



**OWNERSHIP AGREEMENT
ANNUAL REPORT**

For

Port Authority of the Cayman Islands

For the 2009 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 2009.

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 2009, 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:

1. Providing and maintaining facilities for the offloading of cargo imports into all three Islands.
2. To contribute to the growth of cruise tourism (and thereby the economy), by providing and maintaining facilities to accommodate the cruise ship passengers.
3. Providing and maintaining navigational markers in Cayman Islands waters.
4. Providing a patrolling presence, using two fully equipped motor vessels, in the immediate harbour area of the Cayman Islands during cruise ship visits.
5. Providing a safe and enjoyable environment for the Port Authority's staff and customers.
6. 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 (Port Authority) has complied with the Nature and Scope of Activities as specified in the 2009 Ownership Agreement as follows. The Port Authority

1. has provided and maintained all operating facilities that have to do with the offloading of cargo in the three islands,
2. has contributed largely to the cruise tourism by providing and maintaining its facilities to accommodate the cruise passengers embarking and disembarking the Cruise Facilities.
3. in 2005, contracted with a local company, namely, West Indian Shipping Ltd 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 completely installed during the 2009 fiscal year. However, due to weather conditions, beyond the contractor's control, there is one channel that remains incomplete but the contractor assures the Port Authority that as soon as weather permits this last marker will be completed by May 2011. There will be new markers put out in the coming year because the maritime obligations for providing and maintaining the navigational markers

and light houses around the Cayman Islands waters lays squarely with the Port Authority and is an ongoing project. Over the years the Port Authority has been utilizing its own staff, mainly from the marine section, to replace and maintain the markers and light houses as the need arose. This will continue as the Port Authority is tasked with this obligation

4. patrols the waterways around the harbour during the cruise ships visit is an integral part of the responsibilities the Port Authority is tasked with in order to ensure the safety of the ships and its passengers. To accomplish this, the Port Authority uses its two well maintained and fully equipped patrol boats which are staffed with qualified personnel.
5. is responsible for providing a safe and enjoyable environment for its staff and customers which it gives high priority to and has complied with this area of its responsibility to the fullest while carrying out the various other responsibilities as set out in the Port Authority laws and regulations.

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 an 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 unto the current billing office that will house all administrative and accounting staff in one central location.

Achievement during the Year

1. There is continuous upkeep to all cruise facilities as the Port Authority is endeavouring to give the cruise passengers an excellent experience during its visit. The Port Authority along with the Government continue to discuss, with a private investor, the possibility of embarking on cruise piers and a new facility that will further enhance the passenger visit to the island. Talks are around 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), that will improve efficiency, are still on-going more specifically the resurfacing in certain areas where the ground is sinking. The purchase of new property was not pursued as the asking price was more than the Port could afford at this time. However, this is still an option.
3. Up-grades continue with the purchase of new computers for Grand Cayman and Cayman Brac, 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. As a result of Hurricane Paloma, which occurred in November 2008, the Port Authority had to redirect its resources to purchase equipment for the Brac Port Authority in order for that operation to continue. There was new computer equipment, office equipment and furniture that were purchased in addition to the replacement of the sheet metal to the building in order to enclose the facility to make it a safe environment to conduct business from.
6. Lastly, the construction of the new administration offices on Portland Road was put on hold indefinitely.

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 2009 financial year are as follows.

Financial Performance

Financial Performance Measure	2009 Actual \$	2009 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	20,808,858	21,409,750	(600,892)
Surplus/deficit from outputs	-	-	-
Other expenses	20,884,539	21,358,166	473,627
Net Surplus/Deficit	(75,681)	51,584	(127,535)
Total Assets	58,895,385	60,845,317	(1,949,932)
Total Liabilities	18,091,137	19,718,003	1,626,866
Net Worth	40,804,248	41,127,314	(323,066)
Cash flows from operating activities	2,113,438	2,652,731	(539,293)
Cash flows from investing activities	(1,857,840)	(2,260,000)	402,160
Cash flows from financing activities	(2,359,172)	(3,008,279)	649,107
Change in cash balances	(2,103,574)	(2,615,548)	511,974

Financial Performance Ratio	2009 Actual	2009 Budget	Annual Variance
Current Assets: Current Liabilities	1.02:1	1.04:1	(.02)
Total Assets: Total Liabilities	3.26:1	3.1:1	.16

Explanation of Variances

The unfavourable variance in total Assets is due mainly to the write-off of Cayman Brac equipment and building, reduction in cargo imports and cruise passengers in addition to the annual depreciation on fixed assets. The favourable variance with Liabilities is a result of decrease in interest rate thereby resulting in higher principal repayments to the loans. An unfavourable variance in Net Worth is a direct result of the drop in imports and in cruise passengers as well as an increase in expenses relating to the post hurricane Paloma cleanup and the write-off of Cayman Brac fixed assets that were damaged in Paloma.

