



**OWNERSHIP AGREEMENT
ANNUAL REPORT**

For

Port Authority of the Cayman Islands

For the 2008 Financial Year

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1. Purpose

This annual report details the performance of the **Port Authority of the Cayman Islands** for the fiscal year ending 30 June 2008.

It includes information about the actual performance delivered during the year as compared to the planned performance documented in the Ownership Agreement for **Port Authority of the Cayman Islands** for 2008, or as amended through the supplementary appropriation process.

2. Nature and Scope of Activities

This section outlines the Nature and Scope of Activities within which **Port Authority of the Cayman Islands** operated during the year.

Approved Nature and Scope of Activities

General Nature of Activities

The Port Authority of the Cayman Islands activities involves the management of the maritime affairs of the Cayman Islands.

Scope of Activities

The scope of the Port Authority of the Cayman Islands activities is as follows:

Providing and maintaining facilities for the offloading of cargo imports into all three Islands.

To contribute to the growth of cruise tourism (and thereby the economy), by providing and maintaining facilities to accommodate the increasing number of cruise ship passengers.

Providing and maintaining navigational markers in Cayman Islands waters.

Providing a patrolling presence, using two fully equipped motor vessels, in the immediate harbour area of the Cayman Islands during cruise ship visits.

Providing a safe and enjoyable environment for the Port Authority's staff and customers.

Carrying out the Port Authority Laws

Customers and Location of Activities

The services provided by the Port Authority of the Cayman Islands are provided only in the Cayman Islands.

Compliance during the Year

The Port Authority of the Cayman Islands (PACI) has complied with the Nature and Scope of Activities as specified in the 2008 Ownership Agreement. The Port Authority of the Cayman Islands has provided and maintained all operating facilities that have to do with the offloading of cargo in the three islands.

Furthermore, the PACI contributed largely to the cruise tourism by providing and maintaining the facilities to accommodate the cruise passengers embarking and disembarking the Cruise Facilities.

Lastly, in 2005 the PACI contracted a local company, namely, West Indian Marine to purchase and install new navigational markers at the main channels in Grand Cayman that were lost or badly damaged during Hurricane Ivan. These markers were scheduled to be installed during the 2008 fiscal year. However, due to weather conditions there is a channel that remains incomplete. Although there are new replacements that will take place in the coming year, the maritime obligations of providing and maintaining them around the Cayman Islands waters is an ongoing project.

3. Strategic Goals and Objectives

Approved Strategic Goals and Objectives

1. Improve the image of the Cayman Islands and the experience of the cruise tourist, by upgrading the existing cruise ship arrival facilities in George town and at Spotts
2. Improve efficiency of the cargo operations by repairing and enhancing the cargo facility in Industrial Park as well as expanding the present facility by purchasing additional property adjacent to CDC.
3. To fine tune the existing computer system, to meet management's need for more useful management reports and to serve the customer needs more efficiently.
4. To improve the human resource and risk management aspects, through developing a comprehensive staff manual, and operations safety/risk management manual.
5. To improve operations through the purchase of new equipment and the repairs to existing equipment.
6. Improve the efficiency of the administration by constructing additional offices into the current billing office that will house all administrative and accounting staff in one central location.

Achievement during the Year

1. The Port Authority continues to upgrade all its present cruise facilities to give the passengers an excellent experience at the point of embarkation and disembarkation. The Port along with the Government is continuing in discussions, with private investors, the possibility of embarking on cruise piers and a new facility that will give the passenger an even better experience. Talks are centred on the construction of two piers that will accommodate four ships, one of which will accommodate the Genesis class.
2. Repairs to the Cargo Distribution Center (CDC), to improve efficiency, are still on-going. The purchase of new property was not pursued as the asking price was more than the Port could afford.
3. Up-grades continue with the purchase of new computers for Grand Cayman, the refining of the accounting module in Port Manager as well as additional refining to the Port web-site.
4. Staff hand books were completed in 2007 and the Safety and Operations Manuals are nearing completion.
5. The Port Authority purchased new some new equipment (trucks, and small fork-lifts), furniture and computer software to enhance the operation. Additionally, some enhancements were made to the Royal Watler Terminal that gives the facility more operational features. Lastly, a portion of the Cargo Distribution Center yard was re-surfaced to better accommodate the heavy usage by our equipment and reduce the heavy wear and tear on the equipment.
6. Lastly, the construction of the new administration offices on Portland Road was put on hold until the third quarter of the 2008 fiscal year.

