

**PORT AUTHORITY OF THE
CAYMAN ISLANDS
FINANCIAL STATEMENTS**

June 30, 2012

**FINANCIAL STATEMENTS OF THE
PORT AUTHORITY OF THE CAYMAN ISLANDS**

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Statement of Responsibility for the Financial Statements

These financial statements have been prepared by the Port Authority of the Cayman Islands in accordance with International Financial Reporting Standards.

We accept responsibility for the accuracy and integrity of the financial information in these financial statements and their compliance with International Financial Reporting Standards.

As Port Director, I am responsible for establishing; and have established and maintained a system of internal controls designed to provide reasonable assurance that the transactions recorded in the financial statements are authorised by law, and properly record the financial transactions of the Port Authority of the Cayman Islands.

As Port Director and Deputy Port Director, Finance, we are responsible for the preparation of the Port Authority of the Cayman Islands financial statements and for the judgements made in them.

The financial statements fairly present the financial position, financial performance and cash flows of the Port Authority of the Cayman Islands for the financial year ended 30 June 2012.

To the best of our knowledge we represent that these financial statements:

- (a) Completely and reliably reflect the financial transactions of Port Authority of the Cayman Islands for the year ended 30 June 2012;
- (b) Fairly reflect the financial position as at 30th June 2012 and performance for the Year ended 30th June 2012;
- (c) Comply with International Financial Reporting Standards as set out by the International Accounting Standards Board under the responsibility of the International Federation of Accountants.

The Office of the Auditor General conducts an independent audit and expresses an opinion on the accompanying financial statements. The Office of the Auditor General has been provided access to all the information necessary to conduct an audit in accordance with International Standards of Auditing.

Paul Hurlston
Port Director

Date: DECEMBER 10, 2012

James Parsons
Deputy Port Director Finance

Date: Dec 10 2012

Auditor General's Report

To the Board of Directors of the Port Authority of the Cayman Islands

I have audited the accompanying financial statements of the Port Authority, which comprise of the statement of financial position as at 30 June 2012, the statement of comprehensive income and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes as set out on pages 4 to 29 in accordance with the provisions of Section 4(7) of the *Port Authority Law (1999 Revision)*, and Section 60(1)(a) of the *Public Management and Finance Law (2012 Revision)*.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend upon the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis for qualified opinion

Related Party Transactions

International Accounting Standards (IAS) 24 requires the identification of transactions with related parties and disclosure of related party transactions and outstanding balance in the financial statements. This is to ensure that the entity's financial statements contain the disclosure necessary to draw attention to the possibility that its financial position and financial performance may have been affected by the existence of related parties and by transactions and outstanding balances with such parties. I was unable to determine the entity's compliance with this standard due to the non-presentation of the declaration forms by some of the officers who are so required by the standard. The absence of these declarations would inhibit the Authority from identifying, monitoring and disclosing all related party transactions by senior managers and those charged with governance.

Qualified Opinion

In my opinion, except for the possible effects of the matter disclosed in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Port Authority of the Cayman Islands as of 30 June 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without further qualifying our opinion, we draw attention to note 9 (f) which details that the Port Authority was unable to charge tender fees totalling \$505,432 for the manifested cruise passengers as required by Section 26 (e) of the *Port Regulations (2011 Revision)*. This was due to an existing agreement with the FCCA in 2003 which prohibits the Port Authority from unilaterally increasing fees.

Without further qualifying our opinion we draw attention to note 13 which discloses that for the year ended 30 June 2012, the Port Authority's current liabilities exceeded its current assets by \$3,848,923. This condition along with other matters as set forth in Note 13, indicate the existence of a material uncertainty that may cast significant doubt about the Authority's ability to continue as a going concern. The concern about the continued viability of the Port Authority is mitigated by the fact that the Port Authority is a 100% government owed entity, whose operations are critical to the survival of the Cayman Islands.



Alastair Swarbrick MA (Hons), CPFA
Auditor General

Cayman Islands
December 10, 2012

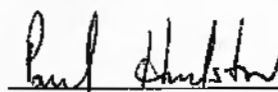
PORT AUTHORITY OF THE CAYMAN ISLANDS
Statement of Financial Position

As at June 30, 2012

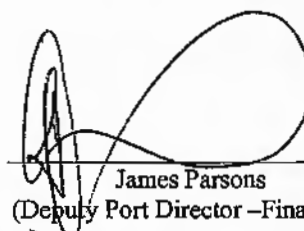
(Stated in Cayman Islands dollars)

