

Financial Statements of

**PORT AUTHORITY OF THE  
CAYMAN ISLANDS**

June 30, 2005 and 2004

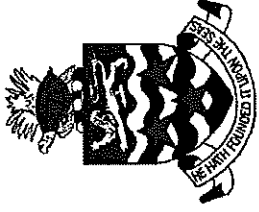


## PORT AUTHORITY OF THE CAYMAN ISLANDS

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Port Authority of the Cayman Islands

## **CERTIFICATE AND REPORT OF THE AUDITOR GENERAL**

*To the Board Members of the Port Authority of the Cayman Islands  
and the Financial Secretary of the Cayman Islands*

In accordance with the provisions of Section 4(7) of the Port Authority Law (1999 Revision) and Section 52(3) of the *Public Management & Finance Law (2005 Revision)*, I have audited the financial statements of the Port Authority of the Cayman Islands for the year ended 30 June 2005. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

My examination was made in accordance with International Standards on Auditing. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

### **Opinion**

In my opinion these financial statements present fairly in all material respects the financial position of the Port Authority of the Cayman Islands as at 30 June 2005, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

In rendering my certificate on the financial statements of the Port Authority of the Cayman Islands, I have relied on the work carried out on my behalf by a public accounting firm who performed their work in accordance with International Standards on Auditing.

Dan Duguay, MBA, CGA  
Auditor General

Cayman Islands  
31 October 2006

**PORT AUTHORITY OF THE CAYMAN ISLANDS**

Balance Sheets

June 30, 2005 and 2004

*(stated in Cayman Islands dollars)*

	Note	2005	2004
<b>Current assets</b>			
Cash and cash equivalents	3	7,141,244	5,286,002
Accounts receivable	5	1,411,135	869,536
Insurance claims receivable	4	1,249,102	0
Inventory		137,288	76,634
Prepaid expenses		45,735	395,824
Advances paid to contractor		471,560	0
Advances paid to related party		2,487	0
Other receivables		148,690	34,130
Other assets		0	17,111
		<b>10,607,241</b>	<b>6,679,237</b>
<b>Current liabilities</b>			
Accounts payable and accrued expenses		1,480,744	1,202,271
Retention payable to contractor		261,987	0
Current portion of long term debt	8	2,045,233	1,027,179
Current portion of lease-purchase	9	284,705	191,911
		<b>4,072,669</b>	<b>2,421,361</b>
<b>Working capital</b>			
		<b>6,534,572</b>	<b>4,257,876</b>
Plant, property and equipment	6	34,429,410	32,531,035
Capital work in progress	7	14,017,089	6,290,086
Long term debt	8	(18,785,204)	(13,356,369)
Long term lease-purchase	9	(67,895)	(221,400)
<b>Net assets</b>		<b>CIS 36,127,972</b>	<b>29,501,228</b>
<b>Represented by</b>			
General reserve		<b>CIS 36,127,972</b>	<b>29,501,228</b>

See accompanying notes to financial statements.

Approved on behalf of the Board on October 31, 2006

WAYNE PANTON  
 \_\_\_\_\_  
 Chairman

PAUL HURLSTON  
 \_\_\_\_\_  
 Director

## PORT AUTHORITY OF THE CAYMAN ISLANDS

### Statements of Income

Year ended June 30, 2005 and the period from January 1, 2004 to June 30, 2004  
(stated in Cayman Islands dollars)

