

**Financial Statements of
The National Housing and
Community Development Trust**

30 June 2004

The National Housing and Community Development Trust

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Cayman Islands

The National Housing and Community Development Trust

CERTIFICATE AND REPORT OF THE AUDITOR GENERAL

To the Board Members of the National Housing and Community Development Trust

We were engaged to audit the accompanying balance sheet of the National Housing and Community Development Trust ("the Trust") as of 30 June 2004 and the related statements of income and cash flows for the year ended 30 June 2004 as set out on pages 4 to 11 and in accordance with the Section 45(1) of the *Public Finance and Audit Law (1997 Revision)*.

Respective Responsibilities of Management and the Auditor General

These financial statements are the responsibility of the Trust's management.

Basis of Opinion

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

Disclaimer of Opinion

Due to changes in the management of the Trust, and the composition of the Board of Directors, management was unwilling to sign-off on the financial statements acknowledging its responsibility for the fair presentation of the financial statements in accordance with International Financial Reporting Standards. Since management will not confirm that the financial statements are free of material misstatements and omissions, I am forced to conclude that I cannot attest that the financial statements are free from material misstatement.

Because of the significance of this matter discussed in the preceding paragraph, I do not express an opinion on the financial statements of the National Housing and Community Development Trust for the year ending 30 June 2004.

Readers are cautioned that the amounts reported in the accompanying financial statements and related notes may not be reliable.

Dan Duguay, MBA, CGA
Auditor General
18 May 2006

The National Housing and Community Development Trust
Balance Sheet
As at 30 June 2004
(Expressed in Cayman Islands Dollars)

ASSETS	Note		
<i>Current Assets</i>			
Cash and cash equivalents		\$	74,382
Accounts receivable			2,818
Prepaid expenses			1,849
<i>Total Current Assets</i>			<u>79,049</u>
<i>Non-current Assets</i>			
Capital work in progress	3		9,016,994
Fixed assets (net)	2(h), 4		52,003
Land	6(c)		1,620,000
<i>Total Non-current Assets</i>			<u>10,688,997</u>
TOTAL ASSETS		\$	10,768,046
LIABILITIES and EQUITY			
LIABILITIES			
<i>Current Liabilities</i>			
Accrued liabilities		\$	216,464
Loan payable	5, 10(c)		8,824,062
Deposits on homes			31,000
<i>Total Current Liabilities</i>			<u>9,071,526</u>
EQUITY			
Retained Earnings			76,520
Contributed Capital			1,620,000
<i>Total Equity</i>			<u>1,696,520</u>
TOTAL LIABILITIES and EQUITY		\$	10,768,046

The notes on pages 7 to 11 are an integral part of these financial statements.

The National Housing and Community Development Trust
Income Statement
For the year ended 30 June 2004
(Expressed in Cayman Islands Dollars)

INCOME	Note		
Government Grants	2(g), 6(a)	\$	170,000
<i>Total Income</i>			<u>170,000</u>
EXPENSES			
Audit fees			27,000
Office rent and parking			22,850
Wages and Salaries			16,707
Office supplies			9,053
Professional fees			6,533
Utilities			3,534
Advertising and promotions			3,395
Depreciation			1,913
Telephone			1,406
Pension contributions			818
Bank charges			171
Miscellaneous			100
<i>Total Expenses</i>			<u>93,480</u>
Net Surplus		\$	76,520

The notes on pages 7 to 11 are an integral part of these financial statements.

The National Housing and Community Development Trust
Statement of Cash Flows
For the year ended 30 June 2004
(Expressed in Cayman Islands Dollars)

Cash flows from operating activities	
Net Income	\$ 76,520
Adjustments for items not involving cash:	
Add: Depreciation	1,913
Operating profit before working capital changes	78,433
Increase in receivables	(2,818)
Increase in prepaid expenses	(1,849)
Increase in capital work in progress	(9,016,994)
Increase in accrued liabilities	216,464
Increase in deposits on homes	31,000
Cash used in operations	(8,695,764)
Financing Activities	
Increase in loans payable	8,824,062
Investing Activities	
Acquisition of fixed assets	(53,916)
Increase in Cash	74,382
Movement in Cash	
Balance 1 July	-
Increase	74,382
Balance at 30 June	\$ 74,382

The notes on pages 7 to 11 are an integral part of these financial statements.

The National Housing and Community Development Trust
Notes to the Financial Statements
For the year ended 30 June 2004
(Expressed in Cayman Islands Dollars)

1. Organization and Objectives

The National Housing and Community Development Trust (the "Trust") was incorporated on 29 September 2003 as a not-for-profit company limited by guarantee and not having a share capital. The Trust's Mission Statement is *to construct and provide affordable homes in planned communities, offer easier financing opportunities, and provide a management system that adds security, value and ownership that imparts a sense of pride in hard working Caymanians that earn less than twenty four thousand dollars per annum (CI\$24,000).*

The Trust is a government owned company with its registered office situated at the Government Administration Building on Elgin Avenue and its office of operation located at Elizabethan Square.

2. Significant Accounting Policies

- a) Basis of preparation. The financial statements of the Trust are prepared in accordance with International Financial Reporting Standards under the historical cost convention, and are expressed in Cayman Islands Dollars (CI\$).
- b) Foreign Currency. Foreign currency transactions are recorded at the exchange rates prevailing on the date of the transactions. Assets and liabilities are translated at the exchange rate in effect at the Balance Sheet date.
- c) Financial Instruments. Financial instruments carried on the balance sheet include cash at bank, accounts receivable and a loan payable. Their carrying amounts approximate fair value.
- d) Cash and cash equivalents. For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of deposits held at call with banks, net of overdrafts, maturing within 90 days.
- e) Use of estimates. The preparation of financial statements in conformity 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.
- f) Income recognition. Income and expenses are recorded on the accrual basis of accounting.
- g) Government grants. The Trust is dependent upon annual operating grants from the Cayman Islands Government to meet its obligations.