	Note	2012	2011
ASSETS			
Current Assets			
Cash and cash equivalents	3	1,640,380	830,109
Accounts receivable (Net of allowance for Bad Dehts)	4	1,031,196	950,018
Inventory	2	347,930	222,818
Prepaid expenses		857,108	822,030
Other receivables and deposits		46,540	33,717
Total Current Assets		3,923,154	2,858,692
Non-Current Assets			
Fixed Assets			
Land- freehold		14,436,077	14,436,077
Docks and buildings		12,529,575	13,106,420
Other assets		4,986,416	4,669,122
Work in progress		771,818	1,515,191
Total Fixed Assets	5,6	32,723,886	33,726,809
Long Term Investments	7	17,041,121	17,479,743
Total Non-Current Assets		49,765,007	51,206,552
TOTAL ASSETS		53,688,161	54,065,244
LIABILITIES and EQUITY			
Current Liabilities			
Accounts payable and accrued expenses		5,281,079	4,012,192
Current maturities on long term liabilities	8	2,143,068	2,195,027
Total Current Liabilities		7,424,147	6,207,219
Non - Current Liabilities		6,392,295	8,527,565
TOTAL LIABILITIES		13,816,442	14,734,784
EQUITY		39,871,719	39,330,460
TOTAL LIABILITIES and EQUITY		53,668,161	54,065,244

Approved:


 Paul Hurlston (Port Director)

December 10, 2012.
 Date


 James Parsons
 (Deputy Port Director - Finance)
Dec 10 2012
 Date

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

PORT AUTHORITY OF THE CAYMAN ISLANDS
Statement of Comprehensive Income

For the year ended June 30, 2012
(Stated in Cayman Islands dollars)

	Note	2012	2011
OPERATING REVENUE			
Cargo handling		12,390,072	11,970,464
Cruise ship passenger fees		2,416,108	2,640,339
Port development fees		1,140,818	1,214,860
Rental income		1,067,585	1,009,741
Maritime services		1,218,543	1,379,144
Other income		386,201	269,430
Diesel sales		329,993	134,207
Total Operating Revenue		18,949,320	18,618,185
OPERATING EXPENSES			
Staff costs		11,565,009	11,484,343
Repairs and maintenance		1,189,307	1,393,232
Insurance		963,633	993,884
Finance charges	8	192,319	228,425
Contracted services		958,155	889,106
Utilities		627,935	563,499
Diesel		231,061	197,047
Miscellaneous		370,125	299,780
Travel, conventions & training		14,933	30,175
Advertising and entertainment		13,119	8,193
Stationery, supplies & computer supplies		36,631	33,569
Rent		36,000	36,250
Total Operating Expenses		16,198,227	16,157,503
GROSS OPERATING SURPLUS FOR THE YEAR		2,751,093	2,460,682
OTHER INCOME/ (EXPENSES)			
Interest income		1,436	1,924
Gain (Loss) on disposal of fixed assets		(249,839)	(17,296)
Depreciation	5,7	(1,953,692)	(2,031,136)
Total Other Income/(Expenses)		(2,202,095)	(2,046,508)
NET INCOME FOR YEAR		548,998	414,174
Other Comprehensive income for the year		-	-
Total Comprehensive Income for the year		548,998	414,174

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

PORT AUTHORITY OF THE CAYMAN ISLANDS
Statement of Cash Flows

For the year ended June 30, 2012
(stated in Cayman Islands dollars)

	2012	2011
CASH FLOW FROM OPERATING ACTIVITIES		
Net income for year	548,998	414,174
Adjustments to reconcile net income to net cash used in Operating activities:		
Depreciation	1,953,692	2,031,136
Loss on disposal of fixed assets	249,839	17,296
Net change in working capital:		
Accounts receivable	(81,178)	434,514
Inventory	(125,112)	58,930
Prepaid expenses	(35,078)	57,514
Advances paid to contractor	-	-
Other receivables	(12,823)	(5,559)
Accounts payable and accrued expenses	1,268,887	59,347
Prior Period Adjustment	(7,739)	(31,549)
Net Cash Provided by Operating Activities	3,759,486	3,035,803
CASH FLOW FROM INVESTING ACTIVITIES		
Fixed Assets purchased	(278,683)	(232,922)
Long Term Investment purchased	(9,045)	(16,266)
Construction in progress	(474,259)	(926,687)
Net Cash Used by Investing Activities	(761,987)	(1,175,875)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long term debt	(2,187,228)	(2,201,320)
Repayment of lease-purchase	-	-
Contribution to Government	-	-
Net Cash Used by Financing Activities	(2,187,228)	(2,201,320)
Net Increase in cash and Cash Equivalents during the year	810,271	(341,392)
Cash and cash equivalents at the beginning of the year	830,109	1,171,501
Cash and cash equivalents at the end of year	1,640,380	830,109

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

PORT AUTHORITY OF THE CAYMAN ISLANDS
Statement of Changes in Equity

For the year ended June 30, 2012
(stated in Cayman Islands dollars)