	Note	2005	2004
<b>Operating income</b>			
Cargo handling		15,961,747	5,024,570
Cruise ship passenger fees		2,722,566	1,761,947
Maritime services		1,531,561	281,667
Port development fees		1,324,666	858,190
Other income		158,878	94,155
Rental income		115,892	54,299
Diesel income (net)		85,467	19,142
		<b>21,900,777</b>	<b>8,093,970</b>
<b>Operating expenses</b>			
Staff costs		10,271,176	3,371,644
Repairs and maintenance		1,985,001	350,064
Contracted services		555,122	161,160
Insurance		509,210	223,068
Utilities		325,311	152,990
Finance charges	8	324,381	156,981
Rent		248,292	21,360
Diesel		217,641	52,446
Miscellaneous		118,518	32,545
Stationery, supplies & computer supplies		95,715	29,453
Advertising and entertainment		46,878	5,541
Travel, conventions & training		19,281	2,244
		<b>14,716,526</b>	<b>4,559,496</b>
<b>Net operating income</b>		<b>7,184,251</b>	<b>3,534,474</b>
<b>Other income/(expenses)</b>			
Other income	10	1,519,979	0
Interest income		70,812	11,960
Loss on disposal of fixed assets		(49,401)	(31,077)
Impairment of fixed assets	6	(80,000)	0
Loss on write down of capital work in progress	7	(387,281)	0
Depreciation	6	(1,281,232)	(616,150)
		<b>(207,123)</b>	<b>(635,267)</b>
<b>Net income for year</b>		<b>CI\$ 6,977,128</b>	<b>2,899,207</b>

See accompanying notes to financial statements.

## PORT AUTHORITY OF THE CAYMAN ISLANDS

### Statements of Changes in General Reserve

Year ended June 30, 2005 and the period from January 1, 2004 to June 30, 2004  
*(stated in Cayman Islands dollars)*

	Note	2005	2004
General reserve at beginning of year		29,501,228	26,788,453
Net income for year		6,977,128	2,899,207
Distribution	9	(350,384)	(186,432)
<b>General reserve at end of year</b>		<b>CIS 36,127,972</b>	<b>29,501,228</b>

*See accompanying notes to financial statements.*

## PORT AUTHORITY OF THE CAYMAN ISLANDS

### Statements of Cash Flows

Year ended June 30, 2005 and the period from January 1, 2004 to June 30, 2004  
(stated in *Cayman Islands dollars*)

	2005	2004
<b>Cash provided by/(applied in):</b>		
<b>Operating activities</b>		
Net income for year	6,977,128	2,899,207
Add items not affecting working capital:		
Loss on disposal of fixed assets	49,401	31,077
Depreciation	1,281,232	616,150
Impairment of fixed assets	80,000	0
Loss on write down of capital work in progress	387,281	0
Net changes in non-cash working capital balances relating to operations:		
Insurance claims receivable	(1,249,102)	815,146
Accounts receivable	(541,599)	151,307
Inventory	(60,654)	(9,984)
Prepaid expenses	350,089	(228,874)
Advances paid to contractor	(471,560)	0
Advances paid to related party	(2,487)	0
Other receivables	(114,560)	2,916
Accounts payable and accrued expenses	278,473	487,198
Retention payable to contractor	261,987	0
	7,225,629	4,764,143
<b>Investing activities</b>		
Net cost of property, plant and equipment	(3,309,008)	(518,932)
Net movement in capital work in progress	(8,114,284)	(5,646,358)
Other assets	17,111	(17,111)
	(11,406,181)	(6,182,401)

(continued)

## PORT AUTHORITY OF THE CAYMAN ISLANDS

### Statements of Cash Flows (continued)

Year ended June 30, 2005 and the period from January 1, 2004 to June 30, 2004  
(stated in Cayman Islands dollars)

	2005	2004
<b>Financing activities</b>		
Repayment of long term debt	(2,045,233)	(1,012,623)
Proceeds from long term debt	8,492,122	4,551,963
Repayment of lease-purchase	(675,711)	(73,769)
Lease-purchase acquired	615,000	0
Distribution	(350,384)	(186,432)
	6,035,794	3,279,139
<b>Increase in cash during year</b>	<b>1,855,242</b>	<b>1,860,881</b>
Cash and cash equivalents at beginning of year	5,286,002	3,425,121
<b>Cash and cash equivalents at end of year</b>	<b>CIS 7,141,244</b>	<b>5,286,002</b>
<b>Supplementary information on cash flows from operating activities:</b>		
Interest received	66,863	10,640
Interest paid	CIS 314,374	153,189

*See accompanying notes to financial statements.*



# PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to Financial Statements

June 30, 2005 and 2004

*(stated in Cayman Islands dollars)*

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## 1. Background information

The Port Authority of the Cayman Islands (the "Port Authority") is a statutory body established on September 15, 1976 under the Port Authority Law.