4. Ownership Performance Targets

The ownership performance targets achieved (as specified in schedule 5 to the Public Management and Finance Law (2005 Revision) for the **Port Authority of the Cayman Islands** for the 2006/7 financial year are as follows.

Financial Performance

Financial Performance Measure	2008 Actual \$	2008 Budget \$	Annual Variance \$
Revenue from Cabinet	None	None	
Revenue from ministries, portfolios, statutory authorities and government companies	Not Separately Identified	Not Separately Identified	
Revenue from other persons or organisations	20,925,258	22,145,637	(1,220,379)
Surplus/deficit from outputs	-	-	-
Other expenses	20,768,566	21,814,497	1,045,931
Net Surplus/Deficit	156,692	331,140	(174,448)
Total Assets	61,706,366	57,622,719	4,083,647
Total Liabilities	20,476,437	18,441,476	(2,034,961)
Net Worth	41,229,929	39,181,243	2,048,686
Cash flows from operating activities	3,102,880	6,356,457	(3,253,577)
Cash flows from investing activities	(2,456,432)	(2,160,000)	(296,432)
Cash flows from financing activities	(1,994,031)	(4,775,154)	(2,781,123)
Change in cash balances	(1,347,583)	(578,697)	(768,886)

Financial Performance Ratio	2006/7 Actual	2006/7 Budget	Annual Variance
Current Assets: Current Liabilities	1.41:1	.53:1	.88
Total Assets: Total Liabilities	3.02:1	2.5:1	.52

Explanation of Variances

The Unfavorable variance in Revenue is a direct result of the dip in cargo imports and cruise passenger arrivals for the year. A favourable result in the operating expenses is due mainly to the reduction in maintenance and staff cost. The unfavourable variance in Assets is due mainly to the purchase of new assets, such as property and equipment, the refurbishing of equipment and continued upgrades to the Royal Watler Terminal to meet planning requirements. The unfavourable variance with Liabilities is a result of the large loan for the Royal Watler Cruise Terminal and end of year accruals. An unfavourable variance in Net Worth is a direct result of the dip in profit as well as the unfavourable variance in Assets and Total Liabilities.

Maintenance of Capability

Human Capital Measures	2008 Actual	2008 Budget	Annual Variance
Total full time equivalent staff	161	165	-4
Staff turnover (%)	10	5 max	5
Average length of service (Number)			
Senior management	10	10	0
Professional staff	10	10	0
Administrative staff	17	19	0
Significant changes to personnel management system	None	None	None

Physical Capital Measures	2008 Actual \$	2008 Budget \$	Annual Variance \$
Value of total assets	Unknown	Unknown	Unknown
Asset replacements: total assets	Less than 1%	Less than 1%	Less than 1%
Book value of depreciated assets: initial cost of those assets	81%	88%	-7%
Depreciation: Cash flow on asset purchases	Not Separately identified	Not Separately identified	Not Separately identified
Changes to asset management policies	None	None Planned	None

Major Capital Expenditure Projects	2008 Actual \$	2008 Budget \$	Annual Variance \$
Assets Additions and Replacements	\$2.5mil	\$3.3mil	\$800k

Risk Management

Key risks	Status of Risk	Actions taken during 2008 to Manage risk	Financial Value of risk
Hurricane or Storm	None	Hurricane Plan Practised on a continuous	\$2 million insurable deductible
Personal injury or fatality during operations	None	Employ safety procedures and installed lighting	Unknown

Explanation of Variances

The unfavourable result in human capital is a direct result of the retirement and non-hiring of staff members.

The unfavourable results in the Asset Additions and Replacements refer mainly to the ongoing upgrading of the Royal Watler Cruise Terminal to satisfy the planning department as well as to improve the usability of the facility.

5. Summarised Financial Statements

A full set of financial statements for the **Port Authority of the Cayman Islands** is provided in the Appendix to this Ownership Agreement.

A summary of those is as follows.

Operating Statement	2008 Actual \$	2008 Budget \$	Annual Variance \$
Revenue	20,925,258	22,145,637	(1,220,379)
Operating Expenses	20,768,566	21,814,497	1,045,931
<i>Net Surplus/Deficit</i>	156,692	331,140	(174,448)

Balance Sheet	2008 Actual \$	2008 Budget \$	Annual Variance \$
Assets	61,706,366	57,622,719	4,083,647
Liabilities	20,476,437	18,441,476	(2,034,961)
<i>Net Worth</i>	41,229,929	39,181,243	2,048,686

Statement of Cash Flows	2008 Actual \$	2008 Budget \$	Annual Variance \$
Net cash flows from operating activities	3,102,880	6,356,457	(3,243,577)
Net cash flows from investing activities	(2,456,432)	(2,166,000)	(296,432)
Net cash flows from financing activities	(1,994,031)	(4,775,154)	2,781,123

Explanation of Variances

The Unfavorable variance in Revenue is a direct result of the dip in cargo imports and cruise passenger arrivals for the year. A favourable result in the operating expenses is due mainly to the reduction in maintenance and staff cost. The unfavourable variance in Assets is due mainly to the purchase of new assets, such as property and equipment, the refurbishing of equipment and continued upgrades to the Royal Watler Terminal to meet planning requirements. The unfavourable variance with Liabilities is a result of the large loan for the Royal Watler Cruise Terminal and end of year accruals. An unfavourable variance in Net Worth is a direct result of the dip in profit as well as the unfavourable variance in Assets and Total Liabilities.

6. Other Financial Information

Detailed below is information about specific financial transaction required to be included in the Ownership Agreement by the Public Management and Finance Law (2005 Revision).

Transaction	2008 Actual \$	2008 Budget \$	Annual Variance \$
Equity Investments into <i>Port Authority of the Cayman Islands</i> .	None	None	
Capital Withdrawals from <i>Port Authority of the Cayman Islands</i>].	None	None	
Dividend or Profit Distributions to be made by <i>Port Authority of the Cayman Islands</i> .	350,000	350,000	
Government Loans to be made to <i>Port Authority of the Cayman Islands</i> .	None	None	
Government Guarantees to be issued in relation to <i>Port Authority of the Cayman Islands</i> .	None	None	
Related Party Payments (Non Remuneration) made to Key Management Personnel ¹	None	None	
Remuneration ² Payments made to Key Management Personnel	None	None	
Remuneration Payments made to Senior Management	None	None	

	2008 Actual	2008 Budget
No of Key Management Personnel	3	3
No of Senior Management	5	5

Explanation of Variances

No Variance exists.

¹ Key Management Personnel as defined by International Public Accounting Standards No 20, eg Minister, Board Member and Senior Management Team

² Remuneration as defined by International Public Accounting Standards No 20 Par 34(a)

7. Agreement

We jointly agree that this Ownership Agreement Annual Report accurately documents the ownership performance that the **Port Authority of the Cayman Islands** achieved for the 2008 financial year.

**Minister in charge at the year end: Charles E. Clifford, Jr. – Minister of Tourism, Environment, Investment and Commerce*

Hon. Premier W. McKeeva Bush, OBE, JP.
Minister of Finance, Tourism and Development
On behalf of the Cabinet

**Chairman of the Board at the year end: Mr. Wayne Panton*

Stefan Baraud
Chairman of the Board
The Port Authority of the Cayman Islands
Date:

Appendix: Financial Statements for the Year

PORT AUTHORITY OF THE CAYMAN ISLANDS STATEMENT OF RESPONSIBILITY FOR FINANCIAL STATEMENTS FOR THE YEAR ENDING 30 JUNE 2008

These Financial Statements have been prepared by the **Port Authority of the Cayman Islands** in accordance with the provisions of the Public Management and Finance Law (2005 Revision).

The Financial Statements comply with generally accepted accounting practice as defined in International Public Sector Accounting Standards and International Accounting Standards.

We accept responsibility for the accuracy and integrity of the financial information in these financial statements and their compliance with Public Management and Finance Law (2005 Revision).

To the best of our knowledge the financial statements are:

- (a) complete and reliable;
- (b) fairly reflect the financial position as at 30 June 2008 and performance for the year ended 30 June 2008
- (c) comply with generally accepted accounting practice.

**Chairman of the Board at the year end: Mr. Wayne Panton*

Stefan Baraud

Chairman of the Board

The Port Authority of the Cayman Islands

Date:

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

June 30, 2008

(stated in Cayman Islands dollars)

1. Establishment and Principal Activities

The Port Authority of the Cayman Islands (the “Port Authority”) is a statutory body established on September 15, 1976 under the *Port Authority Law*. This Law was revised in 1999. The Port Authority is also governed by the *Port Regulations (2003 Revision)*

The Port Authority is engaged in the management of the maritime affairs of the Cayman Islands. This includes –

- general management and control of all ports;
- establishment and control of lighthouses and day markers;
- establishment and control of berths;
- provision, maintenance, and control of cranes, launches, lighters, rafts, trucks, capstans, winches, windlasses, bollards, and other machinery, apparatus, tackle and gear used in ports and territorial waters for the securing, loading, unloading and maintenance of vessels;
- establishment, maintenance and control of transit sheds, offices, and all other buildings in ports other than buildings under the control of the Collector of Customs, the Chief Immigration Officer or the Chief Medical Officer;
- general supervision of territorial waters, and of vessels and wrecks located therein;
- loading and unloading of vessels;
- establishment and supervision of safety measures in respect of vessels or classes of vessels in ports and in territorial waters;
- enforcement of the Port Authority Law and the Regulations;
- inspection of vessels for the purpose of checking and enforcing compliance with the Port Authority Law.

As at June 30, 2008 the Port Authority had 161 employees (2007: 164 employees). The Port Authority is located in the Port Authority Building on Harbour Drive, P.O. Box 1358 GT, Grand Cayman, Cayman Islands, as well as a branch at 385 Creek Road, P.O. Box 9, Cayman Brac.

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 preparation

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

The accounting policies are consistent with those used in the previous year.

(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

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements (continued)

June 30, 2008

(stated in Cayman Islands dollars)

2. Significant accounting policies (continued)

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.

(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) 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.

(iv) 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.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements (continued)

June 30, 2008

(stated in Cayman Islands dollars)

2. Significant accounting policies (continued)

(v) Specific instruments

Cash and cash equivalents

For the purpose of the statement 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.

(vi) Interest income and expense

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

(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:

Buildings	4%
Marine Dock	2%
Lights and buoys	2% - 20%
Equipment and furniture	20%
Computer Equipment	20%

(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.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements (continued)

June 30, 2008

(stated in Cayman Islands dollars)

2. Significant accounting policies (continued)

(f) Foreign currency translation

Transactions in foreign currencies are translated at the foreign exchange rate 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 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 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 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.

(h) Inventory

Inventory consists of diesel fuel and service parts and consumables for the port Authority's fleet of vehicles, cranes and other specialised equipment. These are 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 as 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 2008 were \$956,112 (2007: \$959,958).

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements (continued)

June 30, 2008

(stated in Cayman Islands dollars)

3. Cash and cash equivalents

	2008	2007
Bank balances	4,605,391	5,952,974

These consist of operating bank balances and fixed deposits which mature in July 2008 with interest rates ranging from 2.09% to 2.437%.

Management has a policy to retain cash balances to facilitate liquidity 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.

4. Accounts receivable

	2008	2007
Accounts receivable	1,076,556	1,447,770
Allowance for bad debts	(82,643)	(147,982)
	993,913	1,299,788

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements (continued)

June 30, 2008

(stated in Cayman Islands dollars)

5. Fixed Assets

Cost	Freehold Land	Docks and Buildings	Other Assets	Construction In Progress	Total
At 30 June 2007	14,164,489	40,406,927	11,410,105	1,465,442	67,446,963
Additions	1,108	1,324,483	571,545	571,365	2,468,501
Disposals	-	-	(137,821)	-	(137,821)
Write offs	-	-	-	(23,366)	(23,366)
Transfers	-	774,500	483,635	(1,258,135)	-
At 30 June 2008	14,165,597	42,505,910	12,327,464	755,306	69,754,277
Accumulated Depreciation					
At 30 June 2007	-	7,392,361	5,609,002	-	13,001,363
Charge for Year	-	1,352,230	786,893	-	2,139,123
Disposals	-	-	(100,186)	-	(100,186)
At 30 June 2008	-	8,744,591	6,295,709	-	15,040,300
Net Book Value					
At 30 June 2008	14,165,597	33,761,319	6,031,755	755,306	54,713,977
At 30 June 2007	14,164,489	33,014,565	5,799,981	1,465,442	54,444,477

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements (continued)

June 30, 2008

(stated in Cayman Islands dollars)

6. Capital work in progress

	2008	2007
George Town cruise/cargo facilities (RWCT)	324,046	636,074
Marine contracting services	92,430	356,888
Forklift / Crane refurbishment	192,127	130,576
Website re-designs	62,000	52,700
Bunker project	34,776	19,551
CDC / Billing office improvement	49,927	246,288
Cruise Terminal expansion project (Consultancy)	-	23,365
	755,306	1,465,442

7. Long Term Liabilities

	Current	1-2 yrs	3-5 yrs	5+ yrs	2008	2007
a) Cayman Islands Government						
(i) Grand Cayman ⁽¹⁾ (0%)	53,839	107,838		-	161,653	215,545
(ii) Grand Cayman ⁽²⁾ (0%)	10,147	-	-	-	10,147	20,294
(iii) Grand Cayman ⁽⁵⁾ (0%)	34,413	68,826	103,239	172,059	378,537	447,364
b) Fort Building (3.47%)	332,703	445,555	18,986	-	797,244	1,125,939
c) George Town Dock Rehabilitation (3.97%)	1,387,752	992,321	-	2,774,947	3,165,063	2,910,068
d) Royal Watler Terminal						
(i) Royal Bank of Canada LIBOR plus 1.5% (3.97%)	371,966	1,002,290	1,745,833	3,066,781	6,186,870	6,554,354
(ii) Bank of Nova Scotia LIBOR plus 1.5% (3.97%)	371,966	1,002,290	1,745,833	3,066,780	6,186,869	6,554,354
e) West Bay Terminal						
(i) Royal Bank of Canada LIBOR plus 1.5% (3.97%)	18,546	49,633	86,606	146,975	301,760	320,083
(ii) Bank of Nova Scotia LIBOR plus 1.5% (3.97%)	18,546	49,633	86,606	146,975	301,760	320,083
f) Crane acquisition (3.47%)	0	0	0	0	0	20,740

	2008	2007
Total Long Term Liabilities	17,099,787	18,743,818
Less Current Maturities	(1,607,000)	(1,623,291)
	15,492,787	17,120,527

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements (continued)

June 30, 2008

(stated in Cayman Islands dollars)

(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⁽¹⁾, 2009⁽²⁾ and 2013⁽³⁾, respectively. The respective principal amounts and annual payments are ⁽¹⁾1,573,291, 53,892.64; ⁽²⁾ 172,500, 10,147.06; ⁽³⁾ 1,720,664, 68,826.

(b) *Commercial bank loans are comprised of:*

	<u>2008</u>	<u>2007</u>
\$1,826,197 (US\$2,227,070) loan to purchase a crane, secured by a charge over the property acquired bearing interest of LIBOR (2.47% as at 30 June 2008) plus 1%, and repayable in monthly instalments until May 31, 2008. This loan was fully repaid during the financial year.	0	20,740
\$3,444,000 (US\$4,200,000) loan for the purchase of the Fort building secured by a charge over the property acquired bearing interest of LIBOR (2.47% as at 30 June 2008) plus 1%, and repayable in monthly instalments until May 2011	797,244	1,125,939
\$4,510,000 (US\$5,500,000) loan for the George Town Dock Rehabilitation bearing interest of LIBOR (2.47% as at 30 June 2008) Plus 1.5%, and repayable in monthly instalments until March 2014. The securities pledged by the Port Authority for this loan are as follows: Registered First Charge for US\$5,500,000 on GT OPY, Parcel #133, and collateral charge on OPY Parcels 25 and 127.	2,774,947	3,165,062
\$14,350,000 (US\$17,500,000) for the Royal Watler Terminal and bearing interest of LIBOR (2.47% as at 30 June 2008) plus 1.5% and repayable in monthly instalments starting from May 1, 2005 until May 1, 2009. The securities pledged by the Port Authority for this loan are as follows:		
<ul style="list-style-type: none"> • Registered Second Demand Legal Charge stamped in the amount of US\$17,500,000 covering George Town Commercial Block OPY, Parcel 133. • Registered Second Demand Collateral Legal Charges in the amount of US\$17,500,000 over George Town Commercial Block OPY, Parcels 25 and 127 • Registered First Collateral Legal Charge in the amount of US \$17,500,000 over raw land parcel described as West Bay South, Block 5B Parcel 36. 	12,373,739	13,108,707
Carried forward	15,945,930	17,420,448

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements (continued)

June 30, 2008

(stated in Cayman Islands dollars)

Commercial bank loans (continued)

Brought forward	15,945,930	17,420,448
<p>\$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 (2.47% as at 30 June 2008) plus 1.5% and repayable in monthly instalments starting from August 1, 2005 until August 1, 2009 **</p> <p>The securities pledged by the Port Authority for this loan are as follows:</p> <ul style="list-style-type: none">• Registered Third Demand Legal Charge stamped in the amount US\$8,500,000 covering George Town Commercial, Block OPY Parcel 133• Registered Third Demand Collateral Legal Charges in the amount of US\$8,500,000 each over George Town Commercial, Block OPY Parcels 25 and 127• Registered Second Collateral Legal Charge in the amount of US\$8,500,000, over raw land legally described as West Bay South, Block 5B, Parcel 36.		
Total Commercial Bank Loans	16,549,450	18,060,615

Included in operating expenses for the year ended June 30, 2008 is interest expense of CI\$1,052,349 (2007 CI\$1,079,174) relating to these loans.

If interest rates increase by 1% the interest expense in the financial statements will increase by \$183,735.

* 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. Consequently, the full loan amount was not borrowed.

** 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, and therefore the full loan amount was not borrowed.

8. 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.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements (continued)

June 30, 2008

(stated in Cayman Islands dollars)

8. Contingencies and commitments (continued)

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, 2008, the Port Authority made payments of CI\$350,000 (2007: CI\$1,000,000), to the Cayman Islands Government.

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.

Lease Obligation for 1 year	CI\$36,000
Lease Obligation for 2-4 years	CI\$108,000

c) Marina development

In an agreement dated January 2009, the Port Authority contributed access to its parcels of land adjoining the Ritz Carlton property, in exchange for the developers of Ritz Carlton Grand Cayman Resort to develop a public marina and associated facilities to enhance the local boating community. The management of the Port Authority expects no financial impact on the Port Authority on account of this arrangement.

(d) Employee Claims

Two former employees of the Port Authority brought action against the Authority for negligence due to injuries sustained while within the employ of the Authority. These were settled by the Authority's insurance company in favour of the claimants. Management expects no payout from the funds of the Port Authority as a result from these claims or from any further action which may arise from these matters.

9. 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\$1,153,936 (2007: CI\$1,001,459). This insurance is procured by the Cayman Islands Government for all its entities at market rates, and then apportioned the related liability on a pro rated basis, according to the value of the entities' assets.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements (continued)

June 30, 2008

(stated in Cayman Islands dollars)

9. Related party transactions (continued)

Mr Robert Foster, a Director of the Port Authority is also the Manager of the Cayman Freight and Shipping Services. As at June 30, 2008, there was an account receivable balance from Cayman Freight and Shipping service of \$80,726 (2007: \$104,834) Cayman Freight and Shipping services pays the standard fees for all the Port Authority services they utilize.

Key Management Personnel

There are three full time personnel on open ended employment agreements considered to be at the senior management level. The total remuneration includes: regular salary, pension contribution, health insurance contribution and bonuses. The pension and health insurance benefits provided to key management personnel are similar to that provided for all employees. Total remuneration for senior management was \$644,852 (2006/7 \$608,429)

10. Lines of credit

The Port Authority has a bank overdraft facility up to \$250,000 (US\$305,000) bearing interest at 1.5% above Prime. As at June 30, 2008, this overdraft facility has not been used. In addition, the

Port Authority has a corporate credit card with a credit limit of \$24,600 (US\$30,000). At June 30, 2008 the outstanding balance was \$5,280 (US\$6,439) (2006/7 \$11,449 / US\$13,962)

11. Subsequent events

(a) Insurance claims- Hurricane Paloma

Hurricane Paloma caused severe destruction to the Port Authority's infrastructure in Cayman Brac in November 2008. The total insurance claims made for damages were \$1,125,433. At the date of this report a determination was not made regarding the final settlement to be made by the insurance company. However, an interim payment of \$562,717 was received by the Port Authority on March 12, 2009

12. Fair value disclosure

At June 30, 2008 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 / other receivables/other assets /accounts payable and accrued expenses/related party/prepaid expenses

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 the Financial Statements (continued)

June 30, 2008

(stated in Cayman Islands dollars)

12. Fair value disclosure (continued)

(c) Current and long term debt

Included in these balances is 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.

All other loans are floating rate and 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 interest rate assumptions have been reflected in note 7. Changes in other assumptions could significantly affect the estimates.

13. 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 (with sensitivity analysis) and cash and cash equivalents are presented in notes 3, 7 and 8.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements (continued)

June 30, 2008

(stated in Cayman Islands dollars)

14. Diesel Sales

The Port Authority sells diesel fuel to cargo and other vessels in port for profit.

Diesel sales are shown net in the Statement of Income:

	2008	2007
Total diesel sales	1,556,873	536,989
Total diesel cost of sales	(1,287,762)	(401,648)
Net Income from Diesel sales	269,111	135,341

15. Branch Statements of Financial Position

	Grand Cayman	Cayman Brac	Total	2007
Current assets				
Cash and cash equivalents	4,456,738	148,653	4,605,391	5,952,974
Accounts receivable	928,033	65,880	993,913	1,299,788
Inventory	210,849	0	210,849	109,839
Prepaid expenses	922,059	1,246	923,305	997,961
Other receivables	236,921	22,010	258,931	132,146
	6,754,600	237,789	6,992,389	8,492,708
Current liabilities				
Accounts payable and accrued expenses	3,361,453	15,197	3,376,650	2,770,130
Current portion of long term debt	1,538,174	68,826	1,607,000	1,623,291
	4,899,627	84,023	4,983,650	4,393,421
Working capital	1,854,973	153,766	2,008,739	4,099,287
Plant, property and equipment	49,219,254	4,739,417	53,958,671	52,979,035
Capital work in progress	653,638	101,668	755,306	1,465,442
Long term debt	(15,183,076)	(309,711)	(15,492,787)	(17,120,527)
Long term lease-purchase				
Net assets	36,544,789	4,685,140	41,229,929	41,423,237
Represented by				
General reserve	43,978,623	(2,748,694)	41,229,929	41,423,237
Inter-branch account	(7,433,834)	7,433,834		
	36,544,789	4,685,140	41,229,929	41,423,237

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements (continued)

June 30, 2008

(stated in Cayman Islands dollars)

16. Branch Statements of Comprehensive Income

	Grand Cayman	Cayman Brac	Total	2007
Operating income	18,660,920	718,963	19,379,883	21,636,570
Operating expenses	(17,738,954)	(842,679)	(18,581,633)	(17,634,785)
	921,966	(123,716)	798,250	4,001,785
Other income/ (expenses)				
Other income	151,563	12,406	163,969	341,203
Interest income	173,824	660	174,484	217,863
Rental Income	1,206,921	0	1,206,921	284,902
Other expense	0	0	0	(3,600)
Loss on disposal of fixed assets	(36,510)	0	(36,510)	(21,493)
Depreciation	(1,976,027)	(174,395)	(2,150,422)	(1,929,719)
	(480,229)	(161,329)	(641,558)	(1,110,844)
Net income/(loss) for year	441,737	(285,045)	156,692	2,890,941
General reserve/ (deficit) at beginning of year	43,886,887	(2,463,650)	41,423,237	39,532,296
Contribution to Government	(350,000)	0	(350,000)	(1,000,000)
General reserve at end of year	43,978,624	(2,748,695)	41,229,929	41,423,237

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements (continued)

June 30, 2008

(stated in Cayman Islands dollars)

	Note	2008	2007
CURRENT ASSETS			
Cash and cash equivalents	3	4,605,391	5,952,974
Accounts receivable (Net of allowance for Bad Debts)	4	993,913	1,299,788
Inventory	2	210,849	109,839
Prepaid expenses		923,305	997,961
Other receivables and deposits		258,931	132,146
Total Current Assets		6,992,389	8,492,708
CURRENT LIABILITIES			
Accounts payable and accrued expenses		3,376,650	2,770,130
Current maturities on long term liabilities		1,607,000	1,623,291
Total Current Liabilities		4,983,650	4,393,421
NET CURRENT ASSETS		2,008,739	4,099,287
FIXED ASSETS			
Land- freehold		14,165,597	14,164,489
Docks and buildings		33,761,319	33,014,565
Other assets		6,031,755	5,799,981
Construction in progress		755,306	1,465,442
Total Fixed Assets	5, 6	54,713,977	54,444,477
NET ASSETS		56,722,716	58,543,764
LONG TERM LIABILITIES	7	(15,492,787)	(17,120,527)
EQUITY		41,229,929	41,423,237

Approved

Paul Hurlston
(Port Director)

James Parsons
(Deputy Port Director –Finance)

Date

Date

The accompanying notes form an integral part of these financial statements.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements (continued)

June 30, 2008

(stated in Cayman Islands dollars)

	Note	2008	2007
OPERATING REVENUE			
Cargo handling		14,136,420	15,727,180
Cruise ship passenger fees		2,582,173	3,146,811
Port development fees		1,254,012	1,532,915
Rental income		1,206,921	284,902
Maritime services		1,138,167	1,094,323
Other income		163,969	341,203
Diesel sales		269,112	135,341
Total Operating Revenue		20,750,774	22,262,675
OPERATING EXPENSES			
Staff costs		12,833,764	12,093,790
Repairs and maintenance		1,637,812	1,427,027
Insurance		1,153,936	1,001,459
Finance charges	7	1,052,349	1,079,174
Contracted services		823,645	896,536
Utilities		511,723	439,867
Diesel		249,249	240,823
Miscellaneous		68,458	77,576
Travel, conventions & training		81,945	183,287
Advertising and entertainment		76,759	77,823
Stationery, supplies & computer supplies		55,744	81,173
Rent		36,250	36,250
Total Operating Expenses		18,581,634	17,634,785
GROSS OPERATING SURPLUS FOR THE YEAR		2,169,140	4,627,890
OTHER INCOME/ (EXPENSES)			
Interest income		174,484	217,863
Other income/(expense)		0	(3,600)
Gain (Loss) on disposal of fixed assets		(36,510)	(21,493)
Depreciation	5	(2,150,422)	(1,929,719)
		(2,012,448)	(1,736,949)
NET INCOME FOR YEAR		156,692	2,890,941

The accompanying notes form an integral part of these financial statements.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements (continued)

June 30, 2008

(stated in Cayman Islands dollars)

	Note	2008	2007
BALANCE AT THE BEGINNING OF THE YEAR		41,423,237	39,532,296
Net income for year		156,692	2,890,941
Contribution to the Cayman Islands Government	8 (a)	(350,000)	(1,000,000)
BALANCE AT THE END OF THE YEAR		41,229,929	41,423,237

The accompanying notes form an integral part of these financial statements.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements (continued)

June 30, 2008

(stated in Cayman Islands dollars)

	2008	2007
CASH FLOW FROM OPERATING ACTIVITIES		
Net income for year	156,692	2,890,941
Adjustments to reconcile net income to net cash used in Operating activities:		
Depreciation	2,150,422	1,929,719
Loss on disposal of fixed assets	36,510	21,493
Net change in working capital:		
Insurance claims receivable	0	341,656
Accounts receivable	305,875	(97,225)
Inventory	(101,010)	10,609
Prepaid expenses	74,656	(908,122)
Advances paid to contractor	0	449,888
Other receivables	(126,785)	452,121
Accounts payable and accrued expenses	606,520	1,772,360
Retention payable to contractor	0	(240,315)
Net Cash Provided by Operating Activities	3,102,880	6,623,125
CASH FLOW FROM INVESTING ACTIVITIES		
Fixed Assets purchased	(3,154,163)	(685,737)
Construction in progress	697,731	(2,150,193)
Net Cash Used by Investing Activities	(2,456,432)	(2,835,930)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long term debt	(1,644,031)	(1,788,704)
Repayment of lease-purchase	0	(44,280)
Contribution to Government	(350,000)	(1,000,000)
Net Cash Used by Financing Activities	(1,994,031)	(2,832,984)
Net Increase / (Decrease) in cash and Cash Equivalents during the year	(1,347,583)	954,211
Cash and cash equivalents at the beginning of the year	5,952,974	4,998,763
Cash and cash equivalents at the end of year	4,605,391	5,952,974

The accompanying notes form an integral part of these financial statements.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements (continued)

June 30, 2008

(stated in Cayman Islands dollars)

Type	One year or less	One to five years	Over five years	Total
	\$000	\$000	\$000	\$000
Capital Commitments				
Land and buildings				
Other fixed assets				
Other commitments [list separately if material]				
Total Capital Commitments				
Operating Commitments				
Non-cancellable accommodation leases				
Other non-cancellable leases				
Non-cancellable contracts for the supply of goods and services				
Other operating commitments				
Total Operating Commitments				
Total Commitments				

The accounting policies and notes on pages [18 to 22] form part of these financial statements.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements (continued)

June 30, 2008

(stated in Cayman Islands dollars)

Summary of Quantifiable Contingent Liabilities

	\$000
Legal Proceedings and Disputes	
Item 1 description	
Item 2 description	
Total Legal Proceedings and Disputes	<u>NONE</u>

Other Contingent Liabilities

Item 1 description	
Item 2 description	
Total Other Contingent Liabilities	<u>NONE</u>

Summary of Non-Quantifiable Contingent Liabilities

Item 1 description
Item 2 description

The accounting policies and notes on pages [18 to 22] form part of these financial statements.