	Share capital	Share premium	Dividends	Accumulated surplus	Total Shareholder's Equity
Year ended June 30, 2011					
Balance, beginning of year	\$ -	\$ -	\$ -	\$38,947,831	\$38,947,831
Year ended June 30, 2011					
Correction for overstatement of Net Receivable, Accounts Payable)	-	-	-	(31,545)	(31,545)
Net income for the year	-	-	-	414,174	414,174
Total comprehensive income	-	-	-	382,629	382,629
Transactions with shareholder:					
Contributions to Cayman Islands Government	-	-	-	-	-
Total transactions with shareholder	-	-	-	-	-
Balance, end of year	\$ -	\$ -	\$ -	\$39,330,460	\$39,330,460
Year ended June 30, 2012					
Correction for understatement of General reserves in prior period (Work in progress, Expenses)	-	-	-	(7,739)	(7,739)
Comprehensive income:					
Net income for the year	-	-	-	548,998	548,998
Total comprehensive income/(loss)	-	-	-	548,998	548,998
Balance, end of year	\$ -	\$ -	\$ -	\$39,871,719	\$39,871,719

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

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

June 30, 2012

(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 (2010 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, 2012 the Port Authority had 152 employees (2011: 158 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.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

June 30, 2012

(stated in Cayman Islands dollars)

2. Significant accounting policies (continued)

(b) Use of estimates

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

(c) Financial instruments

(i) Classification

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

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

(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

June 30, 2012

(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.

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%

(i) Additions

The cost of an item of property, plant, and equipment is recognized as an asset only when it is probable that future economic benefits or service potential associated with the item will flow to the Port Authority and the cost of the item can be measured reliably.

Work in progress is recognized at cost less impairment and is not depreciated.

(ii) Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are reported net in the Statement of Comprehensive Income.

(iii) Subsequent costs

Costs incurred subsequent to initial acquisition are capitalized only when it is probable that future economic benefits or service potential associated with the item will flow to the Port Authority and the cost of the item can be measured reliably.

The costs of day-to-day servicing of property, plant, and equipment are recognized in the Statement of Comprehensive Income as they are incurred.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

June 30, 2012

(stated in Cayman Islands dollars)

2. Significant accounting policies (continued)

(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.

(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 of 10% of an employee's salary to an approved pension provider. Contributions are charged to expenses as they are incurred based on set contribution rates. Total contributions for 2012 were \$992,356 - (2011: \$1,017,236).

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

June 30, 2012

(stated in Cayman Islands dollars)

2. Significant accounting policies (continued)

(1) Changes in International Financial Reporting Standards

A) Amendments to published standards effective July 1, 2011

IAS 24 Related Party Transactions (Amendment) - The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the entity.

IAS 32 Financial Instruments: Presentation (Amendment) - The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the entity because the entity does not have these types of instruments.

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment) - The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The entity is not subject to minimum funding requirements in Euroland, therefore the amendment of the interpretation has no effect on the financial position or performance of the entity.

Improvements to IFRSs

IFRS 7 Financial Instruments — Disclosures - The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. The entity reflects the revised disclosure requirements.

IAS 1 Presentation of Financial Statements - The amendment clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements. The amendment had no effect on the performance of the entity or in the statement of changes in equity or in the notes to the financial statements.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

June 30, 2012

(stated in Cayman Islands dollars)

2. Significant accounting policies (continued)

B) Relevant standards and amendments issued prior to June 30, 2012, but not effective until future periods:

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income - The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or ‘recycled’) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group’s financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 19 Employee Benefits (Amendment) - The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Authority is currently assessing the full impact of the amendments, although given that there is no defined benefit scheme or other long term employee benefits which would give rise to actuarial gains or losses; it is likely that this will have no impact on the Port Authority’s financial statements or disclosures. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements - The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Authority’s financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity’s continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Authority’s financial position or performance.

IFRS 9 Financial Instruments: Classification and Measurement - IFRS 9 as issued reflects the first phase of the IASB’s work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011 or the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Authority’s financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Authority will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 13 Fair Value Measurement - IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Authority is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

June 30, 2012

(stated in Cayman Islands dollars)

3. Cash and cash equivalents

	2012	2011
Bank balances	1,640,380	830,109

These consist of operating bank balances held by the Port Authority.

Management has, over the years, adopted 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. However, due to economic changes and financial challenges experienced over the past four years the cash reserves has been depleted. Note 13 further explain the financial position that the Port Authority is currently faced with.

4. Accounts receivable

	2012	2011
Accounts receivable	1,085,469	992,374
Less: provision for impairment	(54,273)	(42,356)
	1,031,196	950,018

Fair value

The carrying value of receivables approximates their fair value. –

Impairment

The ageing profile of receivables at year end is detailed below: -

	2012			2011		
	Gross \$000	Impairment \$000	Net \$000	Gross \$000	Impairment \$000	Net \$000
Past due 1-45 days	942	(47)	895	806	(34)	772
Past due 46- 89 days	75	(4)	71	80	(3)	77
Past due over 90 days	68	(3)	65	106	(5)	101
Total	1,085	(54)	1,031	992	(42)	950

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. Due to the large number of receivables, the impairment assessment is generally performed on a collective basis, based on an analysis of past collection history and write-offs. Special consideration is also given to those with a higher degree of risk for default.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

June 30, 2012

(stated in Cayman Islands dollars)

Movements in the provision for impairment of receivables are as follows:

	Actual 2012 \$000	Actual 2011 \$000
Balance at 1 July	42	45
Increase in provisions during the year	12	(3)
Receivables written off during the year	-	-
Balance at 30 June	54	42

5. Fixed Assets

Cost	Freehold Land	Docks and Buildings	Other Assets	Construction In Progress	Total
At 30 June 2011	\$ 14,436,077	\$ 22,935,534	\$ 13,286,530	\$ 1,515,191	\$ 52,173,332
Additions	-	87,657	\$ 191,026	\$ 656,196	\$ 934,879
Disposals	-	-	-	-	-
Write offs	-	-	(\$ 466,776)	(\$181,937)-	(\$ 648,713)
Transfers	-	-	1,217,632-	(1,217,632)-	-
At 30 June 2012	\$ 14,436,077	\$ 23,023,191	\$ 14,228,412	\$ 771,818	\$ 52,459,498
Accumulated Depreciation					
At 30 June 2011	-	\$ 9,829,114	\$ 8,617,409	-	\$ 18,446,523
Charge for Year	-	\$ 664,502	\$ 841,524	-	\$ 1,506,026
Write offs	-	-	(\$ 216,937)	-	(\$ 216,937)
Disposals	-	-	-	-	-
At 30 June 2012	-	\$ 10,493,616	\$ 9,241,996	-	\$ 19,735,612
Net Book Value					
At 30 June 2012	\$ 14,436,077	\$ 12,529,575	\$ 4,986,416	\$ 771,818	\$ 32,723,886
At 30 June 2011	\$ 14,436,077	\$ 13,106,420	\$ 4,669,121	\$ 1,515,191	\$ 33,726,809

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

June 30, 2012

*(stated in Cayman Islands dollars)***6. Capital work in progress-**

	2012	2011
George Town cruise/cargo facilities (RWCT)	82,287	233,379
Marine contracting services	-	20,871
Forklift / Crane refurbishment	236,870	843,699
Bunker project	34,776	34,776
Above Ground Fuel Tank	-	78,034
Improvement to CDC	5,000	-
New Building (CB)	120,644	120,644
Accounting Software	-	14,639
Crane Workshop - 2011	-	10,462
New Spotts dock	5,286	5,286
RWCT - Expansion	38,913	38,913
RWCT - Gangway	-	46,500
RWCT - Redevelopment Project - 2011	248,042	67,988
Total	771,818	1,515,191

7. Investment Property

	Cost	Buildings	Total
At 30 June 2011		\$ 19,845,016	\$ 19,845,016
Additions		9,045	9,045
At 30 June 2012		\$ 19,854,061	\$ 19,854,061
Accumulated Depreciation			
At 30 June 2011		\$ 2,365,273	\$ 2,365,273
Charge for Year		\$ 447,667	\$ 447,667
At 30 June 2012		\$ 2,812,940	\$ 2,812,940
Net Book Value			
At 30 June 2012		\$ 17,041,121	\$ 17,041,121
At 30 June 2011		\$ 17,479,743	\$ 17,479,743

Investment Property is reported under IAS 40, using the Cost model. Fixed Assets consist of Buildings and is stated at cost less accumulated depreciation and impairment losses. Depreciation is charged to the statement of income on a straight-line basis with useful lives of 15 and 25 years to write off the cost of the assets over their expected useful lives.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

June 30, 2012

(stated in Cayman Islands dollars)

8. Long Term Liabilities

	Current	1-2 yrs	3-5 yrs	2012	2011
a) CIG - Cayman Brac (0%)	68,826	34,407	-	103,233	172,059
b) Fort Building - Libor + 1% (1.18505%)	84,876	-	-	84,876	249,970
c) George Town Dock Rehabilitation Libor +1.5% (1.68555%)	563,758	91,680	-	655,438	1,209,291
d) Royal Watler Terminal. (i) Royal Bank of Canada LIBOR plus 1.5% (1.68580%)	679,229	1,394,616	1,594,837	3,668,682	4,335,450
(ii) Bank of Nova Scotia LIBOR plus 1.5% (1.68580%)	679,229	1,394,616	1,594,837	3,668,682	4,335,450
e) West Bay Terminal. (i) Royal Bank of Canada LIBOR plus 1.5% (1.68580%)	33,575	68,938	74,713	177,226	210,186
(ii) Bank of Nova Scotia LIBOR plus 1.5% (1.68580%)	33,575	68,938	74,713	177,226	210,186
Total	2,143,068	3,053,195	3,339,100	8,535,363	10,722,592

	2012	2011
Total Long term Liabilities	8,535,363	10,722,592
Less Current Maturities	(2,143,068)	(2,195,027)
Total	6,392,295	8,527,565

(a) Cayman Islands Government loan

The loan from the Cayman Islands Government for the Cayman Brac port facility is denominated in Cayman Islands dollars, is unsecured, interest free, and repayable in semi-annual instalments until the 2014. The principal amount and annual payment is \$1,720,664 and \$68,826 respectively.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

June 30, 2012

(stated in Cayman Islands dollars)

8. Long Term Liabilities - continued

(b) Commercial bank loans are comprised of:

	<u>2012</u>	<u>2011</u>
\$3,444,000 (US\$4,200,000) loan issued 08 June 1988 for the purchase of the Fort building secured by a charge over the property acquired bearing interest of LIBOR (1.06920% as at 30 June 2012) plus 1%, and repayable in monthly instalments until May 2013	84,876	249,970
\$4,510,000 (US\$5,500,000) loan issued 06 May 2003 for the George Town Dock Rehabilitation bearing interest of LIBOR (1.06920% as at 30 June 2012) 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.	655,438	1,209,291
\$14,350,000 (US\$17,500,000) issued 30 March 2004 for the Royal Watler Terminal and bearing interest of LIBOR (1.06920% as at 30 June 2012) 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:		
• 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.	7,337,364	8,670,900
Carried forward	8,077,678	10,130,161

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

June 30, 2012

(stated in Cayman Islands dollars)

8. Long Term Liabilities - continued

Commercial bank loans (continued)

Brought forward	8,077,678	10,130,161
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\$6,970,000 (US\$8,500,000) issued 20 August 2004 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 (1.06920% as at 30 June 2012) plus 1.5% and repayable in monthly instalments starting from August 1, 2005 until August 1, 2015 *

The securities pledged by the Port Authority for this loan are as follows:

- 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.

354,452 420,372

Total Commercial Bank Loans	8,432,130	10,550,533
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Included in operating expenses for the year ended June 30, 2012 is interest expense of C\$168,411 (2011 C\$228,425) relating to these loans.

* At June 30, 2005 C\$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.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

June 30, 2012

(stated in Cayman Islands dollars)

8. Long Term Liabilities - continued

Sensitivity Analysis –

The sensitivity analyses below are based on a change in one assumption while holding all other assumptions constant. In practice, this is unlikely to occur, as changes in some of the assumptions may be correlated.

Sensitivity factor	Description of sensitivity factor applied
Interest rate (1)	The impact of an absolute change in market interest rates by approximately 1%

1 - Related to loan expense and interest income

	Interest rates	
	1%	-1%
Sensitivities as at June 30, 2012		
Impact on Net income for the year	(90,514)	92,025
Impact on Shareholder's equity	(90,514)	92,025

	Interest rates	
	1%	-1%
Sensitivities as at June 30, 2011		
Impact on Net income for the year	(97,013)	96,037
Impact on Shareholder's equity	(97,013)	96,037

9. Contingencies and commitments

a) Liability to Cayman Islands Government

Under the Port Authority Law any balance of account in favour of the Port Authority up to the amount of CI\$100,000 may be carried forward to the account of the following year and any excess of that sum shall be paid in to the general revenue of the Cayman Islands Government.

No provision has been made in these financial statements for any further payments that may be demanded by Government in respect of excess balances.

During the year ending June 30, 2012, the Port Authority did not make any payments (2011: \$0), to the Cayman Islands Government in the form of a dividend distribution.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

June 30, 2012

(stated in Cayman Islands dollars)

9. Contingencies and commitments (continued)

b) Leases

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

Lease Obligation for 1 year	C\$36,000
Lease Obligation after 1 year	C\$15,000

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) Project Management fees

The Port Authority entered into a contract with Burns Connolly Group Ltd (BCG) on September 6, 2004 to provide Project Management and Engineering on the construction of Royal Watler Cruise Terminal for a fixed price of \$282,500 (\$157,500 & \$125,000) respectively. As of the date of these accounts the balance owing to BCG on both contracts are \$38,913 (\$17,218 & \$21,694). BCG is also claiming interest on the outstanding balance and other charges relating to defending its managing of the project with the Auditor General totalling \$82,355. The Authority's board will not agree to these additional charges as the charges are outside the scope of the contract and was neither requested nor approved by the Authority. The Burns Connolly Group (BCG) accepted the payment of \$38,913 on August 1 2012.

e) New Cruise Facility

The Port Authority of the Cayman Islands and the Cayman Islands Government has been advised by GLF Construction Corporation that it intends to make a claim for the cancellation of a signed Framework Agreement. A Framework Agreement ("Agreement") was signed on December 14, 2010 with a life of four months until April 14, 2011 and could be extended for a further two months upon agreement by the three parties. The Agreement outlined the duties each party were to perform and should the parties conclude that either wanted to terminate they could by giving reasonable notice and reasons for terminating. The Cayman Islands Government terminated the Framework Agreement with written notice on April 14, 2011. A Ministerial MOU was signed on June 13th, 2011 between the China Harbour Engineering Company Limited and the Premier. A settlement was reached with GLF Construction Corporation totalling C\$2,051,685. This, however, will not have any impact on the financial statements of the Port Authority as the settlement was paid by the Accountant General of the Cayman Islands.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

June 30, 2012

(stated in Cayman Islands dollars)

9. Contingencies and commitments (continued)

f) Tender fees

The Authority amended its tender fees in March 2010 along with other fees but before the implementation of those fees it was realized that the charges to the tender company will only be passed on to the cruise lines. The fees conflicted with the FCCA agreement and were never charged. The Authority reverted to the old fees and the new gazetted fees remain dormant. The effect on Income by not charging the new gazetted tender fees is \$505,432 (2010/11 \$548,601).

g) Rental Properties

The Port Authority owns properties that it lets to tenants for a monthly rental. The minimum annual payments are CI\$948,240 per annum for the first and subsequent years.