The Port Authority is principally engaged in the management of the maritime affairs of the Cayman Islands.

As at June 30, 2005 the Port Authority had 181 employees (2004: 98 employees). The Port Authority is located in the Port Authority Building on Harbour Drive, P.O. Box 1358 GT, Grand Cayman, Cayman Islands, B.W.I.

## 2. Significant accounting policies

These financial statements are prepared in accordance with International Financial Reporting Standards. The principal accounting policies adopted by the Port Authority are as follows:

### (a) *Basis of accounting*

The financial statements of the Port Authority are prepared on an accruals basis under the historical cost convention.

The accounting policies have been applied consistently and are consistent with those used in the previous year. These financial statements are prepared for the year ended June 30, 2005 and are not comparable to the financial statements prepared for six month period ended June 30, 2004.

### (b) *Use of estimates*

The preparation of financial statements in accordance with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the year. Actual results could differ from these estimates.

### (c) *Financial instruments*

#### (i) *Classification*

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset, exchange financial instruments under conditions that are potentially favourable or an equity instrument of another enterprise. Financial assets comprise cash and cash equivalents, insurance claim receivable, accounts receivable and other receivables and assets.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable. Financial liabilities comprise long term and short term debt and accounts payable and accrued expenses.

# PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to Financial Statements (continued)

June 30, 2005 and 2004  
(stated in Cayman Islands dollars)

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## 2. Significant accounting policies (continued)

### (c) Financial instruments (continued)

#### (ii) Recognition

The Port Authority recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument. From this date, any gains and losses arising from changes in fair value of the assets or liabilities are recognised in the statements of income.

#### (iii) Measurement

Financial instruments are measured initially at cost which is the fair value of the consideration given or received. Subsequent to initial recognition all financial assets are recorded at historical cost which is considered to approximate fair value due to the short-term or immediate nature of these instruments.

Financial liabilities are subsequently measured at amortised cost, being the amount at which the liability was initially recognised less any principal repayments plus any amortisation (accrued interest) of the difference between that initial amount and the maturity amount.

#### (iv) Specific instruments

##### *Cash and cash equivalents*

For the purposes of the statements of cash flows, cash and cash equivalents includes current and money market accounts and term deposits with an original maturity of three months or less, including unrestricted and restricted bank balances and overdrafts.

##### *Interest income and expense*

Interest income and expense are recognised in the statements of income on an accruals basis. Interest income represents the interest earned on term deposits. Interest expense includes interest paid on long term debt and bank overdraft.

#### (v) Derecognition

A financial asset is derecognised when the Port Authority realises the rights to the benefits specified in the contract or the Port Authority loses control over any right that comprise that asset. A financial liability is derecognised when it is extinguished, that is when the obligation is discharged, cancelled or expired.

## PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to Financial Statements (continued)

June 30, 2005 and 2004

*(stated in Cayman Islands dollars)*

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### 2. Significant accounting policies (continued)

#### (d) Fixed assets/depreciation

Fixed assets are stated at cost less accumulated depreciation and impairment losses.

Depreciation is charged to the statements of income on a straight-line basis at the following rates estimated to write off the cost of the assets over their expected useful lives:

Land	Nil
Buildings	4% per annum
Marine Dock	2% per annum
Other fixed assets	2% - 20% per annum

#### (e) Impairment

The carrying amount of the Port Authority's assets other than inventories (see note 2(h)) are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

#### (f) Foreign currency translation

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to Cayman Islands dollars at the foreign currency exchange rate ruling at the balance sheet dates. Foreign exchange differences arising on translation are recognised in the statements of income. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign currency exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the Cayman Islands dollars at the foreign exchange rates ruling at the dates that the values were determined.

#### (g) Allowance for bad debts

The allowance for bad debts is established through a provision for bad debts charged to expenses. Accounts receivable are written off against the allowance when management believes that the collectability of the account is unlikely. The allowance is an amount that management believes will be adequate to cover any bad debts, based on an evaluation of collectability and prior bad debts experience.

# PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to Financial Statements (continued)

June 30, 2005 and 2004  
(stated in Cayman Islands dollars)

## 2. Significant accounting policies (continued)

### (h) Inventory

Inventory is valued at the lower of net realisable value or cost, on a first in, first out basis. Inventory is recorded net of an allowance for obsolete and slow moving items. Any change in the allowance for obsolescence is reflected in the statements of income in the year of change.

### (i) Revenue recognition

Fee income on services provided is recognised in the statements of income when the rendering of a service is completed or substantially completed, and the customer is invoiced.

### (j) Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

### (k) Pensions and other post-retirement benefits

The Port Authority participates in the Silver Thatch Pension Plan, a defined contribution pension fund, in accordance with the Cayman Islands National Pension Law. The Port Authority makes monthly contributions at a rate of 5% and 10% of an employee's salary depending on the employee's position. Contributions are charged to expenses as they are incurred based on set contribution rates. Total contributions for 2005 were CI\$652,485 (2004: CI\$274,138).

## 3. Cash and cash equivalents

	2005	2004
Unrestricted bank balances	788,285	614,134
Restricted bank balances	6,352,959	4,671,868
	CI\$ 7,141,244	5,286,002

### Restricted bank balances

Fixed deposits included in restricted bank balances mature in July 2005 with interest rates ranging from 0.125% to 2.6875%.

Management has placed restrictions on the use of certain bank balances in case of an emergency. The emergency fund is intended to cover the cost of the deductible on the Port Authority's property insurance (US\$2,000,000) plus a contingency to cover any additional losses.

## PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to Financial Statements (continued)

June 30, 2005 and 2004

*(stated in Cayman Islands dollars)*

### 4. Insurance claim receivable

In September 2004, the Port Authority suffered substantial damage to its property and equipment and inventory as a result of Hurricane Ivan. For the year ended June 30, 2005 the Port Authority has recognised impairment losses of CI\$80,000 in respect of the impairment assets, other assets have been repaired and the cost of this has been expensed in the repairs and maintenance caption.

At June 30, 2005 CI\$1,249,102 (2004: CI\$Nil) was due from the insurers for the significant damages from Hurricane Ivan in 2004 all of which has subsequently been received by the Port Authority.

### 5. Accounts receivable

	2005	2004
Accounts receivable	1,498,708	957,385
Allowance for bad debts	(87,573)	(87,849)
	CI\$ 1,411,135	869,536

### 6. Plant, property and equipment

	Land	Docks and Buildings	Other Assets	Total
<b>Cost:</b>				
At beginning of year	11,671,996	20,102,808	10,072,029	41,846,833
Additions during year	1,105,119	97,795	2,121,310	3,324,224
Impairment during year	0	0	(80,000)	(80,000)
Disposals during year	0	0	(728,883)	(728,883)
	12,777,115	20,200,603	11,384,456	44,362,174
<b>Accumulated depreciation:</b>				
At beginning of year	0	4,410,119	4,905,679	9,315,798
Charge for year	0	678,624	602,608	1,281,232
Disposals during year	0	0	(664,266)	(664,266)
	0	5,088,743	4,844,021	9,932,764
<b>Net book value:</b>				
June 30, 2005	CI\$ 12,777,115	15,111,860	6,540,435	34,429,410
June 30, 2004	CI\$ 11,671,996	15,692,689	5,166,350	32,531,035

## PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to Financial Statements (continued)

June 30, 2005 and 2004  
*(stated in Cayman Islands dollars)*

### 6. Fixed assets (continued)

#### *Transfer of assets to Cayman Brac*

During the period ended June 30, 2004, the Port Authority transferred one of Grand Cayman's 40ft chassis to Cayman Brac. The asset had a net book value of C\$Nil, as it had been fully depreciated.