Maintenance of Capability

Human Capital Measures	2009 Actual	2009 Budget	Annual Variance
Total full time equivalent staff	157	168	-11
Staff turnover (%)	10	7 max	3
Average length of service (Number)			
Senior management	12	10	2
Professional staff	12	10	2
Administrative staff	18	25	-7
Significant changes to personnel management system	None	None	None

Physical Capital Measures	2009 Actual \$	2009 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	76%	96%	-20%
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	2009 Actual \$	2009 Budget \$	Annual Variance \$
Assets Additions and Replacements	\$1.9M	\$2.2M	(\$0.3M)

Risk Management

Key risks	Status of Risk	Actions taken during 2009 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.

There were no major capital projects undertaken in the year except for the replacement of assets for the ravished office in Cayman Brac, the purchase of a small piece of property next to the Spotts dock and the refurbishing of cranes.

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	2009 Actual \$	2009 Budget \$	Annual Variance \$
Revenue	20,808,858	21,409,750	(600,892)
Operating Expenses	20,884,539	21,358,166	(473,627)
<i>Net Surplus/Deficit</i>	<i>(75,681)</i>	<i>51,584</i>	<i>(127,535)</i>

Balance Sheet	2009 Actual \$	2009 Budget \$	Annual Variance \$
Assets	58,895,385	60,845,317	(1,949,932)
Liabilities	18,091,137	19,718,003	(1,626,866)
<i>Net Worth</i>	<i>40,804,248</i>	<i>41,127,314</i>	<i>(323,066)</i>

Statement of Cash Flows	2009 Actual \$	2009 Budget \$	Annual Variance \$
Net cash flows from operating activities	2,113,438	2,652,731	(539,293)
Net cash flows from investing activities	(1,857,840)	(2,260,000)	402,160
Net cash flows from financing activities	(2,359,172)	(3,008,279)	649,107

Explanation of Variances

The unfavourable variance in total Assets is due mainly to the write-off of Cayman Brac equipment and building, reduction in cargo imports and cruise passengers in addition to the annual depreciation on fixed assets. The favourable variance with Liabilities is a result of decrease in interest rate thereby resulting in higher principal repayments to the loans. An unfavourable variance in Net Worth is a direct result of the drop in imports and in cruise passengers as well as an increase in expenses relating to the post hurricane Paloma cleanup and the write-off of Cayman Brac fixed assets that were damaged in Paloma.

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	2009 Actual \$	2009 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	

	2009 Actual	2009 Budget
No of Key Management Personnel	3	3
No of Senior Management	5	7

Explanation of Variances

There were no changes in the number of managers from the previous year although it was anticipated that two would be added during the year. This did not come about because of the already increase in expenses and seasoned supervisors accepting more responsibilities.

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. McKeever 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 2009

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 2009 and performance for the year ended 30 June 2009;
- (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, 2009

(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, 2009 the Port Authority had 157 employees (2008: 161 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 the financial statements and the reported amounts of income and expenses during the year. Actual results could differ from these estimates.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements (continued)

June 30, 2009

(stated in Cayman Islands dollars)

2. Significant accounting policies (continued)

(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.

(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.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements (continued)

June 30, 2009

(stated in Cayman Islands dollars)

2. Significant accounting policies (continued)

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.

(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.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements (continued)

June 30, 2009

(stated in Cayman Islands dollars)

2. Significant accounting policies (continued)

(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 2009 were \$1,051,791 (2008: \$956,112).

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements (continued)

June 30, 2009

(stated in Cayman Islands dollars)

3. Cash and cash equivalents

	2009	2008
Bank balances	2,501,817	4,605,391

These consist of operating bank balances and fixed deposits which mature in July 2009 with interest rates ranging from 0.03125% to 0.1875%.