Rental Income for 1 year	CI\$948,240
Rental Income for 2-5 years	CI\$3,792,960

h) Legal Proceedings against the Authority

1. Subsequent to year end on July 13, 2012, a claim was made due to perceived negligence by the Authority which resulted in the total loss of someone's vessel while in Cayman Waters. The amount of the Claim is CI\$ 280,178. Management is reviewing the Claim with its legal representatives with the aim of vigorously defending its position.
2. During the year, a compensation demand was made by a local vendor for lost income due to his being asked to discontinue selling fuel at the dock. No specific amount has been demanded and neither has the issue proceeded to court and as such the Authority is unable to assess the impact, if any, this may have on its operations. The Authority is addressing the issue through its legal representatives. The vendor has been given initial communication to the effect that his demand is unwarranted and frivolous as he did not have permission to engage in commercial activities at the Dock in the first place.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

June 30, 2012

(stated in Cayman Islands dollars)

10. Related party transactions

The Port Authority engages the services of various departments of the Cayman Islands Government. Such services are provided on an arm's 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\$1,002,098 (2011: CI\$950,858). This insurance is procured by the Cayman Islands Government for all its entities at market rates, and they apportion the related liability according to the value of the entities' assets. The Port Authority has an outstanding balance of \$3.4m to its sole shareholder, the Cayman Islands Government, in this regard.

A Director of the Port Authority is the Proprietor of a company which conducts business with the Port Authority namely, Bodden Beverages, Ltd. Bodden Beverages, Ltd conducts business at an arm's length basis and is not given any preferential rates but is charged the standard Port fees as any ordinary company or citizen doing business with the Authority. The Port fees charged during the current fiscal year was \$139,631.38 (2011 \$148,665.85). Although Bodden Beverages Ltd has an account with the Authority, Port fees are settled upon clearing its cargo. Therefore, there is no outstanding balance for the current fiscal period ending June 30, 2012.

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 in 2012 for senior management was \$596,480 (2011 \$594,921).

Board members

There are 10 members that make up the Port Authority's board; of those members only seven receive a stipend of \$150.00 per meeting held. The other three are civil servants. The total fees paid and expenses for the eligible members for the year ended June 30 2012 was \$12,291 (2011 \$4,050).

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

June 30, 2012

(stated in Cayman Islands dollars)

11. 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, 2012, 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, 2012 the outstanding balance was CI\$1,314.42 (2011 CI\$0).

12. Subsequent events

New Cruise Facility

In his capacity as Premier and Minister responsible for Finance, Tourism and Development of the Cayman Islands Government (CIG), The Premier signed a Ministerial Memorandum of Understanding with a developer to embark on constructing a berthing facility for cruise ships. At this time there are no clear defined parameters as to how or when this project will get started.

13. Going Concern

There is significant concern on the Port Authority's ability to continue as a going concern. These relate to the declining liquidity ratios coupled with reduced volume of business. Given that the Port Authority has already increased fees in 2010, there is limited room for further manoeuvre on the revenue generation side, if the expected downward trajectory of cargo and cruise passenger volumes continues. The likely options include staff rationalization and direct government support to sustain the Port operations. The concern about the continued viability of the Port Authority is mitigated by the fact that the Port Authority is a 100% government owed entity, whose operations are critical to the survival of the Cayman Islands. In light of this, it is perceived that the Government will intervene if circumstances warrant, ensuring the PACI's continued viability.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

June 30, 2012

(stated in Cayman Islands dollars)

14. Fair value disclosure

At June 30, 2012 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 8. Changes in other assumptions could significantly affect the estimates

15. Financial instruments and associated risks

The Port Authority's activities expose it to various types of risk. Financial risk can be broken down into credit risk, interest rate risk, and foreign currency risk. The Authority is exposed to financial risks through its financial assets, and financial liabilities. 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. It also holds receivables from clients. 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.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

June 30, 2012

*(stated in Cayman Islands dollars)***15. Financial instruments and associated risks (continued)**

The following assets of the Port Authority are exposed to credit risk:

	June 30, 2012	June 30, 2011
Cash and cash equivalents	1,640,380	830,109
Accounts receivables	1,031,196	950,018
Other receivables, prepaids and deposits	903,648	855,747
Total financial assets	<u>\$3,575,224</u>	<u>\$2,635,874</u>
Non-financial assets	-	-
Total assets per the balance sheet	<u>\$3,575,224</u>	<u>\$2,635,874</u>

Balances past due but not impaired and those that are impaired are analyzed in the tables below:

As at June 30, 2012:	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Cash and cash equivalents	1,640,380	-	-	1,640,380
Accounts receivables	-	1,031,196	54,273	1,085,469
Other receivables, prepaids and deposits	903,648	-	-	903,648
Total assets exposed to credit risks	<u>\$ 2,544,028</u>	<u>\$ 1,031,196</u>	<u>\$ 54,273</u>	<u>\$ 3,629,497</u>

As at June 30, 2011:	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Cash and cash equivalents	830,109	-	-	830,109
Accounts receivables	-	950,018	42,356	992,374
Other receivables, prepaids and deposits	855,747	-	-	855,747
Total assets exposed to credit risks	<u>\$ 1,685,856</u>	<u>\$ 950,018</u>	<u>\$ 42,356</u>	<u>\$ 2,678,230</u>

The aging analysis of financial assets that are past due but not impaired is as follows:

As at June 30, 2012:	Up to 45 days	45 to 90 days	> 90	Total
Accounts receivables	941,985	74,756	14,455	1,031,196
Other receivables, prepaids and deposits	903,648	-	-	903,648
Total	<u>\$ 1,845,633</u>	<u>\$ 74,756</u>	<u>\$ 14,455</u>	<u>\$ 1,934,844</u>

As at June 30, 2011:	Up to 45 days	45 to 90 days	> 90	Total
Accounts receivables	771,527	76,920	101,571	950,018
Other receivables, prepaids and deposits	855,747	-	-	855,747
Total	<u>\$ 1,627,274</u>	<u>\$ 76,920</u>	<u>\$ 101,571</u>	<u>\$ 1,805,765</u>

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

June 30, 2012

(stated in Cayman Islands dollars)

15. Financial instruments and associated risks (continued)

Management of financial risks –

The following tables indicate the contractual timing of cash flows arising from financial assets and liabilities included in the Port Authority's financial statements as of June 30, 2012 and June 30, 2011.

	Contractual cash flows (undiscounted)				
	Carrying amount	No stated maturity	0-1 yr	1-2 yrs	> 2 yrs
June 30, 2012					
Financial Assets					
Cash and cash equivalents	1,640,380		1,640,380		
Accounts receivable	1,031,196		1,031,196		
Other receivables, prepaids and deposits	903,648		903,648		
Total	\$ 3,575,224	\$ -	\$ 3,575,224	\$ -	\$ -
Short term liabilities					
Accounts Payables	5,281,079		5,281,079		
Loans repayable within 12 months	2,143,068		2,143,068		
Total	\$ 7,424,147	\$ -	\$ 7,424,147	\$ -	\$ -
Difference in contractual cash flows	\$ (3,848,923)	\$ -	\$ (3,848,923)	\$ -	\$ -
	Contractual cash flows (undiscounted)				
	Carrying amount - \$	No stated maturity	0-1 yr	1-2 yrs	> 2 yrs
June 30, 2011					
Financial Assets					
Cash and cash equivalents	830,109		830,109		
Accounts receivable	950,018		950,018		
Other receivables, prepaid and deposits	855,747		855,747		
Total	\$ 2,635,874	\$ -	\$ 2,635,874	\$ -	\$ -
Short term liabilities					
Accounts Payables	4,012,192		4,012,192		
Loans repayable within 12 months	2,195,027		2,195,027		
Total	\$ 6,207,219	\$ -	\$ 6,207,219	\$ -	\$ -
Difference in contractual Flows	\$ (3,571,345)	\$ -	\$ (3,571,345)	\$ -	\$ -

(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 and 8.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

June 30, 2012

*(stated in Cayman Islands dollars)***15. Financial instruments and associated risks (continued)***(c) Foreign currency risk*

The Company receives revenue in Cayman Islands Dollars (CIS) as well as US\$, and pays expenses in both Cayman Islands and United States dollars (US\$). Since the exchange between CIS and US\$ is fixed, the Company is not exposed to foreign currency risk.

16. 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:

	2012	2011
Total diesel sales	1,827,571	516,076
Total diesel cost of sales	(1,497,578)	(381,869)
Net Income from Diesel sales	\$ 329,993	\$ 134,207

17. Branch Statements of Financial Position

	Grand Cayman	Cayman Brac	Total	2011
Current assets				
Cash and cash equivalents	1,603,242	37,138	1,640,380	830,109
Accounts receivable	971,457	59,739	1,031,196	950,018
Inventory	332,123	15,807	347,930	222,818
Prepaid expenses	854,541	2,567	857,108	822,030
Other receivables	37,287	9,253	46,540	33,717
	\$ 3,798,650	\$ 124,504	\$ 3,923,154	\$ 2,858,692
Current liabilities				
Accounts payable and accrued expenses	5,253,829	27,250	5,281,079	4,012,192
Current portion of long term debt	2,074,242	68,826	2,195,068	2,195,068
	\$ 7,328,071	\$ 96,076	\$ 7,424,147	\$ 6,207,260
Working capital	(3,529,421)	28,428	(3,500,993)	(3,348,568)
Plant, property and equipment	28,144,936	3,807,132	31,952,068	32,211,618
Capital work in progress	651,174	120,644	771,818	1,515,191
Long term Investment	17,041,121	-	17,041,121	17,479,743
Long term debt	(6,357,888)	(34,407)	(6,392,295)	(8,527,524)
Net assets	\$ 35,949,922	\$ 3,921,797	\$ 39,871,719	\$ 39,330,460
Represented by				
General reserve	45,279,041	(5,407,322)	39,871,719	39,330,460
Inter-branch account	(9,329,119)	9,329,119		
Total	\$ 35,949,922	\$ 3,921,797	\$ 39,871,719	\$ 39,330,460