The National Housing and Community Development Trust
Notes to the Financial Statements
For the year ended 30 June 2004
(Expressed in Cayman Islands Dollars)

2. Significant Accounting Policies (continued)

h) Fixed Assets. Fixed assets are recorded at cost. Depreciation, which is based on the cost of the asset, is computed based on the estimated useful life:

	Years
Computer Equipment	3
Furniture and Fixtures	12
Office and Telephone Equipment	5

i) Employee benefits. Obligations for contributions to defined contribution pension plans are recognized as an expense in the income statement as incurred. Pension contributions for eligible employees of the Trust are paid to the Public Service Pensions Fund (the "Fund"). The Fund is administered by the Public Service Pensions Board (the "Pensions Board").

3. Capital Work in Progress

	CI\$
Construction costs	6,587,913
Site preparation and landscaping	2,066,004
Other costs	363,077
Work in progress, 30 June 2004	<u>9,016,994</u>

As at 30 June 2004 it was deemed that all housing properties were still under development and therefore held as work in progress. Following the year-end, once a property is completed, the cost of the property will be removed from Capital work in progress and transferred to Inventory until sold.

4. Fixed Assets

	Computer Equipment	Furniture & Fixtures	Office & Telephone	Total
Opening balance	-	-	-	-
Additions at cost	18,463	15,599	19,854 \$	53,916
Depreciation expense	1,030	218	665	1,913
Net book value, 30 June 2004	<u>17,433</u>	<u>15,381</u>	<u>19,189 \$</u>	<u>52,003</u>

The National Housing and Community Development Trust
Notes to the Financial Statements
For the year ended 30 June 2004
(Expressed in Cayman Islands Dollars)

10. Subsequent Events

- a) On 1 July 2004, the Cayman Islands Government seconded the Community Development unit to the Trust. The employees salaries were paid by the Social Services vote and their tenure as employees of the Cayman Islands Government remained.
- b) On the 11th and 12th of September 2004, the Cayman Islands were hit by Hurricane Ivan, which caused damage to approximately 95% of the houses and buildings on Grand Cayman Island. Prior to the hurricane, 132 of the proposed 200 houses were substantially completed. Of this amount, the Trust confirmed that at West Bay and Windsor Park, 77 were repairable, 13 were heavily damaged, and 9 were to be rebuilt. The Trust decided to exclude all 33 units at Eastern Avenue from the repair process. On the 6th January 2005, the Trust received notification of a settlement from their insurers in the total amount of CI\$2,151,362. In addition to the units that were destroyed, the hurricane also damaged materials that were in storage for use in construction of the remaining 68 units at the Fairbanks site. The materials were not insured.
- c) In October 2004, the Trust secured a bond issuance from Scotia Capital in the amount of US\$14.5 million at a fixed interest rate of 5.238%. This bond issuance was used to pay off the temporary bridging loan obtained 30 June 2004. Bi-annual payments commenced 28 April 2005. The loan will be paid in full by October 2024. The bond issue has been guaranteed by the Cayman Islands Government.
- d) Between 1 October 2004 and 31 December 2004, the Trust entered into agreements to sell 77 houses. All of the houses are mortgaged by the Trust. The mortgages are amortized over 20 years at a fixed interest rate of 8.5% per annum.
- e) The Trust has been the subject of three special reports by the Auditor General, as follows:
- i) Special Report of the Auditor General on the Affordable Housing Initiative, April 2005;
 - ii) Special Forensic Audit Report of the Auditor General on the National Housing and Community Development Trust, June 2005; and
 - iii) Special Forensic Audit Report of the Auditor General on the National Housing and Community Development Trust, August 2005.
- f) At an extraordinary general meeting of the members of the Trust held 18 May 2005, it was resolved that the appointment of the Chairman, all Directors and Officers of the company be revoked immediately. In August 2005, the Minister of Housing announced a new Board of Directors for the Trust.
- g) In late July 2005, the Trust was given the responsibility to manage the Temporary Trailer Project initiated by the Cayman Islands Government.
- h) In September 2005, the Manager of the Trust was relieved of his duties. An interim manager was hired on 3 January 2006.
- i) Effective 1st November 2005, the Community Development unit of the Trust was transferred back to the Cayman Islands Government, under the Ministry of Health and Human Services. They also assumed responsibility for the Temporary Trailer Project.

The National Housing and Community Development Trust
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For the year ended 30 June 2004
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11. Contingent Liabilities

There are two pending actions or claims against or threatened against the Trust as follows:

- a) Staunch Ltd. - a possible claim for CI\$36,720 regarding the contract to rebuild 7 houses; The Trust has a counterclaim on four contracts that negates the potential claim.
- b) Vetromeccaniche Lda - a possible claim for breach of contract to build 200 houses, as the company was only permitted to build 132 houses. Also, there may be a claim for unpaid retention amounts. Potential value claim against the Trust is +/- CI\$500,000. The Trust has a counterclaim in the amount of +/- CI\$800,000 for failure to insure building materials that were subsequently destroyed by Hurricane Ivan.