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

	2009	2008
Accounts receivable	1,721,409	1,076,556
Allowance for bad debts	(280,952)	(82,643)
	1,440,457	993,913

Management makes a provision for a significant portion of accounts overdue in excess of 90 days.

In addition, specific provision was made for some clients whose ability to pay was in doubt.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements (continued)

June 30, 2009

(stated in Cayman Islands dollars)

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to Financial Statements (continued)

June 30, 2009

(stated in Cayman Islands dollars)

5. Fixed Assets

	Freehold Land	Docks and Buildings	Other Assets	Construction In Progress	Total
Cost					
At 30 June 2008	14,165,597	42,505,910	12,327,464	755,306	69,754,277
Additions	270,480	418,572	617,723	1,140,215	2,446,990
Disposals	-	(653,422)	(396,919)	-	(1,050,341)
Transfers	-	-	-	(579,151)	(579,151)
At 30 June 2009	<u>14,436,077</u>	<u>42,271,060</u>	<u>12,548,268</u>	<u>1,316,370</u>	<u>70,571,775</u>
Accumulated Depreciation					
At 30 June 2008	-	8,744,591	6,295,709	-	15,040,300
Charge for Year	-	1,422,770	949,093	-	2,371,863
Disposals	-	(177,979)	(345,177)	-	(523,156)
At 30 June 2009	-	<u>9,989,382</u>	<u>6,899,625</u>	-	<u>16,889,007</u>
Net Book Value					
At 30 June 2009	<u>14,436,077</u>	<u>32,281,678</u>	<u>5,648,643</u>	<u>1,316,370</u>	<u>53,682,768</u>
At 30 June 2008	<u>14,165,597</u>	<u>33,761,319</u>	<u>6,031,755</u>	<u>755,306</u>	<u>54,713,977</u>

5a. Effects of Hurricane Paloma on fixed assets

In November 2008, the Port Authority suffered substantial damage to its building and equipment in Cayman Brac as a result of hurricane Paloma. For the year ended June 30, 2009, the Port Authority has recognized CI\$760,560 in fixed asset disposal related to this damage.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements (continued)

June 30, 2009

(stated in Cayman Islands dollars)

6. Capital work in progress

	2009	2008
George Town cruise/cargo facilities (RWCT)	324,046	324,046
Marine contracting services	62,613	92,430
Forklift / Crane refurbishment	504,603	192,127
Website re-designs	0	62,000
Bunker project	34,776	34,776
CDC / Billing office improvement	57,473	0
Cruise Terminal expansion project (Consultancy)	213,565	49,927
New Building (CB)	119,294	0
	1,316,370	755,306

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements (continued)

June 30, 2009

(stated in Cayman Islands dollars)

7. Long Term Liabilities

	Current	1-2 yrs	3-5 yrs	5+ yrs	2009	2008
a) Cayman Islands Government						
(i) Grand Cayman ⁽¹⁾ (0%)	53,839	53,921	-	-	107,760	161,653
(ii) Grand Cayman ⁽²⁾ (0%)	-	-	-	-	-	10,147
(iii) Grand Cayman ⁽³⁾ (0%)	34,413	68,826	103,239	103,232	309,710	378,537
b) Fort Building Libor + 1% (1.31750%)	160,415	320,830	92,513	-	573,758	797,244
c) George Town Dock Rehabilitation Libor +1.5% (1.81938%)	523,616	1,047,232	716,479	-	2,287,327	2,774,947
d) Royal Watler Terminal.						
(i) Royal Bank of Canada LIBOR plus 1.5% (1.80750%)	641,503	1,283,007	1,924,511	1,782,740	5,631,761	6,186,870
(ii) Bank of Nova Scotia LIBOR plus 1.5% (1.80750%)	641,503	1,283,007	1,924,511	1,782,740	5,631,761	6,186,869
e) West Bay Terminal.						
(i) Royal Bank of Canada LIBOR plus 1.5% (1.80750%)	31,713	63,425	95,138	83,993	274,269	301,760
(ii) Bank of Nova Scotia LIBOR plus 1.5% (1.80750%)	31,713	63,425	95,138	83,993	274,269	301,760
					2009	2008
Total Long term Liabilities				15,090,615	17,099,787	
Less Current Maturities				(2,118,715)	(1,607,000)	
				12,971,900	15,492,787	

(a) Cayman Islands Government loans

The two loans from the Cayman Islands Government ;one for Grand Cayman and one for Cayman Brac port facilities are denominated in Cayman Islands dollars, are unsecured, interest free, and are repayable in instalments as detailed below:

Loan Beneficiary	Principal	Annual Repayment	Expiration of term
Grand Cayman	1,573,291	53,892	2011
Cayman Brac	1,720,664	68,826	2013

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements (continued)

June 30, 2009

(stated in Cayman Islands dollars)

(b) Commercial bank loans are comprised of:

	<u>2009</u>	<u>2008</u>
\$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 (1.3175% as at 30 June 2009) plus 1%, and repayable in monthly instalments until May 2011	573,758	797,244
\$4,510,000 (US\$5,500,000) loan for the George Town Dock Rehabilitation bearing interest of LIBOR (1.81938% as at 30 June 2009) Plus 1.5%, and repayable in monthly instalments until March 2014. The securities pledged by the Port Authority for this loan are as follows:		
<ul style="list-style-type: none"> • Registered First Charge for US\$5,500,000 on GT OPY, Parcel #133, and collateral charge on OPY Parcels 25 and 127. 	2,287,327	2,774,947
\$14,350,000 (US\$17,500,000) for the Royal Watler Terminal and bearing interest of LIBOR (1.80750% as at 30 June 2009) plus 1.5% and repayable in monthly instalments starting from May 1, 2005 until May 1, 2014. 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. 	11,263,522	12,373,739
Carried forward	14,124,607	15,945,930

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements (continued)

June 30, 2009

(stated in Cayman Islands dollars)

Commercial bank loans (continued)

Brought forward	14,124,607	15,945,930
<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 (1.8075% as at 30 June 2009) plus 1.5% and repayable in monthly instalments starting from August 1, 2005 until August 1, 2015 *</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 133Registered Third Demand Collateral Legal Charges in the amount of US\$8,500,000 each over George Town Commercial, Block OPY Parcels 25 and 127Registered 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.	548,538	603,520
Total Commercial Bank Loans	14,673,145	16,549,450

Included in operating expenses for the year ended June 30, 2009 is interest expense of CI\$485,547 (2008 CI\$1,052,349) relating to these loans.

If interest rates increase by 1% the interest expense in the financial statements will increase by \$150,906.

* 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, 2009

(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, 2009, the Port Authority made payments of CI\$350,000 (2008: CI\$350,000), 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.

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\$1,076,135 (2008: CI\$1,155,764). This insurance is procured by the Cayman Islands Government for all its entities at market rates, and then apportions the related liability on a pro rated basis, according to the value of the entities' assets.

Mr Robert Foster, a Director of the Port Authority is also the Manager of the Cayman Freight and Shipping Services. As at June 30, 2009, there was an account receivable balance from Cayman Freight and Shipping service of \$57,914 (2008: \$80,726) Cayman Freight and Shipping services pays the standard fees for all the Port Authority services they utilize.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements (continued)

June 30, 2009

(stated in Cayman Islands dollars)

9. Related party transactions (continued)

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 \$631,045 (2008 \$644,852).

Board Members

Board members receive a stipend for each meeting attended in accordance with the Port Authority Law. At June 30 2009 the total was \$9,900 (2008: \$5,700).

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, 2009, this overdraft facility has not been used. In addition, the Port Authority has three corporate credit cards with a total credit limit of \$24,600 (US\$30,000). At June 30, 2009 the outstanding balance was \$1,786 (US\$2,178) (2008 CI\$767 / US\$935).

11. Subsequent events

- New Cruise Facility

The Port Authority (PACI) in conjunction with the Cayman Islands Government (CIG) has embarked on getting a better facility for the cruise ships to operate more efficiently. A developer was engaged to work with the CIG and PACI to determine the best way forward. To date there is still talk about this venture but no high level agreements have been signed except for the MOU. At this time there are no clear defined parameters as to how or when this project will get started. The perceived date is to have the project substantially completed for the FCCA annual conference to be held in Cayman in October 2012.