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

June 30, 2012

*(stated in Cayman Islands dollars)***18. Branch Statements of Comprehensive Income**

	Grand Cayman	Cayman Brac	Total	2011
Operating income	18,269,436	679,884	18,949,320	18,618,185
Operating expenses	15,134,090	1,064,137	16,198,227	16,157,503
	3,135,346	(384,253)	2,751,093	2,460,682
Other income/ (expenses)				
Interest income	1,405	31	1,436	1,924
Other income/expense	-	-	-	-
Loss on disposal of fixed assets	-	(249,839)	(249,839)	(17,296)
Depreciation	(1,800,018)	(153,674)	(1,953,692)	(2,031,136)
	\$ 1,336,733	\$ (787,735)	\$ 548,998	\$ (2,046,508)
Net income/(loss) for year	1,336,733	(787,735)	548,998	414,174
General reserve/ (deficit) at beginning of year	43,942,310	(4,619,589)	39,322,721	38,916,286
Contribution to Government	-	-	-	-
General reserve at end of year	\$ 45,279,043	\$ (5,407,324)	\$ 39,871,719	\$ 39,330,460



OWNERSHIP AGREEMENT ANNUAL REPORT

For

Port Authority of the Cayman Islands

For the 2012 Financial Year

1. Purpose

This annual report details the performance of the **Port Authority of the Cayman Islands** for the fiscal year ending 30 June 2012.

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 2012, or as amended through the supplementary appropriation process.

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 along 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.

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 2012 financial year are as follows.

Financial Performance

Financial Performance Measure	2012 Actual \$	2012 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	18,950,756	18,021,306	929,450
Surplus/deficit from outputs			
Other expenses	18,401,758	17,062,553	(1,339,205)
Net Surplus/Deficit	548,998	958,753	(409,755)
Total Assets	53,688,161	53,027,321	660,840
Total Liabilities	13,816,442	10,806,250	(3,010,192)
Net Worth	39,871,719	42,221,071	(2,349,352)
Cash flows from operating activities	3,759,486	2,949,839	(809,647)
Cash flows from investing activities	(761,987)	(950,000)	188,013
Cash flows from financing activities	(2,187,228)	(2,355,648)	168,420
Change in cash balances			

Financial Performance Ratio	2012 Actual	2012 Budget	Annual Variance
Current Assets: Current Liabilities	.53:1	1.7:1	1.17
Total Assets: Total Liabilities	3.9:1	4.9:1	1.00

Explanation of Variances

The favourable variance in total Assets is due mainly to the slight increase in cargo imports, and investment in a capital project, namely the refurbishment of a crane. The unfavourable variance in Liabilities is a result of insurance premiums owed to the government. An unfavourable variance in Net Worth is a direct result of the change of assets over liabilities. The favourable Revenues is a result in the slight increase in Imports while Expenses increased as a result of consultancy fees, and high maintenance on aging equipment resulting in an unfavourable change.

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	2012 Actual \$	2012 Budget \$	Annual Variance \$
Revenue	18,950,756	18,021,306	929,450
Operating Expenses	18,401,758	17,062,553	(1,339,205)
Net Surplus/Deficit	548,998	958,753	409,755

Balance Sheet	2012 Actual \$	2012 Budget \$	Annual Variance \$
Assets	53,688,161	53,027,321	660,840
Liabilities	13,816,442	10,806,250	(3,010,192)
Net Worth	39,871,719	42,221,071	(2,349,352)

Statement of Cash Flows	2012 Actual \$	2012 Budget \$	Annual Variance \$
Net cash flows from operating activities	3,759,486	2,949,839	809,647
Net cash flows from investing activities	(761,987)	(950,000)	188,013
Net cash flows from financing activities	(2,187,228)	(2,355,648)	168,420

Explanation of Variances

The favourable variance in total Assets is due mainly to the slight increase in cargo imports, and investment in a capital project, namely the refurbishment of a crane. The unfavourable variance in Liabilities is a result of insurance premiums owed to the government. An unfavourable variance in Net Worth is a direct result of the change of assets over liabilities. The favourable Revenues is a result in the slight increase in Imports while Expenses increased as a result of consultancy fees, and high maintenance on aging equipment resulting in an unfavourable change.

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 2012 financial year.

Being the Minister in charge during this fiscal year.

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

Being the Chairman during this fiscal year.

John Henry Ebanks
Chairman of the Board
The Port Authority of the Cayman Islands
Date: