performance when received. Unexpended funds, or expenses to be recovered, in respect of these projects is recognised as a liability and asset (respectively) in the statement of financial position.

- viii. Comparative figures have not been changed to reflect any of the changes in accounting policies as detailed in the changes in accounting policy note below

Change in Accounting Policies

There have been the following changes in accounting policies since the date of the last audited financial statements.

1. Reporting entity

The financial statements now include the operations of the Telecommunications Tokelau Corporation ("Teletok") which have previously been reported separately within the notes to the accounts. This change more accurately reflects the overall operations of the Government of Tokelau and acknowledges the Government's ownership and operation of Teletok. The effect of this change is as follows:

| | |
|-------------------------------|-------------|
| Increase in Revenue | \$530,000 |
| Increase in Expenditure | \$900,000 |
| Increase in Accumulated Funds | \$1,829,000 |
| Increase in Assets | \$1,677,000 |
| Decrease in Liabilities | \$152,000 |

2. Tokelau International Trust Fund

With the formal execution of the Trust Deed on 24 November 2004 the Fund becomes a separate entity from that of the Government of Tokelau. As such, all transactions and balances of the Fund are now reflected in the financial statement of the Fund. All balances and transactions which were previously reported on by the Government of Tokelau, since the inception of the Fund in 2000, have been extracted from the financial statements of the Government and now reflected in the financial statements of the fund. The effect of this change in the current year is to reduce both accumulated funds and restricted assets by \$15,718,230

3. Aid Projects

Expenditure on aid projects is now recognised in the statement of financial performance. The funding received in respect of that expenditure is also recognised in the statement of financial performance. Previously these transactions were only recognised in Note 4. The effect of this change is to increase both revenue and expenditure by \$2,215,000. The surplus/deficit for the year is not affected by this change.

Except for the above changes there have been no other changes in accounting policies since the date of the last audited financial statements.

GOVERNMENT OF TOKELAU
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2005

| | Note | 30 June 2005 \$'000 | 30 June 2004 \$'000 |
|---|------|------------------------|------------------------|
| REVENUE | | | |
| New Zealand Budgetary Assistance | | 9,576 | 8,874 |
| Local Revenue | 1 | 2,887 | 1,656 |
| Project Funding | 4 | 2,125 | - |
| TOTAL REVENUE | | 14,588 | 10,530 |
| EXPENDITURE | | | |
| Administrative Services & Supplies | | 1,105 | 1,586 |
| Office for the Council of Faipule | | 1,309 | 1,352 |
| Transport | | 1,299 | 1,420 |
| Education | | 837 | 1,504 |
| Health | | 1,536 | 1,573 |
| Natural Resources & Environment | | 111 | 74 |
| Energy | | 209 | 429 |
| Atafu | | 1,760 | 1,231 |
| Fakaofu | | 1,538 | 1,040 |
| Nukunonu | | 1,395 | 1,153 |
| Telecommunications | | 1,045 | - |
| Project Expenditure | 4 | 2,125 | - |
| Other | | 829 | - |
| TOTAL EXPENDITURE | 2 | 15,098 | 11,362 |
| NET OPERATING DEFICIT | | (510) | (832) |
| APPROPRIATED TO RESERVES | | (50) | (100) |
| NET DEFICIT TRANSFERRED TO ACCUMULATED FUNDS | | (560) | (932) |

The accompanying notes and accounting policies form part of, and should be read in conjunction with, these financial statements

GOVERNMENT OF TOKELAU
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2005

| | Note | 30 June 2005 \$'000 | 30 June 2004 \$'000 |
|---|------|------------------------|------------------------|
| ACCUMULATED FUNDS | | | |
| Balance as at 1 July | | (2,950) | (2,018) |
| Telecommunications equity | | 2,199 | - |
| | | <u>(751)</u> | <u>(2,018)</u> |
| Unappropriated surplus (deficit) for year | | (560) | (932) |
| Accumulated funds/(deficit) at 30 June | | (1,311) | (2,950) |
| Reserves and Trust Funds | 3 | 227 | 7,916 |
| Accumulated Funds Plus Reserves | | <u>(1,084)</u> | <u>4,966</u> |
| Represented by: | | | |
| Assets | | | |
| Cash on Hand | | 66 | 85 |
| Bank Accounts | | 1,046 | 375 |
| Stock on Hand | | 332 | 362 |
| Sundry Debtors | | 393 | 442 |
| Project Expenses to be Recovered | 4 | 224 | 622 |
| Housing Scheme Debtors | | 21 | 21 |
| Fixed Assets | 5 | 1392 | 361 |
| | | <u>3,474</u> | <u>2,268</u> |
| Restricted Assets | 3 | 227 | 7,916 |
| Total Assets | | <u>3,701</u> | <u>10,184</u> |
| Liabilities | | | |
| ANZ Bank (Samoa) – Overdrafts | | 98 | 228 |
| New Zealand Bank Accounts | | 0 | 38 |
| TeleTok | | 0 | 313 |
| Remittances in Transit | 6 | 71 | 77 |
| Co-Operative Store | 7 | 410 | 395 |
| Unexpended Project Funds | 4 | 690 | 766 |
| Sundry Creditors | | 632 | 716 |
| Revenue in Advance | | 1,006 | 1,000 |
| Atoll Imprest Accounts | | 10 | (37) |
| Liability to Depositors | 8 | 1,868 | 1,722 |
| Total Liabilities | | <u>4,785</u> | <u>5,218</u> |
| NET ASSETS | | <u>(1,084)</u> | <u>4,966</u> |

P Leilua-Lei Sam
 Director Finance

Dated: November 2008

F Toloa
 Minister of Finance

Dated: November 2008

GOVERNMENT OF TOKELAU
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2005

| | Note | 30 June 2005 \$'000 | 30 June 2004 \$'000 |
|---|----------|------------------------|------------------------|
| Cash Flows – Operating Activities | | | |
| Cash was provided from: | | | |
| NZ Budgetary Assistance | | 9,582 | 8,874 |
| Other Income | | 3,027 | 2,299 |
| Project Funds | | 2,027 | 566 |
| | | 14,681 | 11,739 |
| Cash was applied to: | | | |
| Payment to Suppliers | | 6,845 | 6,270 |
| Payment to Employees | | 5,660 | 5,320 |
| Project Expenditure | | 2,125 | 1,596 |
| | | 14,610 | 13,186 |
| Net Cash Flows from Operating Activities | 9 | 51 | (1,447) |
| Cash Flows – Investing Activities | | | |
| Cash was provided from: | | | |
| Reserve Income | | 0 | 2,462 |
| Reduction in savings scheme liability | | 146 | 670 |
| | | 146 | 3,132 |
| Cash was applied to: | | | |
| Movement in Restricted Asset Investments | | 0 | 2,560 |
| Capital Works | | 651 | 309 |
| | | 651 | 2,869 |
| Net Cash Flows from Investing Activities | | (505) | 263 |
| Net Increase/(Decrease) in Cash Held | | (454) | (1,184) |
| Add Effect of Exchange Movement | | 396 | 150 |
| Add Effect of introduction of Teletok | | 831 | - |
| Add Opening Cash | | 231 | 1,265 |
| Closing Cash | | 1,004 | 231 |
| Represented By: | | | |
| ANZ Bank (Samoa) | | (98) | (228) |
| Overseas Bank Accounts | | 0 | (38) |
| NZ Bank Accounts | | 1,046 | 375 |
| Atoll Imprest Accounts | | (10) | 37 |
| Cash on Hand | | 66 | 85 |
| | | 1,004 | 231 |

GOVERNMENT OF TOKELAU
STATEMENT OF CONTINGENT LIABILITIES & COMMITMENTS
AS AT 30 JUNE 2005

There were no outstanding contingent liabilities or commitments at balance date (2004: nil).

GOVERNMENT OF TOKELAU
STATEMENT OF UNAPPROPRIATED EXPENDITURE
FOR THE YEAR ENDED 30 JUNE 2005

There were no unappropriated expenditures or expenses or liabilities outstanding at balance date (2004: nil).

GOVERNMENT OF TOKELAU
STATEMENT OF EMERGENCY EXPENDITURE
FOR THE YEAR ENDED 30 JUNE 2005

There were no emergency expenditures or expenses or liabilities outstanding at balance date (2004: nil).

GOVERNMENT OF TOKELAU
STATEMENT OF TRUST MONEY HELD
AS AT 30 JUNE 2005

There was no trust money held by the Tokelau Administration at balance date (2004: nil).

GOVERNMENT OF TOKELAU
STATEMENT OF BORROWINGS
AS AT 30 JUNE 2005

During the year the Tokelau Administration utilised an OD facility WST\$200,000 with the ANZ Bank (Samoa) Ltd.

Security for the above were term deposits with the same bank WST\$166,000 (2004: WST\$280,000)

GOVERNMENT OF TOKELAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

Note 1: Local Revenue

| | 30 June 2005 | 30 June 2004 |
|--|---------------------|---------------------|
| | \$'000 | \$'000 |
| Exclusive Economic Zone Fishing Licensing Fees | 569 | 289 |
| Interest | 153 | 85 |
| Duty | 353 | 372 |
| Commemorative Coins and Stamps | 52 | 54 |
| Community Service Levy | 499 | 441 |
| Boat fares & Freight | 386 | 335 |
| Telecommunications revenue | 530 | - |
| Other Revenue | 204 | 80 |
| Cyclone Relief Donation | 141 | 0 |
| | <hr/> <u>2,887</u> | <hr/> <u>1,656</u> |

Note 2: Operating Expenditure

Included with expenditure are the following costs:

| | 30 June 2005 | 30 June 2004 |
|-------------------------|---------------------|---------------------|
| | \$'000 | \$'000 |
| Personnel | 5,660 | 5,320 |
| Depreciation | 357 | 91 |
| Audit Fees | 34 | 30 |
| Debt write off | 0 | 0 |
| Communications | 394 | 402 |
| Repairs and Maintenance | 378 | 309 |

GOVERNMENT OF TOKELAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

Note 3: RESERVES & TRUST FUNDS

| Name | Opening Balance | Transferred to Projects | Applied to Performance | Income* | Interest Income | Other | Closing Balance |
|------------------------------|--------------------|----------------------------|---------------------------|--------------|--------------------|-----------------|--------------------|
| Accident Compensation Res | 20 | 0 | 0 | 0 | 0 | 0 | 20 |
| South Pacific Games Res. | 14 | 0 | 0 | 0 | 0 | 0 | 14 |
| Disaster Relief Project Res. | 14 | 0 | 0 | 0 | 0 | 0 | 14 |
| Sports Reserve | 10 | 0 | 0 | 0 | 0 | 0 | 10 |
| Ag. & Fish Store Res. | 23 | 0 | 0 | 0 | 0 | 0 | 23 |
| Insurance Fund | 99 | 0 | 2 | 0 | 0 | 0 | 97 |
| Educ. Culture Tour Trust | 49 | 0 | 0 | 0 | 0 | 0 | 49 |
| Tokelau Trust Fund | 7,687 | 0 | 0 | 7,550 | 481 | (15,718) | 0 |
| | 7,916 | 0 | 2 | 7,550 | 481 | (15,718) | 227 |

These are Represented by the following Investments:

| | 30 June 2005 \$'000 | 30 June 04 \$'000 |
|--------------------------------|------------------------|----------------------|
| ANZ (Samoa) Term Deposits | 81 | 81 |
| Insurance Fund | 97 | 99 |
| Educ. Culture Tour Trust – BNZ | 49 | 49 |
| Tokelau Trust Fund | 0 | 7,687 |
| | <u>227</u> | <u>7,916</u> |

Through agreement between NZAID and Tokelau, an element of future funding involved the joint establishment of a Trust Fund to secure future income streams for recurrent Government expenditure. With the execution of the Trust Deed in the current financial year, all balances and transactions of The Fund are now disclosed within the financial statements of The Fund.

GOVERNMENT OF TOKELAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

Note 4: INTERNATIONAL AID PROJECTS

A Summary of income and expenditure for international aid projects is set out below:

| Project Name | Sponsor | Opening Balance | Funds Received | Expenditure | Closing Balance |
|-----------------------------------|----------------|------------------------|-----------------------|--------------------|------------------------|
| Partnership in Development | UNDP | (13) | 0 | 13 * | 0 |
| Training (USD\$5,000) | UNDP | 6 | 0 | 6 * | 0 |
| Power Project UNDP Share | UNDP | (18) | 0 | 18 * | 0 |
| Data Collection | FFA | (6) | 0 | 6 * | 0 |
| Boat Building (Phase 11) | FFA | (32) | 0 | 32 * | 0 |
| Boat Building (Phase 1) | FFA | (2) | 0 | 2 * | 0 |
| Water Supply | FFA | 4 | 0 | (4) * | 0 |
| FADS | FFA | (22) | 0 | 22 * | 0 |
| Livestock Training | FFA | 6 | 0 | (6) * | 0 |
| Quarantine Workshop | SPC | (2) | 0 | 2 * | 0 |
| Constitution and Relocation | FFA | (37) | 0 | 37 * | 0 |
| Other Education Projects | USP | (13) | 0 | 13 * | 0 |
| Tokelau Electricity | ODA | 17 | 0 | (17) * | 0 |
| Fatupaepae Bakery | SPC | (5) | 0 | 5 * | 0 |
| Environment | SPREP | (4) | 0 | 4 * | 0 |
| AiDs, STD & Family Planning | Various | (20) | (12) | 13 | (19) |
| Austr Cultural Trust & Workshop - | | (20) | 0 | 20 * | 0 |
| Ika Tokelau | FFA/Natre | 102 | 0 | (102) * | 0 |
| Sanitation (Bulk Supplies) | ODA | 176 | 0 | (176) * | 0 |
| Community Workshop NCD'S | WHO | (11) | 0 | 0 | (11) |
| Health Database 2005 | WHO | 0 | (5) | 0 | (5) |
| Health Equipment | ODA | (75) | 0 | 2 | (73) |
| Waste Management | ODA | (51) | (12) | 26 | (37) |
| Constitutional Development | UNDP | 274 | (879) | 605 * | 0 |
| Gender Development | ODA | 15 | (72) | 28 | (29) |
| Deferred Maintenance | ODA | (167) | 0 | 202 | 35 |
| Transport Charters | ODA | 1 | (500) | 553 | 54 |
| Water Supply | FFA | (231) | 0 | 88 | (143) |
| USP Extension Centre | USP | (4) | 0 | 0 | (4) |
| Fatupaepae 2005 | - | 0 | (30) | 10 | (20) |
| Social and Economic Systems | UNDP | 0 | (21) | 55 | 34 |
| Sustainable Village Enterprise | UNDP | 0 | (55) | 13 | (42) |
| ICT Phase 1 Review | UNDP | 0 | (157) | 150 | (7) |

| | | | | | |
|---------------------------------|---------|--------------|----------------|--------------|--------------|
| Cultural Policy Development | UNESCO | 0 | (83) | 0 | (83) |
| Education Development | PRIDE | 0 | 0 | 41 | 41 |
| FFA Consultations | FFA | 0 | (84) | 24 | (60) |
| TIEMP | UNDP | 0 | (7) | 0 | (7) |
| Health Projects | Various | 0 | (5) | 16 | 11 |
| Fakaofu | - | 0 | (150) | 0 | (150) |
| Modern House Project | - | 0 | 0 | 49 | 49 |
| Net Project Funding Held | | (144) | (2,072) | 1,750 | (466) |
| Expenditure to be Recovered | | 622 | | | 224 |
| | | <u>766</u> | | | <u>690</u> |

* Project closed and balance written off/on.

GOVERNMENT OF TOKELAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

Note 5: FIXED ASSETS

30 June 2005 (\$'000)

| Category | Cost | Accumulated Depreciation | Net Book Value |
|------------------------------|--------------|---------------------------------|-----------------------|
| Out-fittings | 8 | 8 | 0 |
| Computer Hardware & Software | 109 | 77 | 32 |
| Office Equipment | 37 | 37 | 0 |
| Motor Boats & Accessories | 221 | 101 | 120 |
| Furniture & Fittings | 55 | 55 | 0 |
| Plant & Equipment | 62 | 21 | 41 |
| Telecommunications | 2,429 | 1,654 | 775 |
| Motor Vehicles | 179 | 117 | 62 |
| MV Tokelau | 362 | 0 | 362 |
| | 3,462 | 2,070 | 1,392 |

30 June 2004 (\$'000)

| Category | Cost | Accumulated Depreciation | Net Book Value |
|------------------------------|-------------|---------------------------------|-----------------------|
| Out-fittings | 8 | 8 | 0 |
| Computer Hardware & Software | 86 | 47 | 39 |
| Office Equipment | 37 | 27 | 10 |
| Motor Boats & Accessories | 221 | 52 | 169 |
| Furniture & Fittings | 55 | 12 | 43 |
| Plant & Equipment | 49 | 6 | 43 |
| Motor Vehicles | 146 | 89 | 57 |
| | 602 | 241 | 361 |

Note 6: REMITTANCES IN TRANSIT

Remittances in Transit represent money held by the office for Tokelau Affairs on behalf of Tokelauans transferring money between New Zealand, Apia and the Atolls.

Note 7: CO-OPERATIVE STORES

The Government purchases commodities and arranges shipping of commodities for resale by the Tokelau Co-Operative stores at Atafu, Fakaofu and Nukunonu. The liability of \$410,000 (2004: \$395,000) represents the amount owed by the Government to the Co-Operatives.

GOVERNMENT OF TOKELAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

Note 8: LIABILITY TO SAVINGS BANK

In the absence of banking facilities on the atolls, the Government operates a passbook savings scheme and held total deposits of \$2,542,000 for safe keeping as at 30 June 2005 (2004 : \$2,343,000). Interest is paid to depositors at 3.5% per annum.

The passbook savings scheme is regulated by the Tokelau Banking Rules 2004. The Banking Rules 2004 include the Tokelau Savings Bank (Passbook savings scheme) and the Tokelau Development Bank. The Tokelau Development Bank is not yet operational.

As at 30 June 2005 current savings account balances exceed specific funds held by the Tokelau Savings Bank to the amount of \$1,868,000 (2004: \$1,722,000). This shortfall is being "repaid" by the Government as funds become available. With the introduction of the Banking Rules 2004, the funds of the savings scheme are no longer available for Government cash flow purposes.

The total savings account balance includes \$512,000 (2004:\$455,000) in accounts held by Teletok, which is a wholly owned Government Corporation. That amount is included in the item "Bank Accounts" in the statement of financial position. As the savings scheme is operated by the Tokelau Savings Bank, a separate organisation from that of the Government, these amounts have not been eliminated when preparing these financial statements.

| | 30 June 2005 \$'000 | 30 June 2004 \$'000 |
|--------------------------|----------------------------|----------------------------|
| Savings Account Balances | 2,542 | 2,343 |
| Specific Funds Held | 674 | 621 |
| | <u>1,868</u> | <u>1,722</u> |

Note 9: RECONCILIATION OF NET DEFICIT TO NET CASH FLOWS FROM OPERATING ACTIVITIES

| | 30 June 2005 \$'000 | 30 June 2004 \$'000 |
|---|----------------------------|----------------------------|
| Net Operating Surplus/(Deficit) as per Statement of Financial Performance | (510) | (832) |
| Add back Non Cash Items | <u>(36)</u> | <u>(59)</u> |
| Plus/(Minus) Movements in Working Capital | | |
| Appropriation of Funds to Trust Fund | (50) | (100) |
| (Increase)/Decrease in Stock on Hand | 30 | 138 |
| (Increase)/Decrease Teletok | 313 | 39 |
| Increase/(Decrease) in Sundry Debtors | 51 | (318) |
| Increase/(Decrease) in Remittances | (6) | (207) |
| Increase/(Decrease) in Co-Op Stores | (15) | (106) |
| Increase/Decrease in Sundry Creditors | (84) | 28 |
| Increase/Decrease in Trust Fund Debtor | 6 | 1,000 |
| Increase/Decrease in Project Balances | 322 | (1,030) |
| | <u>561</u> | <u>(556)</u> |
| Net Cashflow from Operating Activities | <u>51</u> | <u>(1,447)</u> |

GOVERNMENT OF TOKELAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

Note 10: TOKELAU TRANSPORT CORPORATION (TRANSTOK)

The Tokelau Transport Corporation Rules 1997 came into force on 1 February 1997. The primary function of Transtok is to be the legal owner and operator of its ship the MV Tokelau. As the operations of Transtok continue to be administered by a government department, under transitional arrangements, these rules have not been specifically complied with. Full financial results of the shipping operations are, however, disclosed by way of being included within the overall financial statements of the Government of Tokelau.

Note 11: BUDGETED REVENUE AND EXPENDITURE

| | 30 June 2005 \$'000 | 30 June 2005 \$'000 |
|------------------------------------|------------------------|------------------------|
| | Actual | Budgeted |
| REVENUE | | |
| New Zealand Budgetary Assistance | 9,576 | 9,500 |
| Local Revenue | 2,887 | 1,500 |
| Project Funding | 2,125 | ** |
| EXPENDITURE | | |
| Administrative Services & Supplies | 1,105 | 927 |
| Office for the Council of Faipule | 1,309 | 1,200 |
| Transport | 1,299 | 1,263 |
| Education | 837 | 797 |
| Health | 1,536 | 1,217 |
| Natural Resources & Environment | 111 | 110 |
| Energy | 209 | 275 |
| Atafu | 1,760 | 1,450 |
| Fakaofu | 1,536 | 1,497 |
| Nukunonu | 1,395 | 1,384 |
| Telecommunications | 1,045 | * |
| Project Expenditure | 2,125 | ** |
| Other | 829 | 208 |

* Budget figures for telecommunications unavailable.

** Project expenditure is dependant upon donor support and budget figures are not prepared.

AUDIT REPORT

TO THE READERS OF THE FINANCIAL STATEMENTS OF THE GOVERNMENT OF TOKELAU FOR THE YEAR ENDED 30 JUNE 2006

I have audited the attached financial statements of the Government of Tokelau (the Government) using my staff and resources. The financial statements provide information about the past financial performance of the Government and its financial position as at 30 June 2006, pursuant to Rule 9 of the Tokelau Finance Rules 1998.

Unqualified opinion

In our opinion:

- The attached financial statements of the Government:
 - have been prepared in accordance with the accounting policies set out at the front of the financial statements; and
 - give a true and fair view, in accordance with those policies, of:
 - the Government's financial position at 30 June 2006; and
 - the results of its operations and cash flows for the year ended on that date.
- Based on our examination the Government kept proper accounting records.

The audit was completed on 5 December 2008, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Government and the Auditor, and explain our independence.

Basis of opinion

We carried out the audit in accordance with the Auditor-General of New Zealand's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transaction and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Government;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statements disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Government and the Auditor

The Government is responsible for preparing financial statements in accordance with generally accepted accounting practice as determined by the Government. Those financial statements must give a true and fair view of the financial position of the Government as at 30 June 2006. They must also give a true and fair view of the results of its operations and cash flows for the year ended on that date. The Government's responsibilities arise from the Tokelau Finance Rules 1998.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from Rule 11 and Rule 13 of the Tokelau Finance Rules of 1998.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

Other than the audit, we have no relationship with or interests in the Government.

K B Brady

Auditor-General of New Zealand
Wellington
New Zealand

STATEMENT OF ACCOUNTING POLICIES

Reporting Entity

These are the financial statements of the Government of Tokelau, including the Telecommunications Tokelau Corporation and the Tokelau Transport Corporation, prepared pursuant to the Tokelau Finance Rules 1998.

Measurement System

The financial statements have been prepared in accordance with generally accepted accounting practice as determined by the Government of Tokelau. The measurement base adopted is that of historical cost. Modified accrual accounting is used to match expenses and revenue.

Accounting Policies

- i All amounts are expressed in New Zealand currency. Foreign currency transactions are translated at the average of the buy/sell exchange rate at the beginning of the month. Differences arising from variation between actual and average rates are recorded in an Exchange Fluctuation Account. Any surplus or deficit in this account at balance date is transferred to the Statement of Financial Performance within Administrative Services and Supplies.
- ii Investments in New Zealand currency are recorded at cost. Other investments are recorded at foreign currency cost converted to New Zealand dollars at balance date. Exchange variances are transferred to the Statement of Financial Performance.
- iii Stock on hand is recorded at the lower of cost and net realisable value. Stock on hand is determined on a FIFO basis.
- iv Co-Operative Store Accounts are recorded at historical cost.
- v Debtors are recorded at historical cost less provision for doubtful debts.
- vi Fixed Assets purchased on or before 30 June 1999 have been expensed. Fixed Assets purchased after 30 June 1999, other than infrastructure, are recorded in the Statement of Financial Position at historical cost less accumulated depreciation. Infrastructure assets have not been recognised.

Fixed Assets are depreciated on a Straight Line basis as follows:

| | |
|---------------------------------|------------|
| Out-fittings | 2 Years |
| Computer Hardware & Software | 2 Years |
| Office Equipment | 3 Years |
| MV Tokelau, Boats & Accessories | 2-5 Years |
| Furniture & Fittings | 2 Years |
| Plant & Equipment | 3 Years |
| Motor Vehicles | 3 Years |
| Telecommunications equipment | 5-20 Years |

- vii Expenditure incurred in respect of projects funded by specific contributions from donor agencies is recognised in the statement of financial performance as it is incurred. The aid funding received from donor agencies for those projects is recognised as revenue when, and to the extent that, the relevant expenditure is incurred unless there is no obligation to return any unspent funds, in which case the revenue is recognised in the statement of financial performance when received. Unexpended funds, or expenses to be recovered, in respect of these projects is recognised as a liability and asset (respectively) in the statement of financial position.

Change in Accounting Policies

There have been no changes in accounting policies since the date of the last audited financial statements. Where necessary, comparative figures have been restated to reflect corrections and changes in disclosure.

GOVERNMENT OF TOKELAU
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2006

| | Note | 30 June 2006 \$'000 | 30 June 2005 \$'000 |
|---|------|------------------------|------------------------|
| REVENUE | | | |
| New Zealand Budgetary Assistance | | 11,107 | 9,576 |
| Local Revenue | 1 | 2,520 | 2,887 |
| Project Funding | 4 | 909 | 2,125 |
| TOTAL REVENUE | | 14,536 | 14,588 |
| EXPENDITURE | | | |
| Administrative Services & Supplies | | 1,079 | 1,105 |
| Office for the Council of Faipule | | 1,484 | 1,309 |
| Transport | | 1,577 | 1,299 |
| Education | | 747 | 837 |
| Health | | 1,409 | 1,536 |
| Natural Resources & Environment | | 168 | 111 |
| Energy | | 236 | 209 |
| Atafu | | 1,498 | 1,760 |
| Fakaofu | | 1,612 | 1,538 |
| Nukunonu | | 1,378 | 1,395 |
| Telecommunications | | 783 | 1,045 |
| Project Expenditure | 4 | 909 | 2,125 |
| Other | | 808 | 829 |
| TOTAL EXPENDITURE | 2 | 13,688 | 15,098 |
| NET OPERATING DEFICIT | | 848 | (510) |
| APPROPRIATED TO RESERVES | | | (10) |
| NET DEFICIT TRANSFERRED TO ACCUMULATED FUNDS | | 848 | (560) |

The accompanying notes and accounting policies form part of, and should be read in conjunction with, these financial statements

GOVERNMENT OF TOKELAU
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2006

| | Note | 30 June 2006 \$'000 | 30 June 2005 \$'000 |
|---|----------|------------------------|------------------------|
| ACCUMULATED FUNDS | | | |
| Balance as at 1 July | | (1,311) | (2,950) |
| Telecommunications equity Introduced | | - | 2199 |
| | | <u>(1,311)</u> | <u>(751)</u> |
| Unappropriated surplus (deficit) for year | | 848 | (560) |
| Accumulated funds/(deficit) at 30 June | | (463) | (1,311) |
| Reserves and Trust Funds | 3 | <u>236</u> | <u>227</u> |
| Accumulated Funds Plus Reserves | | <u>(227)</u> | <u>(1,084)</u> |
| Represented by: | | | |
| Assets | | | |
| Cash on Hand | | 90 | 66 |
| Bank Accounts | | 1,118 | 1,046 |
| Stock on Hand | | 470 | 332 |
| Sundry Debtors | | 289 | 393 |
| Project Expenses to be Recovered | 4 | 98 | 224 |
| Housing Scheme Debtors | | 21 | 21 |
| Atoll Imprest Accounts | | 36 | (10) |
| Fixed Assets | 5 | <u>1,752</u> | <u>1,392</u> |
| | | 3,874 | 3,464 |
| Restricted Assets | 3 | <u>233</u> | <u>227</u> |
| Total Assets | | <u>4,107</u> | <u>3,691</u> |
| Liabilities | | | |
| ANZ Bank (Samoa) – Overdrafts | | 300 | 98 |
| Remittances in Transit | 6 | 289 | 71 |
| Co-Operative Store | 7 | 245 | 410 |
| Unexpended Project Funds | 4 | 661 | 690 |
| Sundry Creditors | | 726 | 632 |
| Revenue in Advance | | 600 | 1,006 |
| Liability to Depositors | 8 | <u>1,513</u> | <u>1,868</u> |
| Total Liabilities | | <u>4,334</u> | <u>4,775</u> |
| NET ASSETS | | <u>(227)</u> | <u>(1,084)</u> |

P Leilua-Lei Sam
 Director Finance

F Toloa
 Minister of Finance

Dated: November 2008

Dated: November 2008

The accompanying notes and accounting policies form part of, and should be read in conjunction with, these financial statements

GOVERNMENT OF TOKELAU
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2006

| | Note | 30 June 2006 \$'000 | 30 June 05 \$'000 |
|---|----------|------------------------|----------------------|
| Cash Flows – Operating Activities | | | |
| Cash was provided from: | | | |
| NZ Budgetary Assistance | | 10,707 | 9,582 |
| Other Income | | 2,325 | 3,027 |
| Project Funds | | 1,006 | 2,072 |
| | | 14,038 | 14,681 |
| Cash was applied to: | | | |
| Payment to Suppliers | | 6,300 | 6,845 |
| Payment to Employees | | 5,909 | 5,660 |
| Project Expenditure | | 909 | 2,125 |
| | | 13,118 | 14,630 |
| Net Cash Flows from Operating Activities | 9 | 920 | 51 |
| Cash Flows – Investing Activities | | | |
| Cash was applied to: | | | |
| Decrease in Savings Liability | | 355 | (146) |
| Capital Works | | 817 | 651 |
| | | 1,172 | 651 |
| Net Cash Flows from Investing Activities | | (1,172) | (505) |
| Net Increase/(Decrease) in Cash Held | | (253) | (454) |
| Add Effect of Exchange Movement | | 193 | 396 |
| Add Effect of introduction of Teletok | | - | 831 |
| Add Opening Cash | | 1,004 | 231 |
| Closing Cash | | 944 | 1,004 |
| Represented By: | | | |
| ANZ Bank (Samoa) | | (300) | (98) |
| NZ Bank Accounts | | 1,118 | 1,046 |
| Atoll Imprest Accounts | | 36 | (10) |
| Cash on Hand | | 90 | 66 |
| | | 944 | 1,004 |

The accompanying notes and accounting policies form part of, and should be read in conjunction with, these financial statements

GOVERNMENT OF TOKELAU
STATEMENT OF CONTINGENT LIABILITIES & COMMITMENTS
AS AT 30 JUNE 2006

There were no outstanding contingent liabilities or commitments at balance date (2005: nil).

GOVERNMENT OF TOKELAU
STATEMENT OF UNAPPROPRIATED EXPENDITURE
FOR THE YEAR ENDED 30 JUNE 2006

There were no unappropriated expenditures or expenses or liabilities outstanding at balance date (2005: nil).

GOVERNMENT OF TOKELAU
STATEMENT OF EMERGENCY EXPENDITURE
FOR THE YEAR ENDED 30 JUNE 2006

There were no emergency expenditures or expenses or liabilities outstanding at balance date (2005: nil).

GOVERNMENT OF TOKELAU
STATEMENT OF TRUST MONEY HELD
AS AT 30 JUNE 2006

There was no trust money held by the Tokelau Administration at balance date (2005: nil).

GOVERNMENT OF TOKELAU
STATEMENT OF BORROWINGS
AS AT 30 JUNE 2006

During the year the Tokelau Administration utilised an OD facility WST\$200,000 with the ANZ Bank (Samoa) Ltd.

Security for the above were term deposits with the same bank WST\$160,000 (2005: WST\$166,000)

GOVERNMENT OF TOKELAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

Note 1: Local Revenue

| | 30 June 2006 | 30 June 2005 |
|--|---------------------|---------------------|
| | \$'000 | \$'000 |
| Exclusive Economic Zone Fishing Licensing Fees | 303 | 569 |
| Interest | 100 | 153 |
| Duty | 362 | 353 |
| Commemorative Coins and Stamps | 23 | 52 |
| Community Service Levy | 536 | 499 |
| Boat fares & Freight | 350 | 386 |
| Telecommunications revenue | 562 | 530 |
| Other Revenue | 284 | 204 |
| Cyclone Relief Donation | 0 | 141 |
| | <hr/> <u>2,520</u> | <hr/> <u>2,887</u> |

Note 2: Operating Expenditure

Included with expenditure are the following costs:

| | 30 June 2006 | 30 June 2005 |
|-------------------------|---------------------|---------------------|
| | \$'000 | \$'000 |
| Personnel | 5,989 | 5,660 |
| Depreciation | 460 | 357 |
| Audit Fees | 35 | 34 |
| Debt write off | 0 | 0 |
| Communications | 324 | 394 |
| Repairs and Maintenance | 217 | 378 |

GOVERNMENT OF TOKELAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

Note 3: RESERVES & TRUST FUNDS

| Name | Opening Balance | Transferred to Projects | Applied to Performance | Income* | Interest Income | Other | Closing Balance |
|------------------------------|------------------------|--------------------------------|-------------------------------|----------------|------------------------|--------------|------------------------|
| Accident Compensation Res | 20 | 0 | 0 | 0 | 0 | 0 | 20 |
| South Pacific Games Res. | 14 | 0 | 0 | 0 | 0 | 0 | 14 |
| Disaster Relief Project Res. | 14 | 0 | 0 | 0 | 0 | 0 | 14 |
| Sports Reserve | 10 | 0 | 0 | 0 | 0 | 0 | 10 |
| Ag. & Fish Store Res. | 23 | 0 | 0 | 0 | 0 | 0 | 23 |
| Insurance Fund | 97 | 0 | 0 | 0 | 3 | 0 | 100 |
| Educ. Culture Tour Trust | 49 | 0 | 0 | 0 | 6 | 0 | 55 |
| | <u>227</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>9</u> | <u>0</u> | <u>236</u> |

These are Represented by the following Investments:

| | 30 June 2006 | 30 June 05 |
|--------------------------------|---------------------|-------------------|
| | \$'000 | \$'000 |
| ANZ (Samoa) Term Deposits | 81 | 81 |
| Insurance Fund | 97 | 97 |
| Educ. Culture Tour Trust – BNZ | 55 | 49 |
| | <u>233</u> | <u>227</u> |

The difference between the total of the restricted reserves and the investments held reflects reimbursements due to general fund bank accounts that will be made when the investments mature

GOVERNMENT OF TOKELAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

Note 4: INTERNATIONAL AID PROJECTS

A Summary of income and expenditure for international aid projects is set out below:

| Project Name | Sponsor | Opening Balance | Funds Received | Expenditure | Closing Balance |
|---------------------------------|----------------|------------------------|-----------------------|--------------------|------------------------|
| AiDs, STD & Family Planning | Various | (19) | (23) | 9 | (33) |
| Community Workshop NCD'S | WHO | (11) | 0 | 0 | (11) |
| Health Equipment | ODA | (73) | (22) | 0 | (95) |
| Waste Management | ODA | (37) | (29) | 14 | (52) |
| Gender Development | ODA | (29) | (7) | 16 | (20) |
| Deferred Maintenance | ODA | 35 | 0 | (35) * | 0 |
| Transport Charters | ODA | 54 | (500) | 446 | 0 |
| Water Supply | FFA | (143) | 0 | 30 | (113) |
| USP Extension Centre | USP | (4) | 0 | 10 | 6 |
| Fatupaepae 2005 | - | (20) | (30) | 50 | 0 |
| Social and Economic Systems | UNDP | 34 | (60) | 40 | 14 |
| Sustainable Village Enterprise | UNDP | (42) | 0 | 0 | (42) |
| ICT Phase 1 Review | UNDP | (7) | (6) | 13 * | 0 |
| Cultural Policy Development | UNESCO | (83) | (3) | 19 | (67) |
| Education Development | PRIDE | 41 | (122) | 100 | 19 |
| FFA Consultations | FFA | (60) | 0 | 60 * | 0 |
| TIEMP | UNDP | (7) | 0 | 0 | (7) |
| Health Projects | Various | 6 | (19) | 54 | 41 |
| Fakafo | - | (150) | 0 | 0 | (150) |
| Modern House Project | - | 49 | (99) | 50 | 0 |
| Pest Eradication | | 0 | (21) | 8 | (13) |
| Net Project Funding Held | | (466) | (1,006) | 909 | (563) |
| Expenditure to be Recovered | | 224 | | | 98 |
| | | 690 | | | 661 |

* Project closed and balance written off/on

GOVERNMENT OF TOKELAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

Note 5: FIXED ASSETS

30 June 2006 (\$'000)

| Category | Cost | Accumulated Depreciation | Net Book Value |
|----------------------------------|--------------|---------------------------------|-----------------------|
| Work in Progress (Power Project) | 849 | 0 | 849 |
| Out-fittings | 8 | 8 | 0 |
| Computer Hardware & Software | 112 | 102 | 10 |
| Office Equipment | 39 | 39 | 0 |
| Motor Boats & Accessories | 221 | 131 | 90 |
| Furniture & Fittings | 55 | 55 | 0 |
| Plant & Equipment | 62 | 42 | 20 |
| Telecommunications | 2,445 | 1,880 | 565 |
| Motor Vehicles | 210 | 173 | 37 |
| MV Tokelau | 362 | 181 | 181 |
| | 4,363 | 2,611 | 1,752 |

30 June 2005 (\$'000)

| Category | Cost | Accumulated Depreciation | Net Book Value |
|------------------------------|--------------|---------------------------------|-----------------------|
| Out-fittings | 8 | 8 | 0 |
| Computer Hardware & Software | 109 | 77 | 32 |
| Office Equipment | 37 | 37 | 0 |
| Motor Boats & Accessories | 221 | 101 | 120 |
| Furniture & Fittings | 55 | 55 | 0 |
| Plant & Equipment | 62 | 21 | 41 |
| Telecommunications | 2,429 | 1,654 | 775 |
| Motor Vehicles | 179 | 117 | 62 |
| MV Tokelau | 362 | 0 | 362 |
| | 3,462 | 2,070 | 1,392 |

Note 6: Remittances

Remittances in Transit represent money held by the Office for Tokelau Affairs on behalf of Tokelauans transferring money between New Zealand, Apia and the Atolls.

Note 7: Co-Operative Stores

The Government purchases commodities and arranges shipping of commodities for resale by the Tokelau Co-Operative stores at Atafu, Fakaofa and Nukunonu. The liability of \$245,000 (2005: \$410,000) represents the amount owed by the Government to the Co-Operatives.

GOVERNMENT OF TOKELAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

Note 8: LIABILITY TO DEPOSITORS

In the absence of banking facilities on the atolls, the Government operates a passbook savings scheme and held total deposits of \$2,237,000 for safe keeping as at 30 June 2006 (2005 : \$2,542,000). Interest is paid to depositors at 3.5% per annum.

The passbook savings scheme is regulated by the Tokelau Banking Rules 2004. The Banking Rules 2004 include the Tokelau Savings Bank (Passbook savings scheme) and the Tokelau Development Bank. The Tokelau Development Bank is not yet operational.

As at 30 June 2006 current savings account balances exceed specific funds held by the Tokelau Savings Bank to the amount of \$1,513,000 (2005: \$1,868,000). This shortfall is being "repaid" by the Government as funds become available. With the introduction of the Banking Rules 2004, the funds of the savings scheme are no longer available for Government cash flow purposes.

The total savings account balance includes \$299,000 (2005:\$512,000) in accounts held by Teletok, which is a wholly owned Government Corporation. That amount is included in the item "Bank Accounts" in the statement of financial position. As the savings scheme is operated by the Tokelau Savings Bank, a separate organisation from that of the Government, these amounts have not been eliminated when preparing these financial statements.

| | 30 June 2006 \$'000 | 30 June 2005 \$'000 |
|--------------------------|----------------------------|----------------------------|
| Savings Account Balances | 2,237 | 2,542 |
| Specific Funds Held | 724 | 674 |
| | <u>1,513</u> | <u>1,868</u> |

Note 9: RECONCILIATION OF NET DEFICIT TO NET CASH FLOWS FROM OPERATING ACTIVITIES

| | 30 June 2005 \$'000 | 30 June 2004 \$'000 |
|---|----------------------------|----------------------------|
| Net Operating Surplus/(Deficit) as per Statement of Financial Performance | 848 | (510) |
| Add back Non Cash Items | 268 | (36) |
| Plus/(Minus) Movements in Working Capital | | |
| Appropriation of Funds to Trust Fund | (0) | (50) |
| (Increase)/Decrease in Stock on Hand | (138) | 30 |
| (Increase)/Decrease Teletok | 0 | 131 |
| Increase/(Decrease) in Sundry Debtors | 104 | 51 |
| Increase/(Decrease) in Remittances | 218 | (6) |
| Increase/(Decrease) in Co-Op Stores | (165) | (5) |
| Increase/Decrease in Sundry Creditors | 94 | (84) |
| Increase/Decrease in Trust Fund Debtor | (406) | 6 |
| Increase/Decrease in Project Balances | 97 | 322 |
| | <u>72</u> | <u>561</u> |
| Net Cashflow from Operating Activities | <u>920</u> | <u>51</u> |

GOVERNMENT OF TOKELAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

Note 10: TOKELAU TRANSPORT CORPORATION (TRANSTOK)

The Tokelau Transport Corporation Rules 1997 came into force on 1 February 1997. The primary function of Transtok is to be the legal owner and operator of its ship the MV Tokelau. As the operations of Transtok continue to be administered by a government department, under transitional arrangements, these rules have not been specifically complied with. Full financial results of the shipping operations are, however, disclosed by way of being included within the overall financial statements of the Government of Tokelau.

Note 11: BUDGETED REVENUE AND EXPENDITURE

| | 30 June 2006 \$'000 Actual | 30 June 2006 \$'000 Budgeted |
|------------------------------------|---|---|
| REVENUE | | |
| New Zealand Budgetary Assistance | 11,107 | 10,336 |
| Local Revenue | 2,520 | 1,843 |
| Project Funding | 909 | ** |
| EXPENDITURE | | |
| Administrative Services & Supplies | 1,079 | 1000 |
| Office for the Council of Faipule | 1,484 | 1,096 |
| Transport | 1,577 | 1,565 |
| Education | 747 | 775 |
| Health | 1,409 | 1,410 |
| Natural Resources & Environment | 168 | 135 |
| Energy | 236 | 265 |
| Atafu | 1,498 | 1,421 |
| Fakaofu | 1,612 | 1,520 |
| Nukunonu | 1,378 | 1,217 |
| Telecommunications | 783 | * |
| Project Expenditure | 909 | ** |
| Other | 808 | 856 |

* Budget figures for telecommunications unavailable.

** Project expenditure is dependant upon donor support and budget figures are not prepared.

**AUDIT REPORT*****TO THE READERS OF THE FINANCIAL STATEMENTS OF THE GOVERNMENT
OF TOKELAU FOR THE YEAR ENDED 30 JUNE 2007***

I have audited the attached financial statements of the Government of Tokelau (the Government) using my staff and resources. The financial statements provide information about the past financial performance of the Government and its financial position as at 30 June 2007, pursuant to Rule 9 of the Tokelau Finance Rules 1998.

Unqualified opinion

In our opinion:

- The attached financial statements of the Government:
 - have been prepared in accordance with the accounting policies set out at the front of the financial statements; and
 - give a true and fair view, in accordance with those policies, of:
 - the Government's financial position at 30 June 2007; and
 - the results of its operations and cash flows for the year ended on that date.
- Based on our examination the Government kept proper accounting records.

The audit was completed on 5 December 2008, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Government and the Auditor, and explain our independence.

Basis of opinion

We carried out the audit in accordance with the Auditor-General of New Zealand's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transaction and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Government;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statements disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Government and the Auditor

The Government is responsible for preparing financial statements in accordance with generally accepted accounting practice as determined by the Government. Those financial statements must give a true and fair view of the financial position of the Government as at 30 June 2007. They must also give a true and fair view of the results of its operations and cash flows for the year ended on that date. The Government's responsibilities arise from the Tokelau Finance Rules 1998.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from Rule 11 and Rule 13 of the Tokelau Finance Rules of 1998.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

Other than the audit, we have no relationship with or interests in the Government.

K B Brady
Auditor-General of New Zealand
Wellington
New Zealand

STATEMENT OF ACCOUNTING POLICIES

Reporting Entity

These are the financial statements of the Government of Tokelau, including the Telecommunications Tokelau Corporation and the Tokelau Transport Corporation, prepared pursuant to the Tokelau Finance Rules 1998.

Measurement System

The financial statements have been prepared in accordance with generally accepted accounting practice as determined by the Government of Tokelau. The measurement base adopted is that of historical cost. Modified accrual accounting is used to match expenses and revenue.

Accounting Policies

- i All amounts are expressed in New Zealand currency. Foreign currency transactions are translated at the average of the buy/sell exchange rate at the beginning of the month. Differences arising from variation between actual and average rates are recorded in an Exchange Fluctuation Account. Any surplus or deficit in this account at balance date is transferred to the Statement of Financial Performance within Administrative Services and Supplies.
- ii Investments in New Zealand currency are recorded at cost. Other investments are recorded at foreign currency cost converted to New Zealand dollars at balance date. Exchange variances are transferred to the Statement of Financial Performance.
- iii Stock on hand is recorded at the lower of cost and net realisable value. Stock on hand is determined on a FIFO basis.
- iv Co-Operative Store Accounts are recorded at historical cost.
- v Debtors are recorded at historical cost less provision for doubtful debts.
- vi Fixed Assets purchased on or before 30 June 1999 have been expensed. Fixed Assets purchased after 30 June 1999, other than infrastructure, are recorded in the Statement of Financial Position at historical cost less accumulated depreciation. Infrastructure assets have not been recognised.

Fixed Assets are depreciated on a Straight Line basis as follows:

| | |
|---------------------------------|------------|
| Out-fittings | 2 Years |
| Computer Hardware & Software | 2 Years |
| Office Equipment | 3 Years |
| MV Tokelau, Boats & Accessories | 2-5 Years |
| Furniture & Fittings | 2 Years |
| Plant & Equipment | 3 Years |
| Motor Vehicles | 3 Years |
| Energy Equipment | 3 Years |
| Telecommunications equipment | 5-20 Years |

- vii Expenditure incurred in respect of projects funded by specific contributions from donor agencies is recognised in the statement of financial performance as it is incurred. The aid funding received from donor agencies for those projects is recognised as revenue when, and to the extent that, the relevant expenditure is incurred unless there is no obligation to return any unspent funds, in which case the revenue is recognised in the statement of financial performance when received. Unexpended funds, or expenses to be recovered, in respect of these projects is recognised as a liability and asset (respectively) in the statement of financial position.

Change in Accounting Policies

There have been no changes in accounting policies since the date of the last audited financial statements.

GOVERNMENT OF TOKELAU
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2007

| | Note | 30 June 2007 \$'000 | 30 June 2006 \$'000 |
|---|------|------------------------|------------------------|
| REVENUE | | | |
| New Zealand Budgetary Assistance | | 10,634 | 11,107 |
| Local Revenue | 1 | 4,275 | 2,520 |
| Project Funding | 4 | 903 | 909 |
| TOTAL REVENUE | | 15,812 | 14,536 |
| EXPENDITURE | | | |
| Administrative Services & Supplies | | 843 | 1,079 |
| Office for the Council of the Faipule | | 1,181 | 1,484 |
| Transport | | 2,444 | 1,577 |
| Education | | 918 | 747 |
| Health | | 1,165 | 1,409 |
| Natural Resources & Environment | | 119 | 168 |
| Energy | | 304 | 236 |
| Atafu | | 1,868 | 1,498 |
| Fakaofu | | 1,705 | 1,612 |
| Nukunonu | | 1,433 | 1,378 |
| Telecommunications | | 696 | 783 |
| Project Expenditure | 4 | 903 | 909 |
| Other | | 590 | 808 |
| TOTAL EXPENDITURE | 2 | 14,169 | 13,688 |
| NET OPERATING SURPLUS | | 1,643 | 848 |
| NET SURPLUS TRANSFERRED TO ACCUMULATED FUNDS | | 1,643 | 848 |

The accompanying notes and accounting policies form part of, and should be read in conjunction with, these financial statements

GOVERNMENT OF TOKELAU
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2007

| | Note | 30 June 2007 \$'000 | 30 June 2006 \$'000 |
|--|------|------------------------|------------------------|
| ACCUMULATED FUNDS | | | |
| Balance as at 1 July | | (463) | (1,311) |
| Unappropriated surplus for year | | 1,643 | 848 |
| Accumulated funds/(deficit) at 30 June | | 1,180 | (463) |
| Reserves and Trust Funds | 3 | 208 | 236 |
| Accumulated Funds Plus Reserves | | 1,388 | (227) |
| Represented by: | | | |
| Assets | | | |
| Cash on Hand | | 78 | 90 |
| Bank Accounts | | 1,293 | 1,118 |
| Stock on Hand | | 450 | 470 |
| Sundry Debtors | | 355 | 289 |
| Project Expenses to be Recovered | 4 | 149 | 98 |
| Housing Scheme Debtors | | 21 | 21 |
| Atoll Imprest Accounts | | 32 | 36 |
| Co-Operative Store | 7 | 109 | (245) |
| Fixed Assets | 5 | 1,212 | 1,752 |
| | | 3,699 | 3,629 |
| Restricted Assets | 3 | 239 | 233 |
| Total Assets | | 3,938 | 3,862 |
| Liabilities | | | |
| ANZ Bank (Samoa) – Overdrafts | | 66 | 300 |
| Remittances in Transit | 6 | 272 | 289 |
| Unexpended Project Funds | 4 | 515 | 661 |
| Sundry Creditors | | 565 | 726 |
| Revenue in Advance | | 672 | 600 |
| Liability to Depositors | 8 | 460 | 1,513 |
| Total Liabilities | | 2,550 | 4,089 |
| NET ASSETS | | 1,388 | (227) |

P Leilua-Lei Sam
 Director Finance

F Toloa
 Minister of Finance

Dated: November 2008

Dated: November 2008

The accompanying notes and accounting policies form part of, and should be read in conjunction with, these financial statements

GOVERNMENT OF TOKELAU
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2007

| | Note | 30 June 2007 \$'000 | 30 June 06 \$'000 |
|---|----------|------------------------|----------------------|
| Cash Flows – Operating Activities | | | |
| Cash was provided from: | | | |
| NZ Budgetary Assistance | | 10,562 | 10,707 |
| Other Income | | 4,209 | 2,325 |
| Project Funds | | 706 | 1,006 |
| | | 15,477 | 14,038 |
| Cash was applied to: | | | |
| Payment to Suppliers | | 7,480 | 6,300 |
| Payment to Employees | | 5,677 | 5,909 |
| Project Expenditure | | 903 | 909 |
| | | 14,060 | 13,118 |
| Net Cash Flows from Operating Activities | 9 | 1,417 | 920 |
| Cash Flows – Investing Activities | | | |
| Cash was applied to: | | | |
| Decrease in savings scheme liability | | 1,053 | 355 |
| Sports Reserve | | (10) | 0 |
| Capital Works | | 321 | 817 |
| | | 1,364 | 1,172 |
| Net Cash Flows from Investing Activities | | (1,364) | (1,172) |
| Net Increase/(Decrease) in Cash Held | | 53 | (253) |
| Add Effect of Exchange Movement | | 340 | 193 |
| Add Effect of introduction of Teletok | | - | - |
| Add Opening Cash | | 944 | 1004 |
| Closing Cash | | 1,337 | 944 |
| Represented By: | | | |
| ANZ Bank (Samoa) | | (66) | (300) |
| NZ Bank Accounts | | 1,293 | 1,118 |
| Atoll Imprest Accounts | | 32 | 36 |
| Cash on Hand | | 78 | 90 |
| | | 1,337 | 944 |

The accompanying notes and accounting policies form part of, and should be read in conjunction with, these financial statements

GOVERNMENT OF TOKELAU
STATEMENT OF CONTINGENT LIABILITIES & COMMITMENTS
AS AT 30 JUNE 2007

There were no outstanding contingent liabilities or commitments at balance date (2006: nil).

GOVERNMENT OF TOKELAU
STATEMENT OF UNAPPROPRIATED EXPENDITURE
FOR THE YEAR ENDED 30 JUNE 2007

There were no unappropriated expenditures or expenses or liabilities outstanding at balance date (2006: nil).

GOVERNMENT OF TOKELAU
STATEMENT OF EMERGENCY EXPENDITURE
FOR THE YEAR ENDED 30 JUNE 2007

There were no emergency expenditures or expenses or liabilities outstanding at balance date (2006: nil).

GOVERNMENT OF TOKELAU
STATEMENT OF TRUST MONEY HELD
AS AT 30 JUNE 2007

There was no trust money held by the Tokelau Administration at balance date (2006: nil).

GOVERNMENT OF TOKELAU
STATEMENT OF BORROWINGS
AS AT 30 JUNE 2007

During the year the Tokelau Administration utilised an OD facility WST\$200,000 with the ANZ Bank (Samoa) Ltd.

Security for the above were term deposits with the same bank WST\$200,000 (2006: WST\$166,000)

GOVERNMENT OF TOKELAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

Note 1: Local Revenue

| | 30 June 2007 | 30 June |
|--|---------------------|-------------------|
| | \$'000 | 2006\$'000 |
| Exclusive Economic Zone Fishing Licensing Fees | 2,011 | 303 |
| Interest | 120 | 100 |
| Duty | 488 | 362 |
| Commemorative Coins and Stamps | 46 | 23 |
| Community Service Levy | 542 | 536 |
| Boat fares & Freight | 406 | 350 |
| Telecommunications revenue | 513 | 562 |
| Other Revenue | 149 | 284 |
| | <u>4,275</u> | <u>2,520</u> |

Note 2: Operating Expenditure

Included with expenditure are the following costs:

| | 30 June 2007 | 30 June 2006 |
|-------------------------|---------------------|---------------------|
| | \$'000 | \$'000 |
| Personnel | 5,677 | 5,989 |
| Depreciation | 816 | 460 |
| Audit Fees | 40 | 35 |
| Debt write off | 0 | 0 |
| Communications | 208 | 324 |
| Repairs and Maintenance | 347 | 217 |

GOVERNMENT OF TOKELAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

Note 3: RESERVES & TRUST FUNDS

| Name | Opening Balance | Transferred to Projects | Applied to Performance | Income* | Interest Income* | Other | Closing Balance |
|------------------------------|--------------------|----------------------------|---------------------------|----------|---------------------|----------|--------------------|
| Accident Compensation Res | 20 | 0 | 0 | 0 | (2) | 0 | 18 |
| South Pacific Games Res. | 14 | (14) | 0 | 0 | 0 | 0 | 0 |
| Disaster Relief Project Res. | 14 | 0 | 0 | 0 | (2) | 0 | 12 |
| Sports Reserve | 10 | (10) | 0 | 0 | 0 | 0 | 0 |
| Ag. & Fish Store Res. | 23 | 0 | 0 | 0 | (5) | 0 | 18 |
| Insurance Fund | 100 | 0 | 0 | 0 | (4) | 0 | 96 |
| Educ. Culture Tour Trust | 55 | 0 | 0 | 0 | 9 | 0 | 64 |
| | <u>236</u> | <u>(24)</u> | <u>0</u> | <u>0</u> | <u>(4)</u> | <u>0</u> | <u>208</u> |

These are Represented by the following Investments:

| | 30 June 2007 \$'000 | 30 June 06 \$'000 |
|--------------------------------|------------------------|----------------------|
| ANZ (Samoa) Term Deposits | 88 | 81 |
| Insurance Fund | 93 | 97 |
| Educ. Culture Tour Trust – BNZ | 58 | 55 |
| | <u>239</u> | <u>233</u> |

The difference between the total of the restricted reserves and the investments held reflects reimbursements due to general fund bank accounts that will be made when the investments mature

GOVERNMENT OF TOKELAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

Note 4: INTERNATIONAL AID PROJECTS

A Summary of income and expenditure for international aid projects is set out below:

| Project Name | Sponsor | Opening Balance | Funds Received | Expenditure | Closing Balance |
|---------------------------------|----------------|------------------------|-----------------------|--------------------|------------------------|
| AiDs, STD & Family Planning | Various | (33) | 0 | 33 | 0 |
| Community Workshop NCD'S | WHO | (11) | 0 | 11 * | 0 |
| Health Equipment | ODA | (95) | 0 | 22 | (73) |
| Waste Management | ODA | (52) | 0 | 52 | 0 |
| Gender Development | ODA | (20) | (16) | 27 | (9) |
| Water Supply | FFA | (113) | 0 | 20 | (93) |
| USP Extension Centre | USP | (6) | (11) | 49 | 44 |
| Social and Economic Systems | UNDP | 14 | (74) | 59 | (1) |
| Sustainable Village Enterprise | UNDP | (42) | (27) | 23 | (46) |
| ICT Phase 1 Review | UNDP | (7) | (6) | 13 * | 0 |
| Cultural Policy Development | UNESCO | (67) | 0 | 67 | 0 |
| Education Development | PRIDE | 19 | (57) | 124 | 86 |
| FFA Consultations | FFA | 0 | 0 | 19 | 19 |
| TIEMP | UNDP | (7) | (80) | 87 | 0 |
| Health Projects | Various | 41 | (93) | 39 | 13 |
| Fakaofu | - | (150) | 0 | 9 | (141) |
| Tokelau Games | - | (40) | (73) | 100 | (13) |
| Pest Eradication | - | (13) | 0 | 13 * | 0 |
| Disaster Management | UNDP | 0 | (29) | 26 | (3) |
| Small Grants Programme | GEF | 0 | (18) | 10 | (8) |
| NGO Assistance | UNESCO | 0 | (110) | 50 | (60) |
| Seawall | UNDP | 0 | (118) | 63 | (55) |
| Net Project Funding Held | | (563) | (706) | 903 | (366) |
| Expenditure to be Recovered | | 98 | | | 149 |
| | | <u>661</u> | | | <u>515</u> |

- Project closed and balance written off/on

GOVERNMENT OF TOKELAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

Note 5: FIXED ASSETS

30 June 2007 (\$'000)

| Category | Cost | Accumulated Depreciation | Net Book Value |
|------------------------------|--------------|---------------------------------|-----------------------|
| Power Generation Equipment | 1,122 | 374 | 748 |
| Out-fittings | 8 | 8 | 0 |
| Computer Hardware & Software | 112 | 110 | 2 |
| Office Equipment | 39 | 39 | 0 |
| Motor Boats & Accessories | 221 | 161 | 60 |
| Furniture & Fittings | 55 | 55 | 0 |
| Plant & Equipment | 62 | 59 | 3 |
| Telecommunications | 2,446 | 2,062 | 384 |
| Motor Vehicles | 210 | 195 | 15 |
| MV Tokelau | 362 | 362 | 0 |
| | 4,637 | 3,425 | 1,212 |

30 June 2006 (\$'000)

| Category | Cost | Accumulated Depreciation | Net Book Value |
|----------------------------------|--------------|---------------------------------|-----------------------|
| Work in Progress (Power Project) | 849 | 0 | 849 |
| Out-fittings | 8 | 8 | 0 |
| Computer Hardware & Software | 112 | 102 | 10 |
| Office Equipment | 39 | 39 | 0 |
| Motor Boats & Accessories | 221 | 131 | 90 |
| Furniture & Fittings | 55 | 55 | 0 |
| Plant & Equipment | 62 | 42 | 20 |
| Telecommunications | 2,445 | 1,880 | 656 |
| Motor Vehicles | 210 | 173 | 37 |
| MV Tokelau | 362 | 181 | 181 |
| | 4,363 | 2,611 | 1,752 |

Note 6: REMITTANCES IN TRANSIT

Remittances in Transit represent money held by the Office for Tokelau Affairs on behalf of Tokelauans transferring money between New Zealand, Apia and the Atolls.

Note 7: CO-OPERATIVE STORES

The Government purchases commodities and arranges shipping of commodities for resale by the Tokelau Co-Operative stores at Atafu, Fakaofu and Nukunonu. The asset of \$109,000 represents the amount owed to the Government by the Co-Operatives. (2006: a liability of \$245,000 owed to the Co-Operatives by the Government)

GOVERNMENT OF TOKELAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

Note 8: LIABILITY TO DEPOSITORS

In the absence of banking facilities on the atolls, the Government operates a passbook savings scheme and held total deposits of \$2,599,000 for safe keeping as at 30 June 2007 (2006: \$2,237,000). Interest is paid to depositors at 3.5% per annum.

The passbook savings scheme is regulated by the Tokelau Banking Rules 2004. The Banking Rules 2004 include the Tokelau Savings Bank (Passbook savings scheme) and the Tokelau Development Bank. The Tokelau Development Bank is not yet operational.

As at 30 June 2007 current savings account balances exceed specific funds held by the Tokelau Savings Bank to the amount of \$460,000 (2006: \$1,513,000). This shortfall is being "repaid" by the Government as funds become available. With the introduction of the Banking Rules 2004, the funds of the savings scheme are no longer available for Government cash flow purposes.

The total savings account balance includes \$523,000 (2006:\$299,000) in accounts held by Teletok, which is a wholly owned Government Corporation. That amount is included in the item "Bank Accounts" in the statement of financial position. As the savings scheme is operated by the Tokelau Savings Bank, a separate organisation from that of the Government, these amounts have not been eliminated when preparing these financial statements.

| | 30 June 2007 \$'000 | 30 June 2006 \$'000 |
|--------------------------|----------------------------|----------------------------|
| Savings Account Balances | 2,599 | 2,237 |
| Specific Funds Held | 2,139 | 724 |
| | <u>460</u> | <u>1,513</u> |

Note 9: RECONCILIATION OF NET DEFICIT TO NET CASH FLOWS FROM OPERATING ACTIVITIES

| | 30 June 2007 \$'000 | 30 June 2006 \$'000 |
|--|----------------------------|----------------------------|
| Net Operating Surplus/(Deficit) as per Statement of Financial Performance | 1,643 | 848 |
| Add back Non Cash Items | <u>477</u> | <u>268</u> |
| Plus/(Minus) Movements in Working Capital | | |
| Appropriation of Funds to Trust Fund | 0 | 0 |
| (Increase)/Decrease in Stock on Hand | 20 | (138) |
| (Increase)/Decrease Teletok | 0 | 0 |
| Increase/(Decrease) in Sundry Debtors | (66) | 104 |
| Increase/(Decrease) in Remittances | (17) | 218 |
| Increase/(Decrease) in Co-Op Stores | (354) | (165) |
| Increase/Decrease in Sundry Creditors | (161) | 94 |
| Increase/Decrease in Trust Fund Debtor | 72 | (406) |
| Increase/Decrease in Project Balances | <u>(197)</u> | <u>97</u> |
| | <u>(226)</u> | <u>72</u> |
| Net Cashflow from Operating Activities | <u>1,417</u> | <u>920</u> |

GOVERNMENT OF TOKELAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

Note 10: TOKELAU TRANSPORT CORPORATION (TRANSTOK)

The Tokelau Transport Corporation Rules 1997 came into force on 1 February 1997. The primary function of Transtok is to be the legal owner and operator of its ship the MV Tokelau. As the operations of Transtok continue to be administered by a government department, under transitional arrangements, these rules have not been specifically complied with. Full financial results of the shipping operations are, however, disclosed by way of being included within the overall financial statements of the Government of Tokelau.

Note 11: BUDGETED REVENUE AND EXPENDITURE

| | 30 June 2007 \$'000 | 30 June 2007 \$'000 |
|------------------------------------|------------------------|------------------------|
| | Actual | Budgeted |
| REVENUE | | |
| New Zealand Budgetary Assistance | 10,634 | 9,735 |
| Local Revenue | 4,275 | 1,835 |
| Project Funding | 903 | ** |
| EXPENDITURE | | |
| Administrative Services & Supplies | 843 | 849 |
| Office for the Council of Faipule | 1,181 | 894 |
| Transport | 2,444 | 1,077 |
| Education | 918 | 866 |
| Health | 1,165 | 1,209 |
| Natural Resources & Environment | 119 | 137 |
| Energy | 304 | 250 |
| Atafu | 1,868 | 1,805 |
| Fakaofu | 1,705 | 1,719 |
| Nukunonu | 1,433 | 1,450 |
| Telecommunications | 696 | * |
| Project Expenditure | 903 | ** |
| Other | 590 | 693 |

* Budget figures for telecommunications unavailable.

** Project expenditure is dependant upon donor support and budget figures are not prepared.

AUDIT REPORT

TO THE READERS OF THE FINANCIAL STATEMENTS OF THE GOVERNMENT OF TOKELAU FOR THE YEAR ENDED 30 JUNE 2008

I have audited the financial statements of the Government of Tokelau (the Government) using my staff and resources. The financial statements provide information about the past financial performance of the Government and its financial position as at 30 June 2008, pursuant to Rule 9 of the Tokelau Finance Rules 1998.

Unqualified opinion

In our opinion:

- The financial statements of the Government:
 - have been prepared in accordance with the accounting policies set out at the front of the financial statements; and
 - give a true and fair view, in accordance with those policies, of:
 - the Government's financial position at 30 June 2008; and
 - the results of its operations and cash flows for the year ended on that date.
- Based on our examination the Government kept proper accounting records.

The audit was completed on 18 December 2008, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Government and the Auditor, and explain our independence.

Basis of opinion

We carried out the audit in accordance with the Auditor-General of New Zealand's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transaction and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Government;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statements disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Government and the Auditor

The Government is responsible for preparing financial statements in accordance with generally accepted accounting practice as determined by the Government. Those financial statements must give a true and fair view of the financial position of the Government as at 30 June 2008. They must also give a true and fair view of the results of its operations and cash flows for the year ended on that date. The Government's responsibilities arise from the Tokelau Finance Rules 1998.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from Rule 11 and Rule 13 of the Tokelau Finance Rules of 1998.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

Other than the audit, we have no relationship with or interests in the Government.

K B Brady

Auditor-General of New Zealand
Wellington
New Zealand

STATEMENT OF ACCOUNTING POLICIES

Reporting Entity

These are the financial statements of the Government of Tokelau, including the Telecommunications Tokelau Corporation and the Tokelau Transport Corporation, prepared pursuant to the Tokelau Finance Rules 1998.

Measurement System

The financial statements have been prepared in accordance with generally accepted accounting practice as determined by the Government of Tokelau. The measurement base adopted is that of historical cost. Modified accrual accounting is used to match expenses and revenue.

Accounting Policies

- i. All amounts are expressed in New Zealand currency. Foreign currency transactions are translated at the average of the buy/sell exchange rate at the beginning of the month. Differences arising from variation between actual and average rates are recorded in an Exchange Fluctuation Account. Any surplus or deficit in this account at balance date is transferred to the Statement of Financial Performance.
- ii. Investments in New Zealand currency are recorded at cost. Other investments are recorded at foreign currency cost converted to New Zealand dollars at balance date. Exchange variances are transferred to the Statement of Financial Performance.
- iii. Stock on hand is recorded at the lower of cost and net realisable value. Stock on hand is determined on a FIFO basis.
- iv. Co-Operative Store Accounts are recorded at historical cost.
- v. Debtors are recorded at historical cost less provision for doubtful debts.
- vi. Fixed Assets purchased on or before 30 June 1999 have been expensed. Fixed Assets purchased after 30 June 1999, other than infrastructure, are recorded in the Statement of Financial Position at historical cost less accumulated depreciation. Infrastructure assets have not been recognised.

Fixed Assets are depreciated on a Straight Line basis as follows:

| | |
|---------------------------------|------------|
| Out-fittings | 2 Years |
| Computer Hardware & Software | 2 Years |
| Office Equipment | 3 Years |
| MV Tokelau, Boats & Accessories | 2-5 Years |
| Furniture & Fittings | 2 Years |
| Plant & Equipment | 3 Years |
| Motor Vehicles | 3 Years |
| Energy Equipment | 3 Years |
| Telecommunications equipment | 5-20 Years |

- vii Expenditure incurred in respect of projects funded by specific contributions from donor agencies is recognised in the statement of financial performance as it is incurred. The aid funding received from donor agencies for those projects is recognised as revenue when, and to the extent that, the relevant expenditure is incurred unless there is no obligation to return any unspent funds, in which case the revenue is recognised in the statement of financial performance when received. Unexpended funds, or expenses to be recovered, in respect of these projects is recognised as a liability and asset (respectively) in the statement of financial position.

Change in Accounting Policies

There have been no changes in accounting policies since the date of the last audited financial statements. Where necessary, comparative figures have been restated to reflect corrections and changes in disclosure.

GOVERNMENT OF TOKELAU
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2008

| | Note | 30 June 2008 \$'000 | 30 June 2007 \$'000 |
|---|------|------------------------|------------------------|
| REVENUE | | | |
| New Zealand Budgetary Assistance | | 11,409 | 10,634 |
| Local Revenue | 1 | 3,752 | 4,615 |
| Project Funding | 4 | 1,722 | 903 |
| TOTAL REVENUE | | 16,883 | 16,152 |
| EXPENDITURE | | | |
| Administrative Services & Supplies | | 1,127 | 843 |
| Office for the Council of Ongoing Government | | 1,126 | 1,181 |
| Transport | | 1,910 | 2,444 |
| Education | | 864 | 918 |
| Health | | 1,299 | 1,165 |
| Natural Resources & Environment | | 92 | 119 |
| Energy | | 382 | 304 |
| Atafu | | 1,877 | 1,868 |
| Fakaofu | | 1,816 | 1,705 |
| Nukunonu | | 1,704 | 1,433 |
| Telecommunications | | 459 | 696 |
| Project Expenditure | 4 | 1,722 | 903 |
| NGO Grants | | 663 | 289 |
| Other | | 656 | 641 |
| TOTAL EXPENDITURE | 2 | 15,697 | 14,509 |
| NET OPERATING SURPLUS | | 1,186 | 1,643 |
| NET SURPLUS TRANSFERRED TO ACCUMULATED FUNDS | | 1,186 | 1,643 |

The accompanying notes and accounting policies form part of, and should be read in conjunction with, these financial statements

GOVERNMENT OF TOKELAU
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2008

| | Note | 30 June 2008 \$'000 | 30 June 2007 \$'000 |
|--|------|------------------------|------------------------|
| ACCUMULATED FUNDS | | | |
| Balance as at 1 July | | 1,180 | (463) |
| Unappropriated surplus for year | | 1,186 | 1,643 |
| Accumulated funds/(deficit) at 30 June | | 2,366 | 1,180 |
| Reserves and Trust Funds | 3 | 229 | 208 |
| Accumulated Funds Plus Reserves | | 2,595 | 1,388 |
| Represented by: | | | |
| Assets | | | |
| Cash on Hand | | 128 | 78 |
| Bank Accounts | | 2,268 | 1,293 |
| Stock on Hand | | 527 | 450 |
| Sundry Debtors | | 443 | 355 |
| Project Expenses to be Recovered | 4 | 167 | 149 |
| Housing Scheme Debtors | | 21 | 21 |
| Atoll Imprest Accounts | | 66 | 32 |
| Co-Operative Store | 7 | 268 | 109 |
| Fixed Assets | 5 | 797 | 1,212 |
| | | 4,685 | 3,699 |
| Restricted Assets | 3 | 173 | 239 |
| Total Assets | | 4,858 | 3,938 |
| Liabilities | | | |
| ANZ Bank (Samoa) – Overdrafts | | 20 | 66 |
| Remittances in Transit | 6 | 36 | 272 |
| Unexpended Project Funds | 4 | 1,334 | 515 |
| Sundry Creditors | | 397 | 565 |
| Revenue in Advance | | 476 | 672 |
| Liability to Depositors | 8 | 0 | 460 |
| Total Liabilities | | 2,263 | 2,550 |
| NET ASSETS | | 2,595 | 1,388 |

The accompanying notes and accounting policies form part of, and should be read in conjunction with, these financial statements

GOVERNMENT OF TOKELAU
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2008

| | Note | 30 June 2008 \$'000 | 30 June 2007 \$'000 |
|---|------|------------------------|------------------------|
| Cash Flows – Operating Activities | | | |
| Cash was provided from; | | | |
| NZ Budgetary Assistance | | 11,409 | 10,562 |
| Other Income | | 3,555 | 4,209 |
| Project Funds | | 2,523 | 706 |
| | | <u>17,487</u> | <u>15,477</u> |
| Cash was applied to; | | | |
| Payment to Suppliers | | 7,891 | 7,480 |
| Payment to Employees | | 6,422 | 5,677 |
| Project Expenditure | | 1,722 | 903 |
| | | <u>16,035</u> | <u>14,060</u> |
| Net Cash Flows from Operating Activities | 9 | 1,452 | 1,417 |
| Cash Flows – Investing Activities | | | |
| Cash was applied to; | | | |
| Decrease in savings scheme liability | | 460 | 1,053 |
| Restricted Asset Investments | | (66) | 0 |
| Reserves | | 10 | (10) |
| Capital Works | | 79 | 321 |
| | | <u>483</u> | <u>1,364</u> |
| Net Cash Flows from Investing Activities | | <u>(483)</u> | <u>(1,364)</u> |
| Net Increase/(Decrease) in Cash Held | | | |
| Add Effect of Exchange Movement | | 969 | 53 |
| Add Opening Cash | | 136 | 340 |
| | | <u>1,337</u> | <u>944</u> |
| Closing Cash | | <u>2,442</u> | <u>1,337</u> |
| Represented By; | | | |
| Bank Accounts | | 2,248 | 1,227 |
| Atoll Imprest Accounts | | 66 | 32 |
| Cash on Hand | | 128 | 78 |
| | | <u>2,442</u> | <u>1,337</u> |

The accompanying notes and accounting policies form part of, and should be read in conjunction with, these financial statements

GOVERNMENT OF TOKELAU
STATEMENT OF CONTINGENT LIABILITIES & COMMITMENTS
AS AT 30 JUNE 2008

There were no outstanding contingent liabilities or commitments at balance date (2007: nil).

GOVERNMENT OF TOKELAU
STATEMENT OF UNAPPROPRIATED EXPENDITURE
FOR THE YEAR ENDED 30 JUNE 2008

There were no unappropriated expenditures or expenses or liabilities outstanding at balance date (2007: nil).

GOVERNMENT OF TOKELAU
STATEMENT OF EMERGENCY EXPENDITURE
FOR THE YEAR ENDED 30 JUNE 2008

There were no emergency expenditures or expenses or liabilities outstanding at balance date (2007: nil).

GOVERNMENT OF TOKELAU
STATEMENT OF TRUST MONEY HELD
AS AT 30 JUNE 2008

There was no trust money held by the Tokelau Administration at balance date (2007: nil).

GOVERNMENT OF TOKELAU
STATEMENT OF BORROWINGS
AS AT 30 JUNE 2008

During the year the Tokelau Administration utilised an OD facility of WST\$200,000 with the ANZ Bank (Samoa) Ltd.

Security for above were term deposits with the same bank to the value of WST\$200,000 (2007: WST\$200,000).

The accompanying notes and accounting policies form part of, and should be read in conjunction with, these financial statements

GOVERNMENT OF TOKELAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

Note 1: Local Revenue

| | 30 June 2008 | 30 June 2007 |
|--|---------------------|---------------------|
| | \$'000 | \$'000 |
| Exclusive Economic Zone Fishing Licensing Fees | 1,181 | 2,011 |
| Interest | 222 | 120 |
| Duty | 623 | 488 |
| Commemorative Coins and Stamps | 0 | 46 |
| Community Service Levy | 573 | 542 |
| Boat fares & Freight | 450 | 406 |
| Telecommunications revenue | 414 | 513 |
| Fishing Licenses | 76 | 0 |
| Foreign Exchange Gains | 111 | 340 |
| Other Revenue | 102 | 149 |
| | <u>3,752</u> | <u>4,615</u> |

Note 2: Operating Expenditure

Included with expenditure are the following costs:

| | 30 June 2008 | 30 June 2007 |
|-------------------------|---------------------|---------------------|
| | \$'000 | \$'000 |
| Personnel | 6,502 | 5,677 |
| Depreciation | 524 | 816 |
| Audit Fees | 60 | 40 |
| Debt write off | 0 | 0 |
| Communications | 295 | 208 |
| Repairs and Maintenance | 382 | 347 |

GOVERNMENT OF TOKELAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

Note 3: RESERVES & TRUST FUNDS

| Name | Opening Balance | Transferred to Projects | Applied to Performance | Income* | Spent | Closing Balance |
|------------------------------|-----------------|-------------------------|------------------------|---------|-------|-----------------|
| | | | 0 | | | 19,375 |
| Accident Compensation Res | 18 | 0 | 0 | 3 | 0 | 21 |
| South Pacific Games Res. | 0 | 0 | 0 | 15 | 0 | 15 |
| Disaster Relief Project Res. | 12 | 0 | 0 | 3 | 0 | 15 |
| Ag. & Fish Store Res. | 18 | 0 | 0 | 7 | 0 | 25 |
| Insurance Fund | 96 | 0 | 0 | (1) | 0 | 95 |
| Educ. Culture Tour Trust | 64 | 0 | 0 | 4 | 10 | 58 |
| | 208 | 0 | 0 | 31 | 10 | 229 |

* Income is shown net of foreign exchange movements

These are Represented by the following Investments:

| | 30 June 2008 \$'000 | 30 June 2007 \$'000 |
|--------------------------------|------------------------|------------------------|
| ANZ (Samoa) Term Deposits | 77 | 88 |
| Insurance Fund | 96 | 93 |
| Educ. Culture Tour Trust – BNZ | 0 | 58 |
| | 173 | 239 |

The difference between the total of the restricted reserves and the investments held reflects reimbursements due to general fund bank accounts that will be made when the investments mature.

GOVERNMENT OF TOKELAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

Note 4: INTERNATIONAL AID PROJECTS

A Summary of income and expenditure for international aid projects is set out below:

| Project Name | Sponsor | Opening Balance | Funds Received | Expenditure | Closing Balance |
|---------------------------------|----------------|------------------------|-----------------------|--------------------|------------------------|
| NGO Assistance | UNDP | 0 | (27) | 22 | (5) |
| Economic Development | FFA | 0 | (350) | 2 | (348) |
| Health Equipment | ODA | (73) | 0 | 0 | (73) |
| Gender Development | ODA | (9) | (7) | 11 | (5) |
| Water Supply | FFA | (93) | 0 | 14 | (79) |
| USP Extension Centre | USP | 44 | (163) | 198 | 79 |
| Social & Economic Systems | UNDP | (1) | (87) | 77 | (11) |
| Sustainable Village Enterprise | UNDP | (46) | 0 | 0 | (46) |
| Cultural Policy Development | UNESCO | 0 | (42) | 29 | (13) |
| Education Development | PRIDE | 86 | (197) | 122 | 11 |
| TVET Education | | 19 | (111) | 53 | (39) |
| TIEMP | UNDP | 0 | (4) | 1 | (3) |
| Health Projects | Various | (13) | (24) | 15 | (22) |
| Fakaofu | - | (141) | 0 | 35 | (106) |
| Tokelau Games | - | (13) | (308) | 282 | (39) |
| Infrastructure Development | NZAID | 0 | (650) | 442 | (208) |
| Disaster Management | UNDP | (3) | 0 | 0 | (3) |
| Miscellaneous | - | 0 | (20) | 28 | 8 |
| Small Grants Programme | GEF | (8) | (15) | 7 | (16) |
| Fatupaepae Grants | - | 0 | (60) | 18 | (42) |
| Village Project Grants | - | 0 | (310) | 162 | (148) |
| NGO Assistance | UNESCO | (60) | (6) | 60 | (6) |
| Seawall | UNDP | (55) | (142) | 144 | (53) |
| Net Project Funding Held | | (366) | (2,523) | 1,722 | (1,167) |
| Expenditure to be Recovered | | 149 | | | 167 |
| | | <u>515</u> | | | <u>1,334</u> |

GOVERNMENT OF TOKELAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

Note 5: FIXED ASSETS

30 June 2008 (\$'000)

| Category | Cost | Accumulated Depreciation | Net Book Value |
|------------------------------|--------------|---------------------------------|-----------------------|
| Power Generation Equipment | 1,122 | 739 | 383 |
| Out-fittings | 8 | 8 | 0 |
| Computer Hardware & Software | 112 | 112 | 0 |
| Office Equipment | 39 | 39 | 0 |
| Motor Boats & Accessories | 221 | 191 | 30 |
| Furniture & Fittings | 55 | 55 | 0 |
| Plant & Equipment | 62 | 62 | 0 |
| Telecommunications | 2,490 | 2,134 | 356 |
| Motor Vehicles | 244 | 216 | 28 |
| MV Tokelau | 362 | 362 | 0 |
| | 4,715 | 3,918 | 797 |

30 June 2007 (\$'000)

| Category | Cost | Accumulated Depreciation | Net Book Value |
|------------------------------|--------------|---------------------------------|-----------------------|
| Power Generation Equipment | 1,122 | 374 | 748 |
| Out-fittings | 8 | 8 | 0 |
| Computer Hardware & Software | 112 | 110 | 2 |
| Office Equipment | 39 | 39 | 0 |
| Motor Boats & Accessories | 221 | 161 | 60 |
| Furniture & Fittings | 55 | 55 | 0 |
| Plant & Equipment | 62 | 59 | 3 |
| Telecommunications | 2,446 | 2,062 | 384 |
| Motor Vehicles | 210 | 195 | 15 |
| MV Tokelau | 362 | 362 | 0 |
| | 4,637 | 3,425 | 1,212 |

Note 6: REMITTANCES IN TRANSIT

Remittances in Transit represent money held by the Office for Tokelau Affairs on behalf of Tokelauans transferring money between New Zealand, Apia and the Atolls.

Note 7: CO-OPERATIVE STORES

The Government purchases commodities and arranges shipping of commodities for resale by the Tokelau Co-Operative stores at Atafu, Fakaofu and Nukunonu. The asset of \$268,000 represents the amount owed to the Government by the Co-Operatives. (2007: \$109,000).

GOVERNMENT OF TOKELAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

Note 8: LIABILITY TO DEPOSITORS

In the absence of banking facilities on the atolls, the Government operates a passbook savings scheme and held total deposits of \$3,007,000 for safe keeping as at 30 June 2007 (2007 : \$2,599,000). Interest is paid to depositors at 3.5% per annum.

The passbook savings scheme is regulated by the Tokelau Banking Rules 2004. The Banking Rules 2004 include the Tokelau Savings Bank (Passbook savings scheme) and the Tokelau Development Bank. The Tokelau Development Bank is not yet operational.

As at 30 June 2008 current savings account balances are matched by specific funds held by the Tokelau Savings Bank. With the introduction of the Tokelau Banking Rules 2004, the funds of the savings scheme are no longer available for Government cash flow purposes.

The total savings account balance includes \$505,000 (2007:\$523,000) in accounts held by Teletok, which is a wholly owned Government Corporation. That amount is included in the item "Bank Accounts" in the statement of financial position. As the savings scheme is operated by the Tokelau Savings Bank, a separate organisation from that of the Government, these amounts have not been eliminated when preparing these financial statements.

| | 30 June 2008 \$'000 | 30 June 2007 \$'000 |
|--------------------------|----------------------------|----------------------------|
| Savings Account Balances | 3,007 | 2,599 |
| Specific Funds Held | 3,007 | 2,139 |
| | <u>0</u> | <u>460</u> |

Note 9: RECONCILIATION OF NET DEFICIT TO NET CASH FLOWS FROM OPERATING ACTIVITIES

| | 30 June 2008 \$'000 | 30 June 2007 \$'000 |
|---|----------------------------|----------------------------|
| Net Operating Surplus/(Deficit) as per Statement of Financial Performance | 1,186 | 1,643 |
| Add back Non Cash Items | 389 | 477 |
| Plus/(Minus) Movements in Working Capital | | |
| (Increase)/Decrease in Stock on Hand | (77) | 20 |
| (Increase)/Decrease in Sundry Debtors | (88) | (66) |
| Increase/(Decrease) in Remittances | (236) | (17) |
| Increase/(Decrease) in Co-Op Stores | (159) | (354) |
| Increase/(Decrease) in Sundry Creditors | (168) | (161) |
| Increase/Decrease in Revenue in Advance | (196) | 72 |
| Increase/Decrease in Project Balances | 801 | (197) |
| Net Cashflow from Operating Activities | <u><u>1,452</u></u> | <u><u>1,417</u></u> |

GOVERNMENT OF TOKELAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

Note 10: TOKELAU TRANSPORT CORPORATION (TRANSTOK)

The Tokelau Transport Corporation Rules 1997 came into force on 1 February 1997. The primary function of Transtok is to be the legal owner and operator of its ship the MV Tokelau. As the operations of Transtok continue to be administered by a government department, under transitional arrangements, these rules have not been specifically complied with. Full financial results of the shipping operations are, however, disclosed by way of being included within the overall financial statements of the Government of Tokelau.

Note 11: BUDGETED REVENUE AND EXPENDITURE

| | 30 June 2008 \$'000 | 30 June 2008 \$'000 |
|------------------------------------|---------------------|---------------------|
| | Actual | Budgeted |
| REVENUE | | |
| New Zealand Budgetary Assistance | 11,409 | 10,800 |
| Local Revenue | 3,752 | 2,400 |
| Project Funding | 1,722 | ** |
| EXPENDITURE | | |
| Administrative Services & Supplies | 1,127 | 917 |
| Office for the Ongoing Government | 1,126 | 1,176 |
| Transport | 1,910 | 1,730 |
| Education | 864 | 832 |
| Health | 1,299 | 1,188 |
| Natural Resources & Environment | 92 | 170 |
| Energy | 382 | 275 |
| Atafu | 1,877 | 1,842 |
| Fakaofu | 1,816 | 1,838 |
| Nukunonu | 1,704 | 1,690 |
| Telecommunications | 459 | * |
| Project Expenditure | 1,722 | ** |
| NGO Grants | 663 | 665 |
| Other | 656 | 670 |

* Budget figures for telecommunications unavailable.

** Project expenditure is dependant upon donor support and budget figures are not prepared.



AUDIT REPORT

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

I have audited the financial statements of the Government of Tokelau (the Government) using my staff and resources. The financial statements provide information about the past financial performance of the Government and its financial position as at 30 June 2008, pursuant to Rule 9 of the Tokelau Finance Rules 1998.

Unqualified opinion

In our opinion:

- The financial statements of the Government:
 - have been prepared in accordance with the accounting policies set out at the front of the financial statements; and
 - give a true and fair view, in accordance with those policies, of:
 - the Government's financial position at 30 June 2009; and
 - the results of its operations and cash flows for the year ended on that date.
- Based on our examination the Government kept proper accounting records.

The audit was completed on 21 April 2010, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Government and the Auditor, and explain our independence.

Basis of opinion

We carried out the audit in accordance with the Auditor-General of New Zealand's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transaction and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Government;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statements disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Government and the Auditor

The Government is responsible for preparing financial statements in accordance with generally accepted accounting practice as determined by the Government. Those financial statements must give a true and fair view of the financial position of the Government as at 30 June 2009. They must also give a true and fair view of the results of its operations and cash flows for the year ended on that date. The Government's responsibilities arise from the Tokelau Finance Rules 1998.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from Rule 11 and Rule 13 of the Tokelau Finance Rules of 1998.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

Other than the audit, we have no relationship with or interests in the Government.

Lyn Provost

Controller and Auditor-General
Wellington
New Zealand

STATEMENT OF ACCOUNTING POLICIES

Reporting Entity

These are the financial statements of the Government of Tokelau, including the Telecommunications Tokelau Corporation and the Tokelau Transport Corporation, prepared pursuant to the Tokelau Finance Rules 1998.

Measurement System

The financial statements have been prepared in accordance with generally accepted accounting practice as determined by the Government of Tokelau. The measurement base adopted is that of historical cost. Modified accrual accounting is used to match expenses and revenue.

Accounting Policies

- i All amounts are expressed in New Zealand currency. Foreign currency transactions are translated at the average of the buy/sell exchange rate at the beginning of the month. Differences arising from variation between actual and average rates are recorded in an Exchange Fluctuation Account. Any surplus or deficit in this account at balance date is transferred to the Statement of Financial Performance.
- ii Investments in New Zealand currency are recorded at cost. Other investments are recorded at foreign currency cost converted to New Zealand dollars at balance date. Exchange variances are transferred to the Statement of Financial Performance.
- iii Stock on hand is recorded at the lower of cost and net realisable value. Stock on hand is determined on a FIFO basis.
- iv Co-Operative Store Accounts are recorded at historical cost.
- v Debtors are recorded at historical cost less provision for doubtful debts.
- vi Fixed Assets purchased on or before 30 June 1999 have been expensed. Fixed Assets purchased after 30 June 1999, other than infrastructure, are recorded in the Statement of Financial Position at historical cost less accumulated depreciation. Infrastructure assets have not been recognised.

Fixed Assets are depreciated on a Straight Line basis as follows:

| | |
|---------------------------------|------------|
| Out-fittings | 2 Years |
| Computer Hardware & Software | 2 Years |
| Office Equipment | 3 Years |
| MV Tokelau, Boats & Accessories | 2-5 Years |
| Furniture & Fittings | 2 Years |
| Plant & Equipment | 3 Years |
| Motor Vehicles | 3 Years |
| Energy Equipment | 3 Years |
| Telecommunications equipment | 5-20 Years |

- vii Expenditure incurred in respect of projects funded by specific contributions from donor agencies is recognised in the statement of financial performance as it is incurred. The aid funding received from donor agencies for those projects is recognised as revenue when, and to the extent that, the relevant expenditure is incurred unless there is no obligation to return any unspent funds, in which case the revenue is recognised in the statement of financial performance when received. Unexpended funds, or expenses to be recovered, in respect of these projects is recognised as a liability and asset (respectively) in the statement of financial position.

Change in Accounting Policies

There have been no changes in accounting policies since the date of the last audited financial statements. Where necessary, comparative figures have been restated to reflect corrections and changes in disclosure.

GOVERNMENT OF TOKELAU
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2009

| | Note | 30 June 2009 \$'000 | 30 June 2008 \$'000 |
|---|------|------------------------|------------------------|
| REVENUE | | | |
| New Zealand Budgetary Assistance | | 13,358 | 11,409 |
| Local Revenue | 1 | 3,964 | 3,752 |
| Project Funding | 4 | 2,324 | 1,722 |
| TOTAL REVENUE | | 19,646 | 16,883 |
| EXPENDITURE | | | |
| Finance and Support Services | | 1,408 | 1,127 |
| Office for the Council of Ongoing Government | | 1,322 | 1,126 |
| Transport | | 1,923 | 1,910 |
| Education | | 1,157 | 864 |
| Health | | 2,286 | 1,299 |
| Natural Resources & Environment | | 211 | 92 |
| Energy | | 423 | 382 |
| Atafu | | 2,012 | 1,877 |
| Fakaofu | | 2,140 | 1,816 |
| Nukunonu | | 1,782 | 1,704 |
| Telecommunications | | 749 | 459 |
| Project Expenditure | 4 | 2,324 | 1,722 |
| NGO Grants | | 518 | 663 |
| Other | | 672 | 656 |
| TOTAL EXPENDITURE | 2 | 18,927 | 15,697 |
| NET OPERATING SURPLUS | | 719 | 1,186 |
| NET SURPLUS TRANSFERRED TO ACCUMULATED FUNDS | | 719 | 1,186 |

The accompanying notes and accounting policies form part of, and should be read in conjunction with, these financial statements

GOVERNMENT OF TOKELAU
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2009

| | Note | 30 June 2009 \$'000 | 30 June 2008 \$'000 |
|--|------|------------------------|------------------------|
| ACCUMULATED FUNDS | | | |
| Balance as at 1 July | | 2,366 | 1,180 |
| Unappropriated surplus for year | | 719 | 1,186 |
| Accumulated funds/(deficit) at 30 June | | 3,085 | 2,366 |
| Reserves and Trust Funds | 3 | 284 | 229 |
| Accumulated Funds Plus Reserves | | 3,369 | 2,595 |
| Represented by: | | | |
| Assets | | | |
| Cash on Hand | | 128 | 128 |
| Bank Accounts | | 1,546 | 2,268 |
| Stock on Hand | | 628 | 527 |
| Sundry Debtors | | 649 | 443 |
| Project Expenses to be Recovered | 4 | 312 | 167 |
| Housing Scheme Debtors | | 21 | 21 |
| Atoll Imprest Accounts | | (39) | 66 |
| Co-Operative Store | 7 | 1,284 | 268 |
| Fixed Assets | 5 | 1,103 | 797 |
| | | 5,632 | 4,685 |
| Restricted Assets | 3 | 227 | 173 |
| Total Assets | | 5,859 | 4,858 |
| Liabilities | | | |
| ANZ Bank (Samoa) – Overdrafts | | 66 | 20 |
| Remittances in Transit | 6 | (3) | 36 |
| Unexpended Project Funds | 4 | 1,562 | 1,334 |
| Sundry Creditors | | 321 | 397 |
| Revenue in Advance | | 0 | 476 |
| Liability to Depositors | 8 | 544 | 0 |
| Total Liabilities | | 2,490 | 2,263 |
| NET ASSETS | | 3,369 | 2,595 |

P Leilua-Lei Sam
 Director Finance

F Toloa
 Minister of Finance

Dated: 1 February 2010

Dated: 1 February 2010

The accompanying notes and accounting policies form part of, and should be read in conjunction with, these financial statements

GOVERNMENT OF TOKELAU
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2009

| | Note | 30 June 09 \$'000 | 30 June 08 \$'000 |
|---|----------|----------------------|----------------------|
| Cash Flows – Operating Activities | | | |
| Cash was provided from: | | | |
| NZ Budgetary Assistance | | 13,358 | 11,409 |
| Other Income | | 3,263 | 3,555 |
| Project Funds | | 2,407 | 2,523 |
| | | 19,028 | 17,487 |
| Cash was applied to; | | | |
| Payment to Suppliers | | 9,934 | 7,891 |
| Payment to Employees | | 7,161 | 6,422 |
| Project Expenditure | | 2,324 | 1,722 |
| | | 19,419 | 16,035 |
| Net Cash Flows from Operating Activities | 9 | (391) | (1,452) |
| Cash Flows – Investing Activities | | | |
| Cash was applied to: | | | |
| Decrease in savings scheme liability | | 544 | 460 |
| Restricted Asset Investments | | 54 | (66) |
| Reserves | | (55) | 10 |
| Capital Works | | (1059) | 79 |
| | | (516) | 483 |
| Net Cash Flows from Investing Activities | | (516) | (483) |
| Net Increase/(Decrease) in Cash Held | | (907) | 969 |
| Add Effect of Exchange Movement | | 34 | 136 |
| Add Opening Cash | | 2,442 | 1,337 |
| Closing Cash | | 1,569 | 2,442 |
| Represented By: | | | |
| Bank Accounts | | 1,480 | 2,248 |
| Atoll Imprest Accounts | | (39) | 66 |
| Cash on Hand | | 128 | 128 |
| | | 1,569 | 2,442 |

The accompanying notes and accounting policies form part of, and should be read in conjunction with, these financial statements

GOVERNMENT OF TOKELAU
STATEMENT OF CONTINGENT LIABILITIES & COMMITMENTS
AS AT 30 JUNE 2009

There were no outstanding contingent liabilities or commitments at balance date (2008: nil).

GOVERNMENT OF TOKELAU
STATEMENT OF UNAPPROPRIATED EXPENDITURE
FOR THE YEAR ENDED 30 JUNE 2009

There were no unappropriated expenditures or expenses or liabilities outstanding at balance date (2008: nil).

GOVERNMENT OF TOKELAU
STATEMENT OF EMERGENCY EXPENDITURE
FOR THE YEAR ENDED 30 JUNE 2009

There were no emergency expenditures or expenses or liabilities outstanding at balance date (2008: nil).

GOVERNMENT OF TOKELAU
STATEMENT OF TRUST MONEY HELD
AS AT 30 JUNE 2009

There was no trust money held by the Tokelau Administration at balance date (2008: nil).

GOVERNMENT OF TOKELAU
STATEMENT OF BORROWINGS
AS AT 30 JUNE 2009

During the year the Tokelau Administration utilised an overdraft facility of WST\$200,000 with the ANZ Bank (Samoa) Ltd.

Security for above were term deposits with the same bank to the value of WST\$200,000 (2008: WST\$200,000).

The accompanying notes and accounting policies form part of, and should be read in conjunction with, these financial statements

GOVERNMENT OF TOKELAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

Note 1: Local Revenue

| | 30 June 2009 | 30 June 2008 |
|--|---------------------|---------------------|
| | \$'000 | \$'000 |
| Exclusive Economic Zone Fishing Licensing Fees | 1,008 | 1,181 |
| Interest | 182 | 222 |
| Duty | 706 | 623 |
| Commemorative Coins and Stamps | 0 | 0 |
| Community Service Levy | 686 | 573 |
| Boat fares & Freight | 521 | 450 |
| Telecommunications revenue | 724 | 414 |
| Fishing Licenses | 35 | 76 |
| Foreign Exchange Gains | 0 | 111 |
| Other Revenue | 102 | 102 |
| | <u>3,964</u> | <u>3,752</u> |

Note 2: Operating Expenditure

Included with expenditure are the following costs:

| | 30 June 2009 | 30 June 8 |
|-------------------------|---------------------|------------------|
| | \$'000 | \$'000 |
| Personnel | 7,161 | 6,502 |
| Depreciation | 721 | 524 |
| Audit Fees | 55 | 60 |
| Debt write off | 0 | 0 |
| Communications | 336 | 295 |
| Repairs and Maintenance | 587 | 382 |

GOVERNMENT OF TOKELAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

Note 3: RESERVES & TRUST FUNDS

| Name | Opening Balance | Transferred to Projects | Applied to Performance | Income* Spent | Closing Balance |
|------------------------------|--------------------|----------------------------|---------------------------|------------------|--------------------|
| Accident Compensation Res | 21 | 0 | 0 | 0 | 21 |
| South Pacific Games Res. | 15 | 0 | 0 | 15 | 30 |
| Disaster Relief Project Res. | 15 | 0 | 0 | 5 | 20 |
| Ag. & Fish Store Res. | 25 | 0 | 0 | 0 | 25** |
| Insurance Fund | 95 | 0 | 0 | 60 | 155 |
| Educ. Culture Tour Trust | 58 | 0 | 0 | 0 | 58 |
| | <u>229</u> | <u>0</u> | <u>0</u> | <u>80</u> | <u>284</u> |

These are Represented by the following Investments:

| | 30 June 2009 | 30 June 08 |
|--------------------------------|---------------------|-------------------|
| | \$'000 | \$'000 |
| ANZ (Samoa) Term Deposits | 96 | 77 |
| Insurance Fund | 131 | 96 |
| Educ. Culture Tour Trust – BNZ | 0 | 0 |
| | <u>227</u> | <u>173</u> |

The difference between the total of the restricted reserves and the investments held reflects reimbursements due to general fund bank accounts that will be made when the investments mature

GOVERNMENT OF TOKELAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

Note 4: INTERNATIONAL AID PROJECTS

A Summary of income and expenditure for international aid projects is set out below:

| Project Name | Sponsor | Opening Balance | Funds Received | Expenditure | Closing Balance |
|---------------------------------|----------------|------------------------|-----------------------|--------------------|------------------------|
| NGO Assistance | UNDP | (5) | (13) | 17 | (1) |
| Economic Development | FFA | (348) | (105) | 91 | (362) |
| Health Equipment | ODA | (73) | 0 | 0 | (73) |
| Gender Development | ODA | (5) | 0 | 5 | 0 |
| Water Supply | FFA | (79) | (264) | 49 | (294) |
| USP Extension Centre | USP | 79 | (96) | 39 | 22 |
| Social & Economic Systems | UNDP | (11) | 0 | 11 | 0 |
| Sustainable Village Enterprise | UNDP | (46) | 0 | 46 | 0 |
| Cultural Policy Development | UNESCO | (13) | (11) | 9 | (15) |
| Education Development | PRIDE | 11 | (187) | 79 | (97) |
| TVET Education | | (39) | 0 | 39 | 0 |
| TIEMP | UNDP | (3) | 0 | 3 | 0 |
| Health Projects | Various | (22) | (36) | 14 | (44) |
| Fakaofu | - | (106) | 0 | 44 | (62) |
| Tokelau Games | - | (39) | 0 | 28 | (11) |
| Infrastructure Development | NZAID | (208) | (822) | 1,320 | 290 |
| Disaster Management | UNDP | (3) | 0 | 3 | 0 |
| Miscellaneous | - | 8 | (315) | 234 | (73) |
| Small Grants Programme | GEF | (16) | (42) | 0 | (58) |
| Fatupaepae Grants | - | (42) | 0 | 41 | (1) |
| Village Project Grants | - | (148) | (303) | 224 | (227) |
| NGO Assistance | UNESCO | (6) | 0 | 0 | (6) |
| Seawall | UNDP | (53) | 0 | 0 | (53) |
| Governance | UNDP | 0 | (213) | 28 | (185) |
| Net Project Funding Held | | (1,167) | (2,407) | 2,324 | (1,250) |
| Expenditure to be Recovered | | 149 | | | 167 |
| | | <u>515</u> | | | <u>1,334</u> |

GOVERNMENT OF TOKELAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

Note 5: FIXED ASSETS

30 June 2009 (\$'000)

| Category | Cost | Accumulated Depreciation | Net Book Value |
|------------------------------|--------------|---------------------------------|-----------------------|
| Power Generation Equipment | 0 | 0 | 0 |
| Out-fittings | 8 | 8 | 0 |
| Computer Hardware & Software | 112 | 112 | 0 |
| Office Equipment | 39 | 39 | 0 |
| Motor Boats & Accessories | 221 | 191 | 30 |
| Furniture & Fittings | 55 | 55 | 0 |
| Plant & Equipment | 1,672 | 1,347 | 325 |
| Telecommunications | 2,995 | 2,261 | 734 |
| Motor Vehicles | 277 | 233 | 44 |
| MV Tokelau | 362 | 362 | 0 |
| | 5,741 | 4,638 | 1,103 |

30 June 2008 (\$'000)

| Category | Cost | Accumulated Depreciation | Net Book Value |
|------------------------------|--------------|---------------------------------|-----------------------|
| Power Generation Equipment | 1,122 | 739 | 383 |
| Out-fittings | 8 | 8 | 0 |
| Computer Hardware & Software | 112 | 112 | 0 |
| Office Equipment | 39 | 39 | 0 |
| Motor Boats & Accessories | 221 | 191 | 30 |
| Furniture & Fittings | 55 | 55 | 0 |
| Plant & Equipment | 62 | 59 | 3 |
| Telecommunications | 2,490 | 2,134 | 356 |
| Motor Vehicles | 244 | 216 | 28 |
| MV Tokelau | 362 | 362 | 0 |
| | 4,715 | 3,918 | 797 |

Note 6: REMITTANCES IN TRANSIT

Remittances in Transit represent money held by the Office for Tokelau Affairs on behalf of Tokelauans transferring money between New Zealand, Apia and the Atolls.

Note 7: CO-OPERATIVE STORES

The Government purchases commodities and arranges shipping of commodities for resale by the Tokelau Co-Operative stores at Atafu, Fakaofu and Nukunonu. The asset of \$1,284,000 represents the amount owed to the Government by the Co-Operatives. (2008: \$268,000).

GOVERNMENT OF TOKELAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

Note 8: LIABILITY TO SAVINGS BANK

In the absence of banking facilities on the atolls, the Government operates a passbook savings scheme and held total deposits of \$3,409,000 for safe keeping as at 30 June 2009 (2008 : \$3,007,000). Interest is paid to depositors at 3.5% per annum.

The passbook savings scheme is regulated by the Tokelau Banking Rules 2004. The Banking Rules 2004 include the Tokelau Savings Bank (Passbook savings scheme) and the Tokelau Development Bank. The Tokelau Development Bank is not yet operational.

As at 30 June 2009 current savings account balances are matched by specific funds held by the Tokelau Savings Bank. The balance of \$544,000, representing unrealised and realised exchange gains is held within Government funds. These exchange gains arise through the savings scheme holding foreign currency deposits. With the introduction of the Tokelau Banking Rules 2004, the funds of the savings scheme are no longer available for Government cash flow purposes. The balance of \$544,000 is, therefore, held within Government bank accounts for cash flow purposes only and facilitates deposits and withdrawals to and from the scheme.

The total savings account balance includes \$26,000 (2008:\$505,000) in accounts held by Teletok, which is a wholly owned Government Corporation. That amount is included in the item "Bank Accounts" in the statement of financial position. As the savings scheme is operated by the Tokelau Savings Bank, a separate organisation from that of the Government, these amounts have not been eliminated when preparing these financial statements.

| | 30 June 2009 \$'000 | 30 June 2008 \$'000 |
|------------------------|----------------------------|----------------------------|
| Tokelau Savings Scheme | 3,953 | 3,007 |
| Specific Funds Held | 3,409 | 3,007 |
| | <u>544</u> | <u>0</u> |

Note 9: RECONCILIATION OF NET DEFICIT TO NET CASH FLOWS FROM OPERATING ACTIVITIES

| | 30 June 2009 \$'000 | 30 June 2008 \$'000 |
|---|----------------------------|----------------------------|
| Net Operating Surplus/(Deficit) as per Statement of Financial Performance | 719 | 1,186 |
| Add back Non Cash Items | 731 | 389 |
| Plus/(Minus) Movements in Working Capital | | |
| (Increase)/Decrease in Stock on Hand | (101) | (77) |
| (Increase)/Decrease in Sundry Debtors | (216) | (88) |
| Increase/(Decrease) in Remittances | (39) | (236) |
| Increase/(Decrease) in Co-Op Stores | (1,016) | (159) |
| Increase/(Decrease) in Sundry Creditors | (76) | (168) |
| Increase/Decrease in Revenue in Advance | (476) | (196) |
| Increase/Decrease in Project Balances | 83 | 801 |
| | <u>(391)</u> | <u>1,452</u> |
| Net Cashflow from Operating Activities | <u>(391)</u> | <u>1,452</u> |

GOVERNMENT OF TOKELAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

Note 10: TOKELAU TRANSPORT CORPORATION (TRANSTOK)

The Tokelau Transport Corporation Rules 1997 came into force on 1 February 1997. The primary function of Transtok is to be the legal owner and operator of its ship the MV Tokelau. As the operations of Transtok continue to be administered by a government department, under transitional arrangements, these rules have not been specifically complied with. Full financial results of the shipping operations are, however, disclosed by way of being included within the overall financial statements of the Government of Tokelau.

Note 11: BUDGETED REVENUE AND EXPENDITURE

| | 30 June 2009 \$'000 | 30 June 2009 \$'000 |
|------------------------------------|------------------------|------------------------|
| | Actual | Budgeted |
| REVENUE | | |
| New Zealand Budgetary Assistance | 13,358 | 12,165 |
| Local Revenue | 3,964 | 2,300 |
| Project Funding | 2,324 | ** |
| EXPENDITURE | | |
| Administrative Services & Supplies | 1,408 | 1,149 |
| Office for the Ongoing Government | 1,322 | 1,073 |
| Transport | 1,923 | 1,708 |
| Education | 1,157 | 794 |
| Health | 2,286 | 1,432 |
| Natural Resources & Environment | 211 | 270 |
| Energy | 423 | 578 |
| Atafu | 2,012 | 2,065 |
| Fakaofu | 2,140 | 2,013 |
| Nukunonu | 1,782 | 1,828 |
| Telecommunications | 749 | * |
| Project Expenditure | 2,324 | ** |
| NGO Grants | 518 | 538 |
| Other | 672 | 773 |

* Budget figures for telecommunications unavailable.

** Project expenditure is dependant upon donor support and budget figures are not prepared.



AUDIT REPORT

TO THE READERS OF THE FINANCIAL STATEMENTS OF THE GOVERNMENT OF TOKELAU FOR THE YEAR ENDED 30 JUNE 2010

I have audited the financial statements of the Government of Tokelau (the Government) using my staff and resources. The financial statements provide information about the past financial performance of the Government and its financial position as at 30 June 2010, pursuant to Rule 9 of the Tokelau Finance Rules 1998.

Unqualified opinion

In our opinion, the financial statements of the Government:

- comply with generally accepted accounting practice: and
- fairly reflect:
 - the Government's financial position as at 30 June 2010; and
 - the results of its operations and cash flows for the year ended on that date.
- based on our examination, the books and records of the Government have been properly kept and the financial affairs have been properly conducted in accordance with the Tokelau Finance Rules 1998.

The audit was completed on 16 December 2010, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Government and the Auditor, and explain our independence.

Basis of opinion

We carried out the audit in accordance with the Auditor-General of New Zealand's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transaction and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Trusrees;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statements disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Government and the Auditor

The Government is responsible for preparing financial statements in accordance with generally accepted accounting practice as determined by the Government. Those financial statements must give a true and fair view of the financial position of the Government as at 30 June 2010. They must also give a true and fair view of the results of its operations and cash flows for the year ended on that date. The Government's responsibilities arise from the Tokelau Finance Rules 1998.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from Rule 11 and Rule 13 of the Tokelau Finance Rules of 1998.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

Other than the audit, we have no relationship with or interests in the Government.

Lyn Provost

Controller and Auditor-General
Wellington
New Zealand

STATEMENT OF ACCOUNTING POLICIES

Reporting Entity

These are the financial statements of the Government of Tokelau, including the Telecommunications Tokelau Corporation and the Tokelau Transport Corporation, prepared pursuant to the Tokelau Finance Rules 1998.

Measurement System

The financial statements have been prepared in accordance with generally accepted accounting practice as determined by the Government of Tokelau. The measurement base adopted is that of historical cost. Modified accrual accounting is used to match expenses and revenue.

Accounting Policies

- i All amounts are expressed in New Zealand currency. Foreign currency transactions are translated at the average of the buy/sell exchange rate at the beginning of the month. Differences arising from variation between actual and average rates are recorded in an Exchange Fluctuation Account. Any surplus or deficit in this account at balance date is transferred to the Statement of Financial Performance within Administrative Services and Supplies.
- ii Investments in New Zealand currency are recorded at cost. Other investments are recorded at foreign currency cost converted to New Zealand dollars at balance date. Exchange variances are transferred to the Statement of Financial Performance.
- iii Stock on hand is recorded at the lower of cost and net realisable value. Stock on hand is determined on a FIFO basis.
- iv Co-Operative Store Accounts are recorded at historical cost.
- v Debtors are recorded at historical cost less provision for doubtful debts.
- vi Fixed Assets purchased on or before 30 June 1999 have been expensed. Fixed Assets purchased after 30 June 1999, other than infrastructure, are recorded in the Statement of Financial Position at historical cost less accumulated depreciation. Infrastructure assets have not been recognised.

Fixed Assets are depreciated on a Straight Line basis as follows:

| | |
|---------------------------------|------------|
| Out-fittings | 2 Years |
| Computer Hardware & Software | 2 Years |
| Office Equipment | 3 Years |
| MV Tokelau, Boats & Accessories | 2-5 Years |
| Furniture & Fittings | 2 Years |
| Plant & Equipment | 3 Years |
| Motor Vehicles | 3 Years |
| Telecommunications equipment | 5-20 Years |

- vii Expenditure incurred in respect of projects funded by specific contributions from donor agencies is recognised in the statement of financial performance as it is incurred. The aid funding received from donor agencies for those projects is recognised as revenue when, and to the extent that, the relevant expenditure is incurred unless there is no obligation to return any unspent funds, in which case the revenue is recognised in the statement of financial performance when received. Unexpended funds, or expenses to be recovered, in respect of these projects is recognised as a liability and asset (respectively) in the statement of financial position.

Change in Accounting Policies

There have been no changes in accounting policies since the date of the last audited financial statements

GOVERNMENT OF TOKELAU
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2010

| | Note | 30 June 2010 \$'000 | 30 June 2009 \$'000 |
|---|------|------------------------|------------------------|
| REVENUE | | | |
| New Zealand Budgetary Assistance | | 13,899 | 13,358 |
| Local Revenue | 1 | 4,330 | 3,964 |
| Project Funding | 4 | 1,494 | 2,324 |
| TOTAL REVENUE | | 19,723 | 19,646 |
| EXPENDITURE | | | |
| Finance and Support Services | | 1,343 | 1,408 |
| Office for the Council of Ongoing Government | | 1,275 | 1,322 |
| Transport | | 2,346 | 1,923 |
| Education | | 1,136 | 1,157 |
| Health | | 1,447 | 2,286 |
| Natural Resources & Environment | | 346 | 211 |
| Energy | | 402 | 423 |
| Atafu | | 3,129 | 2,012 |
| Fakaofu | | 2,330 | 2,140 |
| Nukunonu | | 2,745 | 1,782 |
| Telecommunications | | 858 | 749 |
| Project Expenditure | 4 | 1,494 | 2,324 |
| NGO Grants | | 2,161 | 518 |
| Other | | 370 | 672 |
| TOTAL EXPENDITURE | 2 | 21,382 | 18,927 |
| NET OPERATING SURPLUS | | (1,659) | 719 |
| NET SURPLUS TRANSFERRED TO ACCUMULATED FUNDS | | (1,659) | 719 |

GOVERNMENT OF TOKELAU
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2010

| | Note | 30 June 2010 \$'000 | 30 June 2009 \$'000 |
|--|------|------------------------|------------------------|
| ACCUMULATED FUNDS | | | |
| Balance as at 1 July | | 3,085 | 2,366 |
| Unappropriated surplus for year | | (1,659) | 719 |
| Accumulated funds/(deficit) at 30 June | | 1,426 | 3,085 |
| Reserves and Trust Funds | 3 | 269 | 284 |
| Accumulated Funds Plus Reserves | | 1,695 | 3,369 |
| Represented by: | | | |
| Assets | | | |
| Cash on Hand | | 122 | 128 |
| Bank Accounts | | 4,602 | 1,546 |
| Stock on Hand | | 1060 | 628 |
| Sundry Debtors | | 677 | 649 |
| Project Expenses to be Recovered | 4 | 41 | 312 |
| Housing Scheme Debtors | | 21 | 21 |
| Co-Operative Store | 7 | 366 | 1,284 |
| Fixed Assets | 5 | 1,679 | 1,103 |
| | | 8,568 | 5,671 |
| Restricted Assets | 3 | 211 | 227 |
| Total Assets | | 8,779 | 5,898 |
| Liabilities | | | |
| ANZ Bank (Samoa) – Overdrafts | | 548 | 66 |
| Remittances in Transit | 6 | 21 | (3) |
| Atoll Imprest Accounts | | 30 | 39 |
| Unexpended Project Funds | 4 | 5,957 | 1,562 |
| Sundry Creditors | | 528 | 321 |
| Revenue in Advance | | 0 | 0 |
| Liability to Depositors | 8 | 0 | 544 |
| Total Liabilities | | 7,084 | 2,529 |
| NET ASSETS | | 1,695 | 3,369 |

Pisaina Leilua-Lei Sam
 Director of Finance

Faipule Foua Toloa
 Minister of Finance

Dated: 16 December 2010

Dated: 16 December 2010

The accompanying notes and accounting policies form part of, and should be read in conjunction with, these financial statements

GOVERNMENT OF TOKELAU
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2010

| | Note | 30 June 10 \$'000 | 30 June 09 \$'000 |
|---|----------|----------------------|----------------------|
| Cash Flows – Operating Activities | | | |
| Cash was provided from: | | | |
| NZ Budgetary Assistance | | 13,899 | 13,358 |
| Other Income | | 4,508 | 3,263 |
| Project Funds | | 6,150 | 2,407 |
| | | 24,577 | 19,028 |
| Cash was applied to: | | | |
| Payment to Suppliers | | 11,209 | 9,934 |
| Payment to Employees | | 7,598 | 7,161 |
| Project Expenditure | | 1,484 | 2,324 |
| | | 20,291 | 19,419 |
| Net Cash Flows from Operating Activities | 9 | 4,286 | (391) |
| Cash Flows – Investing Activities | | | |
| Cash was applied to: | | | |
| Decrease in savings scheme liability | | (544) | 544 |
| Restricted Asset Investments | | (16) | 54 |
| Reserves | | (15) | (55) |
| Capital Works | | (1040) | (1,059) |
| | | (1,615) | (516) |
| Net Cash Flows from Investing Activities | | (1,615) | (516) |
| Net Increase/(Decrease) in Cash Held | | 2,671 | (907) |
| Add Effect of Exchange Movement | | (94) | 34 |
| Add Opening Cash | | 1,569 | 2,442 |
| Closing Cash | | 4,146 | 1,569 |
| Represented By: | | | |
| Bank Accounts | | 4,054 | 1,480 |
| Atoll Imprest Accounts | | (30) | (39) |
| Cash on Hand | | 122 | 128 |
| | | 4,146 | 1,569 |

The accompanying notes and accounting policies form part of, and should be read in conjunction with, these financial statements

GOVERNMENT OF TOKELAU
STATEMENT OF CONTINGENT LIABILITIES & COMMITMENTS
AS AT 30 JUNE 2010

There were no outstanding contingent liabilities or commitments at balance date (2009: nil).

GOVERNMENT OF TOKELAU
STATEMENT OF UNAPPROPRIATED EXPENDITURE
FOR THE YEAR ENDED 30 JUNE 2010

There were no unappropriated expenditures or expenses or liabilities outstanding at balance date (2009: nil).

GOVERNMENT OF TOKELAU
STATEMENT OF EMERGENCY EXPENDITURE
FOR THE YEAR ENDED 30 JUNE 2010

There were no emergency expenditures or expenses or liabilities outstanding at balance date (2009: nil).

GOVERNMENT OF TOKELAU
STATEMENT OF TRUST MONEY HELD
AS AT 30 JUNE 2010

There was no trust money held by the Tokelau Administration at balance date (2009: nil).

GOVERNMENT OF TOKELAU
STATEMENT OF BORROWINGS
AS AT 30 JUNE 2010

During the year the Tokelau Administration utilised an overdraft facility of WST\$200,000 with the ANZ Bank (Samoa) Ltd. (NZ\$116,000)

Specific security not required. (2009: term deposits with the same bank to the value of WST\$200,000 (NZ\$116,000)).

The accompanying notes and accounting policies form part of, and should be read in conjunction with, these financial statements

GOVERNMENT OF TOKELAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

Note 1: Local Revenue

| | 30 June 2010 | 30 June 2009 |
|--|---------------------|---------------------|
| | \$'000 | \$'000 |
| Exclusive Economic Zone Fishing Licensing Fees | 1,164 | 1,008 |
| Interest | 81 | 182 |
| Duty | 702 | 706 |
| Commemorative Coins and Stamps | 0 | 0 |
| Community Service Levy | 805 | 686 |
| Boat fares & Freight | 451 | 521 |
| Telecommunications revenue | 626 | 724 |
| Fishing Licenses | 9 | 35 |
| Foreign Exchange Gains | 0 | 0 |
| Other Revenue | 492 | 102 |
| | <u>4,330</u> | <u>3,964</u> |

Note 2: Operating Expenditure

Included with expenditure are the following costs:

| | 30 June 2010 | 30 June 2009 |
|-------------------------|---------------------|---------------------|
| | \$'000 | \$'000 |
| Personnel | 7,956 | 7,161 |
| Depreciation | 464 | 721 |
| Audit Fees | 59 | 55 |
| Debt write off | 0 | 0 |
| Communications | 308 | 336 |
| Repairs and Maintenance | 1,518 | 260 |

GOVERNMENT OF TOKELAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

Note 3: RESERVES & TRUST FUNDS

| Name | Opening Balance | Transferred to Projects | Applied to Performance | Income* | Spent | Closing Balance |
|------------------------------|--------------------|----------------------------|---------------------------|-------------|----------|--------------------|
| | | | 0 | | | 19,375 |
| Accident Compensation Res | 21 | 0 | 0 | 5 | 0 | 26 |
| South Pacific Games Res. | 30 | 0 | 0 | (11) | 0 | 19 |
| Disaster Relief Project Res. | 20 | 0 | 0 | (1) | 0 | 19 |
| Insurance Fund | 155 | 0 | 0 | (8) | 0 | 147 |
| Educ. Culture Tour Trust | 58 | 0 | 0 | 0 | 0 | 58 |
| | <u>284</u> | <u>0</u> | <u>0</u> | <u>(15)</u> | <u>0</u> | <u>269</u> |

* Income is shown net of foreign exchange movements

These are Represented by the following Investments:

| | 30 June 2010 \$'000 | 30 June 2009 \$'000 |
|---------------------------|------------------------|------------------------|
| ANZ (Samoa) Term Deposits | 64 | 96 |
| Insurance Fund | 96 | 93 |
| | <u>211</u> | <u>227</u> |

The difference between the total of the restricted reserves and the investments held reflects reimbursements due to general fund bank accounts that will be made when the investments mature.

GOVERNMENT OF TOKELAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

Note 4: INTERNATIONAL AID PROJECTS

A Summary of income and expenditure for international aid projects is set out below:

| Project Name | Sponsor | Opening Balance | Funds Received | Expenditure | Closing Balance |
|---------------------------------|----------------|------------------------|-----------------------|--------------------|------------------------|
| NGO Assistance | UNDP | (1) | 0 | 1 | 0 |
| Economic Development | FFA | (362) | 0 | 254 | (108) |
| Health Equipment | ODA | (73) | 0 | 73 | 0 |
| Gender Development | ODA | 0 | 0 | 0 | 0 |
| Water Supply | FFA | (294) | 0 | 279 | (15) |
| USP Extension Centre | USP | 22 | (34) | 41 | 29 |
| Social & Economic Systems | UNDP | 0 | 0 | 0 | 0 |
| Sustainable Village Enterprise | UNDP | 0 | 0 | 0 | 0 |
| Cultural Policy Development | UNESCO | (15) | (60) | 39 | (38) |
| Education Development | PRIDE | (97) | 0 | 109 | 12 |
| TVET Education | | 0 | 0 | 0 | 0 |
| TIEMP | UNDP | 0 | 0 | 0 | 0 |
| Health Projects | Various | 44) | (47) | 0 | (91) |
| Fakaofu | - | (62) | 0 | 62 | 0 |
| Tokelau Games | - | (11) | 0 | 11 | 0 |
| Infrastructure Development | NZAID | 290 | (5,317) | 151 | (4,876) |
| Disaster Management | UNDP | 0 | 0 | 0 | 0 |
| Miscellaneous | - | (73) | (399) | 23 | (449) |
| Small Grants Programme | GEF | (58) | 0 | 3 | (55) |
| Fatupaepae Grants | - | (1) | 0 | 1 | 0 |
| Village Project Grants | - | (227) | (189) | 304 | (112) |
| NGO Assistance | UNESCO | (6) | 0 | 5 | (1) |
| Seawall | UNDP | (53) | (78) | 27 | (104) |
| Governance | UNDP | (185) | (36) | 111 | (110) |
| Net Project Funding Held | | (1,250) | (6,150) | 1,494 | (5,916) |
| Expenditure to be Recovered | | 312 | | | 41 |
| Unexpended Project Funds | | 1,562 | | | 5,957 |

GOVERNMENT OF TOKELAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

Note 5: FIXED ASSETS

30 June 2010 (\$'000)

| Category | Cost | Accumulated Depreciation | Net Book Value |
|------------------------------|--------------|---------------------------------|-----------------------|
| Out-fittings | 8 | 8 | 0 |
| Computer Hardware & Software | 112 | 112 | 0 |
| Office Equipment | 39 | 39 | 0 |
| Motor Boats & Accessories | 221 | 221 | 0 |
| Furniture & Fittings | 55 | 55 | 0 |
| Plant & Equipment | 1,921 | 1,582 | 339 |
| Telecommunications | 3,707 | 2,451 | 1,256 |
| Motor Vehicles | 352 | 268 | 84 |
| MV Tokelau | 362 | 362 | 0 |
| | 6,777 | 5,098 | 1,679 |

30 June 2009 (\$'000)

| Category | Cost | Accumulated Depreciation | Net Book Value |
|------------------------------|--------------|---------------------------------|-----------------------|
| Out-fittings | 8 | 8 | 0 |
| Computer Hardware & Software | 112 | 112 | 0 |
| Office Equipment | 39 | 39 | 0 |
| Motor Boats & Accessories | 221 | 221 | 0 |
| Furniture & Fittings | 55 | 55 | 0 |
| Plant & Equipment | 1,672 | 1,347 | 325 |
| Telecommunications | 2,995 | 2,261 | 734 |
| Motor Vehicles | 277 | 233 | 44 |
| MV Tokelau | 362 | 362 | 0 |
| | 5,741 | 4,638 | 1,103 |

Note 6: REMITTANCES IN TRANSIT

Remittances in Transit represent money held by the Office for Tokelau Affairs on behalf of Tokelauans transferring money between New Zealand, Apia and the Atolls.

Note 7: REMITTANCES IN TRANSIT

The Government purchases commodities and arranges shipping of commodities for resale by the Tokelau Co-Operative stores at Atafu, Fakaofu and Nukunonu. The asset of \$366,000 represents the amount owed to the Government by the Co-Operatives. (2009: \$1,284,000).

GOVERNMENT OF TOKELAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

Note 8: LIABILITY TO SAVINGS BANK

In the absence of banking facilities on the atolls, the Government operates a passbook savings scheme and held total deposits of \$3,876,000 for safe keeping as at 30 June 2010 (2009 : \$3,409,000). Interest is paid to depositors at 3.5% per annum.

The passbook savings scheme is regulated by the Tokelau Banking Rules 2004. The Banking Rules 2004 include the Tokelau Savings Bank (Passbook savings scheme) and the Tokelau Development Bank. The Tokelau Development Bank is not yet operational.

As at 30 June 2010 current savings account balances are matched by specific funds held by the Tokelau Savings Bank. These include the balance of \$535,000, representing unrealised and realised exchange gains and interest revenue. (2009; balance of \$544,000 held within Government funds).

The exchange gains arise through the savings scheme holding foreign currency deposits. With the introduction of the Tokelau Banking Rules 2004, the funds of the savings scheme are no longer available for Government cash flow purposes. The prior year balance of \$544,000 was, therefore, held within Government bank accounts for cash flow purposes only and facilitated deposits and withdrawals to and from the scheme.

The total savings account balance includes \$74,000 (2009:\$26,000) in accounts held by Teletok, which is a wholly owned Government Corporation. That amount is included in the item "Bank Accounts" in the statement of financial position. As the savings scheme is operated by the Tokelau Savings Bank, a separate organisation from that of the Government, these amounts have not been eliminated when preparing these financial statements.

| | 30 June 2010 \$'000 | 30 June 2009 \$'000 |
|------------------------|----------------------------|----------------------------|
| Tokelau Savings Scheme | 4,411 | 3,953 |
| Specific Funds Held | 4,411 | 3,409 |
| | <u>0</u> | <u>544</u> |

Note 9: RECONCILIATION OF NET DEFICIT TO NET CASH FLOWS FROM OPERATING ACTIVITIES

| | 30 June 2010 \$'000 | 30 June 2009 \$'000 |
|---|----------------------------|----------------------------|
| Net Operating Surplus/(Deficit) as per Statement of Financial Performance | (1,659) | 719 |
| Add back Non Cash Items | 590 | 731 |
| Plus/(Minus) Movements in Working Capital | | |
| (Increase)/Decrease in Stock on Hand | (432) | (101) |
| (Increase)/Decrease in Sundry Debtors | (28) | (216) |
| Increase/(Decrease) in Remittances | (24) | (39) |
| Increase/(Decrease) in Co-Op Stores | (918) | (1,016) |
| Increase/(Decrease) in Sundry Creditors | (207) | (76) |
| Increase/Decrease in Revenue in Advance | (0) | (476) |
| Increase/Decrease in Project Balances | 4,666 | 83 |
| Net Cashflow from Operating Activities | <u>4,286</u> | <u>(391)</u> |

GOVERNMENT OF TOKELAU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

Note 10: TOKELAU TRANSPORT CORPORATION (TRANSTOK)

The Tokelau Transport Corporation Rules 1997 came into force on 1 February 1997. The primary function of Transtok is to be the legal owner and operator of its ship the MV Tokelau. As the operations of Transtok continue to be administered by a government department, under transitional arrangements, these rules have not been specifically complied with. Full financial results of the shipping operations are, however, disclosed by way of being included within the overall financial statements of the Government of Tokelau.

Note 11: BUDGETED REVENUE AND EXPENDITURE

| | 30 June 2010 \$'000 | 30 June 2010 \$'000 |
|------------------------------------|------------------------|------------------------|
| | Actual | Budgeted |
| REVENUE | | |
| New Zealand Budgetary Assistance | 13,899 | 12,900 |
| Local Revenue | 4,330 | 2,500 |
| Project Funding | 1,494 | ** |
| EXPENDITURE | | |
| Administrative Services & Supplies | 1,343 | 1,246 |
| Office for the Ongoing Government | 1,275 | 1,213 |
| Transport | 2,346 | 2,340 |
| Education | 1,136 | 997 |
| Health | 1,447 | 1,331 |
| Natural Resources & Environment | 346 | 380 |
| Energy | 402 | 546 |
| Atafu | 3,129 | 2,569 |
| Fakaofu | 2,330 | 2,204 |
| Nukunonu | 2,745 | 2,342 |
| Telecommunications | 858 | * |
| Project Expenditure | 1,494 | ** |
| NGO Grants | 2,161 | 2,012 |
| Other | 370 | 350 |

* Budget figures for telecommunications unavailable.

** Project expenditure is dependant upon donor support and budget figures are not prepared.