-Insurance claims

The total insurance claims made for damages caused by hurricane Paloma, in Cayman Brac, to its Buildings and Equipment was \$1,125,433 with a deductible of \$183,197. As at June 30, 2009 the sum received was \$562,717. The balance of \$379,518 was received in full and final settlement on July 10, 2010.

- Payment for work done at the Royal Watler Cruise Terminal

In 2006 Hurlstone Ltd completed and handed over the cruise terminal buildings to the Port Authority but failed to produce its final certificate until February 2010. The Port Authority paid the final settlement of CI\$401,889 in full on February 16, 2010.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements (continued)

June 30, 2009

(stated in Cayman Islands dollars)

11. Subsequent events (continued)

The Port Authority initiated court proceedings during the financial year against four tenants of the Royal Watler Terminal to recover \$ 260,635 in outstanding rent. To date, a sum of \$6,000 was received in full and final settlement for one tenant and the likelihood of receiving any further proceeds for the remaining three are remote to impossible as the tenants have moved out, have no assets for the courts to confiscate and they have already left the island. Since the likelihood of receiving any further payments on the outstanding accounts is remote, an allowance was made for the entire amount of the outstanding rents.

12. Fair value disclosure

At June 30, 2009 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.

(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.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements (continued)

June 30, 2009

(stated in Cayman Islands dollars)

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.

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:

	2009	2008
Total diesel sales	1,002,694	1,556,873
Total diesel cost of sales	(791,227)	(1,287,762)
Net Income from Diesel sales	211,467	269,111

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements (continued)

June 30, 2009

(stated in Cayman Islands dollars)

15. Branch Statements of Financial Position

	Grand Cayman	Cayman Brac	Total	2008
Current assets				
Cash and cash equivalents	2,349,226	152,591	2,501,817	4,605,391
Accounts receivable	1,317,464	122,993	1,440,457	993,913
Inventory	153,649	2,325	155,974	210,849
Prepaid expenses	1,062,941	463	1,063,404	923,305
Other receivables	16,694	34,271	50,965	258,931
	4,899,974	312,643	5,212,617	6,992,389
Current liabilities				
Accounts payable and accrued expenses	2,976,206	24,316	3,000,522	3,376,650
Current portion of long term debt	2,084,302	34,413	2,118,715	1,607,000
	5,060,508	58,729	5,119,237	4,983,650
Working capital	(160,534)	253,914	93,380	2,008,739
Plant, property and equipment	48,124,231	4,242,167	52,366,398	53,958,671
Capital work in progress	1,196,595	119,775	1,316,370	755,306
Long term debt	(12,696,602)	(275,298)	(12,971,900)	(15,492,787)
Long term lease-purchase				
Net assets	36,463,690	4,340,558	40,804,248	41,229,929
Represented by				
General reserve	44,631,901	(3,827,653)	40,804,248	41,229,929
Inter-branch account	(8,168,211)	8,168,211		
	36,463,690	4,340,558	40,804,248	41,229,929

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements (continued)

June 30, 2009

(stated in Cayman Islands dollars)

16. Branch Statements of Comprehensive Income

	Grand Cayman	Cayman Brac	Total	2008
Operating income	18,937,707	892,397	19,830,104	20,750,774
Operating expenses	16,689,887	1,305,600	17,995,487	18,581,634
	2,247,820	(413,203)	1,834,617	2,169,140
Other income/ (expenses)				
Interest income	35,796	719	36,515	-
Other income	942,236	-	942,236	174,484
Loss on disposal of fixed assets	3,700	(520,886)	(517,186)	(36,510)
Depreciation	(2,226,275)	(145,588)	(2,371,863)	(2,150,422)
	(1,244,543)	(665,755)	(1,910,298)	(2,012,448)
Net (loss) / income for year	1,003,277	(1,078,958)	(75,681)	156,692
General reserve at beginning of year	43,978,624	(2,748,695)	41,229,929	41,423,237
Contribution to Government	(350,000)	-	(350,000)	(350,000)
General reserve at end of year	44,631,901	(3,827,653)	40,804,248	41,229,929

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements (continued)

June 30, 2009

(stated in Cayman Islands dollars)

	Note	2009	2008
CURRENT ASSETS			
Cash and cash equivalents	3	2,501,817	4,605,391
Accounts receivable (Net of allowance for Bad Debts)	4	1,440,457	993,913
Inventory	2	155,974	210,849
Prepaid expenses		1,063,404	923,305
Other receivables and deposits		50,965	258,931
Total Current Assets		5,212,617	6,992,389
CURRENT LIABILITIES			
Accounts payable and accrued expenses		3,000,522	3,376,650
Current maturities on long term liabilities		2,118,715	1,607,000
Total Current Liabilities		5,119,237	4,983,650
NET CURRENT ASSETS		93,380	2,008,739
FIXED ASSETS			
Land- freehold		14,436,077	14,165,597
Docks and buildings		32,233,011	33,761,319
Other assets		5,697,310	6,031,755
Construction in progress		1,316,370	755,306
Total Fixed Assets	5,6	53,682,768	54,713,977
NET ASSETS		53,776,148	56,722,716
LONG TERM LIABILITIES		(12,971,900)	(15,492,787)
EQUITY		40,804,248	41,229,929

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, 2009

(stated in Cayman Islands dollars)

	Note	2009	2008
OPERATING REVENUE			
Cargo handling		13,452,038	14,136,420
Cruise ship passenger fees		2,457,591	2,582,173
Rental income		1,291,455	1,206,921
Port development fees		1,183,085	1,254,012
Maritime services		1,037,319	1,138,167
Diesel sales		211,467	269,112
Other income		197,149	163,969
Total Operating Revenue		19,830,104	20,750,774
OPERATING EXPENSES			
Staff costs		12,944,433	12,833,764
Repairs and maintenance		1,244,729	1,637,812
Insurance		1,110,221	1,153,936
Contracted services		767,496	823,645
Miscellaneous		541,728	68,458
Finance charges	7	502,534	1,052,349
Utilities		488,464	511,723
Diesel		239,361	249,249
Stationery, supplies & computer supplies		48,317	55,744
Travel, conventions & training		47,748	81,945
Rent		36,250	36,250
Advertising and entertainment		24,206	76,759
Total Operating Expenses		17,995,487	18,581,634
GROSS OPERATING SURPLUS FOR THE YEAR		1,834,617	2,169,140
OTHER INCOME/ (EXPENSES)			
Interest income		36,515	174,484
Other income		942,236	0
Loss on disposal of fixed assets	5a	(517,186)	(36,510)
Depreciation	5	(2,371,863)	(2,150,422)
		(1,910,298)	(2,012,448)
NET (LOSS) / INCOME FOR YEAR		(75,681)	156,692

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, 2009

(stated in Cayman Islands dollars)

	Note	2009	2008
BALANCE AT THE BEGINNING OF THE YEAR		41,229,929	41,423,237
Net (loss) / income for year		(75,681)	156,692
Contribution to the Cayman Islands Government	8 (a)	(350,000)	(350,000)
BALANCE AT THE END OF THE YEAR		40,804,248	41,229,929

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, 2009

(stated in Cayman Islands dollars)

	2009	2008
CASH FLOW FROM OPERATING ACTIVITIES		
Net (loss) / income for year	(75,681)	156,692
Adjustments to reconcile net income to net cash used in Operating activities:		
Depreciation	2,371,863	2,150,422
Loss on disposal of fixed assets	517,186	36,510
Net change in working capital:		
Insurance claims receivable	0	0
Accounts receivable	(446,544)	305,875
Inventory	54,875	(101,010)
Prepaid expenses	(140,099)	74,656
Advances paid to contractor	0	0
Other receivables	207,966	(126,785)
Accounts payable and accrued expenses	(376,128)	606,520
Retention payable to contractor	0	0
Net Cash Provided by Operating Activities	2,113,438	3,102,880
CASH FLOW FROM INVESTING ACTIVITIES		
Fixed Assets purchased	(1,296,776)	(3,154,163)
Construction in progress	(561,064)	697,731
Net Cash Used by Investing Activities	(1,857,840)	(2,456,432)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long term debt	(2,009,172)	(1,644,031)
Repayment of lease-purchase	0	0
Contribution to Government	(350,000)	(350,000)
Net Cash Used by Financing Activities	(2,359,172)	(1,994,031)
Net Decrease in cash and Cash Equivalents during the year	(2,103,574)	(1,347,583)
Cash and cash equivalents at the beginning of the year	4,605,391	5,952,974
Cash and cash equivalents at the end of year	2,501,817	4,605,391

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, 2009

(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, 2009

(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.