### 7. Capital work in progress

The following estimated additional costs to completion for the cruise ship landing facilities is based on an estimate provided to the board of directors by management:

	Costs to June 30, 2005	Estimated additional costs to completion
George Town cruise/cargo facilities	13,870,790	2,847,990
Terminal upgrades in Cargo Distribution Centre	103,342	18,150
Development of Spotts landing facilities	42,957	1,000
	<b>CIS 14,017,089</b>	<b>2,867,140</b>

It is anticipated that the George Town cruise/cargo facilities will be completed by July 31, 2006.

As of July 29, 2005 the proposed construction of the West Bay cruise facilities was discontinued. It was recommended that the proceeds set aside for this project should be used for either upgrades at the terminal in George Town or at the George Town cruise facilities. The capital work in progress of C\$387,281 incurred for the West Bay cruise facilities was written off in the June 30, 2005 statement of income.

On the completion of these projects, the assets will be reclassified as fixed assets and depreciated on a straight line basis over their future economic lives.

# PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to Financial Statements (continued)

June 30, 2005 and 2004  
(stated in *Cayman Islands dollars*)

8. Long term debt	2005	2004
(a) Cayman Islands Government		
-Grand Cayman <sup>(1)</sup>	323,330	350,275
-Grand Cayman <sup>(2)</sup>	40,588	45,663
-Cayman Brac <sup>(3)</sup>	585,015	653,840
(b) Commercial bank loans	19,881,504	13,333,770
	20,830,437	14,383,548
Less current portion of long term debt	(2,045,233)	(1,027,179)
	CIS 18,785,204	13,356,369

*(a) Cayman Islands Government loans*

The three loans from the Cayman Islands Government, two for Grand Cayman and one for Cayman Brac port facilities are denominated in Cayman Islands dollars, are unsecured, interest free, and are repayable in annual and semi-annual instalments until the years 2011<sup>(1)</sup>, 2009<sup>(2)</sup> and 2013<sup>(3)</sup>, respectively.

*(b) Commercial bank loans comprise:*

	2005	2004
CIS1,320,000 loan for construction of cruise ship tender facilities, secured by a first charge over the facilities, bearing interest of CIS Prime (presently 6.00%), and repayable in monthly instalments until July 31, 2008	316,487	466,713
CIS1,500,000 loan for the purchase of land, secured by a first charge over the property acquired, bearing interest at CIS Prime (presently 6.00%), and repayable in monthly instalments until August 31, 2006	126,222	344,587
CIS1,826,197 (US\$2,227,070) loan to purchase a crane, secured by a charge over the property acquired bearing interest of LIBOR (presently 3.22%) plus 1%, and repayable in monthly instalments until May 31, 2008	642,848	911,615
Carried forward	1,085,557	1,722,915

## PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to Financial Statements (continued)

June 30, 2005 and 2004  
(stated in Cayman Islands dollars)

### 8. Long term debt (continued)

(b) Commercial bank loans comprise (continued):

	2005	2004
Brought forward	1,085,557	1,722,915
CIS\$1,500,000 loan for the purchase of land, secured by a first charge over the property acquired bearing interest at CIS\$ Prime (presently 6.00%), and repayable in monthly instalments until February 28, 2008	21,371	498,344
CIS\$6,000,000 loan for permanent cruise ship moorings, unsecured bearing interest of CIS\$ Prime (presently 6.00%), and repayable in monthly instalments until December 18, 2007*	136,062	222,932
CIS\$3,444,000 (US\$4,200,000) loan for the purchase of the Fort building bearing interest of LIBOR (presently 3.22%) plus 1%, and repayable in monthly instalments until June 2008	1,728,486	2,032,045
CIS\$4,510,000 (US\$5,500,000) loan for the George Town Dock Rehabilitation bearing interest of LIBOR (presently 3.22%) plus 1.5%, and repayable in monthly instalments until March 2014	3,865,944	4,285,571
CIS\$14,350,000 (US\$17,500,000) for the Royal Watler Terminal and bearing interest of LIBOR (presently 3.22%) plus 1.5% and repayable in monthly instalments starting from May 1, 2005 until May 1, 2009	12,343,577	4,551,963
CIS\$6,970,000 (US\$8,500,000) for the acquisition of properties in West Bay and for the construction, the fit out cost to be incurred in connection with the construction of a new passenger terminal, pier and commercial buildings on the properties and the construction of a sea wall, bearing interest of LIBOR (presently 3.22%) plus 1.5% and repayable in monthly instalments starting from August 1, 2005 until August 1, 2009 **	700,507	0
	CIS\$ 19,881,504	13,333,770



## PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to Financial Statements (continued)

June 30, 2005 and 2004  
(*stated in Cayman Islands dollars*)

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### 8. Long term debt (continued)

#### (b) *Commercial bank loans comprise of (continued):*

Included in operating expenses for the year ended June 30, 2005 is interest expense of CI\$314,374 (2004: CI\$153,189) relating to these loans.

\* At December 31, 1997 CI\$630,000 was drawn on the loan facility for the permanent moorings to fund contributions to the Cayman Islands Government. Subsequent to December 31, 1997 the Port Authority decided to abandon this project.

\*\* At June 30, 2005 CI\$700,507 was drawn down on the loan facility for the acquisition of properties in West Bay. Subsequent to June 30, 2005 the Port Authority decided to abandon this project.

### 9. Contingencies and commitments

#### a) *Liability to Cayman Islands Government*

Under the Port Authority Law any balance of account in favour of the Port Authority up to the amount of CI\$100,000 may be carried forward to the account of the following year and any excess of that sum shall be paid in to the general revenue of the Cayman Islands Government. No provision has been made in these financial statements for any further payments that may be demanded by Government in respect of excess balances.

During the year ending June 30, 2005, the Port Authority made payments of CI\$350,000 and waived port fees of CI\$384, bringing the total contributions to CI\$350,384 (2004: CI\$186,432), being 12% (2004: 6%) of the prior year's net income to the general revenue of the Cayman Islands Government and no further liability is due.

#### b) *Leases*

The Port Authority leases a portion of land for its operations. The minimum lease payments are CI\$24,000 for the first year of the lease, which commenced November 29, 2002, and CI\$36,000 per annum for the subsequent nine years ending November 29, 2012.

## PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to Financial Statements (continued)

June 30, 2005 and 2004  
(stated in Cayman Islands dollars)

### 9. Contingencies and commitments (continued)

#### c) Lease-purchase agreement

During 2005 the Port Authority entered into a purchase agreement for a crane for CI\$615,000 (US\$750,000). The net carrying value of the crane is CI\$606,800 at June 30, 2005. Payment terms are US\$350,000 when the crane was received and 10 monthly payments of US\$40,000. Title of the crane transfers to the Port Authority upon final payment.

During 2003 the Port Authority entered into a purchase agreement for a crane for CI\$533,000 (US\$650,000). The net carrying value of the crane is CI\$422,267 at June 30, 2005. Payment terms are: US\$20,000 when the crane was received and 35 monthly payments of US\$18,000. Title of the crane transfers to the Port Authority upon final payment.

The lease payments for the two leases above are as follows:

Year ending June 30	
2006	284,705
2007	67,895
	CIS 352,600

#### d) Marina development

With the contributed land, The Port Authority has entered into a draft unsigned agreement with the Ritz Carlton Grand Cayman Resort to develop a public marina and associated facilities to enhance the local boating community.

#### e) Port development agreement development for the Royal Watler Terminal and West Bay Cruise facilities

During the year ended December 31, 2003, the Port Authority entered into an agreement with the Florida-Caribbean Cruise Association ("FCCA") whereby, commencing January 1, 2004 the FCCA will contribute each quarter CI\$0.82 (US\$1) per passenger for all port calls to the Cayman Islands by FCCA member cruise lines, to repay the loan for the development of both the George Town and West Bay cruise facilities.

On March 11, 2004, the Port Authority and a local lending institution entered into an agreement for the financing of the development of both the George Town and West Bay cruise facilities, for a total of US\$26 million. The West Bay cruise facilities was abandoned subsequent to June 30, 2005 (see notes 7 and 13).

## PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to Financial Statements (continued)

June 30, 2005 and 2004  
*(stated in Cayman Islands dollars)*

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### 9. Contingencies and commitments (continued)

*f) Port development agreement development for the Royal Watler Terminal and West Bay Cruise facilities*

On March 16, 2004, the Port Authority entered into a CI\$8.4 (US\$10.2) million contract with Misener Marine Construction Inc., for the marine works portion of the development of the Royal Watler Cruise Terminal in George Town.

On May 28, 2004, the Port Authority entered into a CI\$6.3 million contract with Hurlstone, Ltd. for the land based works portion of the development of the Royal Watler Cruise Terminal in George Town.

### 10. Other income

Other income relates to insurance claims made and received for significant damages from Hurricane Ivan (see note 13).

### 11. Related party transactions

The Port Authority engages the services of various departments of the Cayman Islands Government. Such services are provided on an arms length basis.

Insurance coverage for property, motor, workers compensation and other risks is provided through the Cayman Islands Government for an annual premium of CI\$973,227 (2004: CI\$426,713).

Mr Robert Foster, a Director of the Port Authority is also the Manager of the Cayman Freight and Shipping Services. As at June 30, 2005, there was account receivable balance from Cayman Freight and Shipping service of \$85,178. All transactions in the year were completed on an arms length basis.

### 12. Lines of credit

The Port Authority has a revolving demand credit line for general business purposes in the amount of CI\$250,000. Interest rate on the line of credit is CI\$ Prime. This credit facility was not drawn down at June 30, 2005.

The Port Authority has a bank overdraft facility up to CI\$250,000 (US\$305,000) bearing interest at 1.5% above LIBOR. As at June 30, 2005, this credit facility has not been used. In addition, the Port Authority has a corporate visa with a credit limit of CI\$28,700 (US\$35,000). At June 30, 2005 the outstanding balance was CI\$3,530 (US\$4,305).

## PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to Financial Statements (continued)

June 30, 2005 and 2004

*(stated in Cayman Islands dollars)*

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### 13. Subsequent events

*(a) West Bay cruise facilities*

On July 29, 2005 a formal announcement was made that this project would be discontinued. All costs incurred and the use of land purchased in regards to this project will be discussed by the board of directors at their next meeting (see note 7).

*(b) Insurance claims*

The total Insurance Claims made for damages caused by Hurricane Ivan to Buildings, Vehicles and Heavy Equipment is in the amount of CI\$2,052,628. The Estimated Insurance Settlement, is CI\$1,519,979, with deductibles of CI\$532,649. As at June 30, 2005 the total sum received was CI\$336,726 with a further sum of CI\$841,600 being received in September 2005. The C.I. Government Risk Management Department advised that there will be more payouts once the department has determined the remaining funds that are available for distribution.

*(c) Royal Walter Cruise Terminal*

The Former Chairman of the Board sent allocation letters to potential tenants which were not authorised by the Board. This resulted in an over allocation of available space.

Legal opinion was sought from legal counsel which concluded that the Port Authority was not contractually bound by the original allocation and a decision was made to re-allocate the available spaces. Subsequently, one of the persons who received an initial allocation letter brought a Writ against the Port Authority regarding the previous allocation. No amounts have been recorded in 2005 as management does not expect any loss as a result of the writ.

### 14. Fair value disclosure of financial instruments

At June 30, 2005 and 2004 the following methods and assumptions were used by management to estimate the fair value of each class of financial instruments:

*(a) Cash and cash equivalents*

The carrying amount approximates fair value.

*(b) Accounts receivable/insurance claims receivable/other receivables/other assets /accounts payable and accrued expenses/advances paid to contractor/related party/retention payable to contractor*

The above items are substantially short term, and do not bear interest. As such, their carrying amount approximates their fair value.

# PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to Financial Statements (continued)

June 30, 2005 and 2004  
*(stated in Cayman Islands dollars)*

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## 14. Fair value disclosure of financial instruments (continued)

### *(c) Current and long term debt*

Included in these balances are certain non-interest bearing loans. The carrying amount of these loans represents the principal balance owing. The anticipated future principal repayments have not been discounted as it would not provide any additional relevant information.

All other loans are floating rate and, therefore, bear interest at the market rate. The carrying value of these loans approximates the fair market value.

Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

## 15. Financial instruments and associated risks

The Port Authority's activities expose it to various types of risk. The most important types of financial risk to which the Port Authority is exposed are credit and interest rate risk.

### *(a) Concentration of credit risk*

Credit risk represents the accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted. To reduce exposure to credit risk, the Port Authority performs ongoing credit evaluations of the financial condition of its customers but generally does not require collateral. The Port Authority invests available cash and cash equivalents with various banks. The Port Authority is exposed to credit-related losses in the event of non-performance by counterparties to these financial instruments. However, management does not expect the counterparties to fail to meet their obligations.

### *(b) Interest rate risk*

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Port Authority holds long-term debts and cash and cash equivalents that are interest bearing and as a result the Port Authority is subject to risk due to fluctuations in the prevailing levels of market interest rates in relation to these financial instruments. The scheduled maturity dates and interest rates of the long-term debts and cash and cash equivalents are presented in notes 3 and 8.

## PORT AUTHORITY OF THE CAYMAN ISLANDS

## Branch Balance Sheets

June 30, 2005

*(stated in Cayman Islands dollars)*

	Grand Cayman	Cayman Brac	Total
<b>Current assets</b>			
Cash and cash equivalents	7,118,646	22,598	7,141,244
Accounts receivable	1,370,165	40,970	1,411,135
Insurance claims receivable	1,249,102	0	1,249,102
Inventory	137,288	0	137,288
Prepaid expenses	45,735	0	45,735
Advances paid to contractor	471,560	0	471,560
Advances paid to related party	2,487	0	2,487
Other receivable	138,416	10,274	148,690
	10,533,399	73,842	10,607,241
<b>Current liabilities</b>			
Accounts payable and accrued expenses	1,477,687	3,057	1,480,744
Retention payable	261,987	0	261,987
Current portion of long term debt	1,976,407	68,826	2,045,233
Current portion of lease-purchase	284,705	0	284,705
	4,000,786	71,883	4,072,669
<b>Working capital</b>	6,532,613	1,959	6,534,572
Plant, property and equipment	29,533,708	4,895,702	34,429,410
Capital work in progress	14,017,089	0	14,017,089
Long term debt	(18,269,015)	(516,189)	(18,785,204)
Long term lease-purchase	(67,895)	0	(67,895)
<b>Net assets</b>	CIS\$ 31,746,500	4,381,472	36,127,972
<b>Represented by</b>			
General reserve	38,061,096	(1,933,124)	36,127,972
Interbranch account	(6,314,596)	6,314,596	0
	CIS\$ 31,746,500	4,381,472	36,127,972

## PORT AUTHORITY OF THE CAYMAN ISLANDS

## Branch Statements of Income and General Reserve

Yearended June 30, 2005  
*(stated in Cayman Islands dollars)*

	Grand Cayman	Cayman Brac	Total
Operating income	21,459,842	440,935	21,900,777
Operating expenses	(14,161,067)	(555,459)	(14,716,526)
	7,298,775	(114,524)	7,184,251
<b>Other income/(expenses)</b>			
Other income	1,519,979	0	1,519,979
Interest income	70,812	0	70,812
Loss on disposal of fixed assets	(49,401)	0	(49,401)
Impairment loss on fixed assets	(80,000)	0	(80,000)
Loss on write down of capital work in progress	(387,281)	0	(387,281)
Depreciation	(1,141,000)	(140,232)	(1,281,232)
	(66,891)	(140,232)	(207,123)
<b>Net income/(loss) for year</b>	7,231,884	(254,756)	6,977,128
General reserve/(deficit) at beginning of year	31,179,596	(1,678,368)	29,501,228
Distribution	(350,384)	0	(350,384)
<b>General reserve at end of year</b>	CIS\$ 38,061,096	(1,933,124)	36,127,972