



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

30 June 2005

The National Housing and Community Development Trust

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Cayman Islands

The National Housing and Community Development Trust

CERTIFICATE OF THE AUDITOR GENERAL

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

I have audited the accompanying financial statements of the National Housing and Community Development Trust ("the Trust"), which comprise the balance sheet as at 30 June 2005, and the income statement, statement of changes in net assets and cash flow for the year then ended as set out on pages 3 to 14 and in accordance with the Section 60(a) of the Public Management and Finance Law (2005 Revision).

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation and fair representation of these financial statements in accordance with International Public Sector Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriated accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we 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 we have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the National Housing and Community Development Trust as of 30 June 2005, and of its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards.

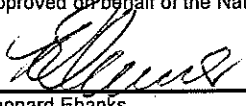


Dan Duguay, MBA, CGA
Auditor General
05 July 2007

The National Housing and Community Development Trust
Balance Sheet
As at 30 June 2005
(Expressed in Cayman Islands Dollars)

ASSETS	Note	2005	2004
<i>Current Assets</i>			
Cash and cash equivalents	2 (e)	\$ 3,492,483	\$ 74,382
Accounts receivable		174,194	2,818
Materials inventory	3	281,565	1,059,633
Prepaid expenses		6,892	1,849
Total Current Assets		3,955,134	1,138,682
<i>Non-current Assets</i>			
Low-income housing properties	2 (f) and 3	7,099,041	-
Work in progress	3	-	7,957,361
Fixed assets	2 (f) and 4	66,687	52,003
Land	7 (b)	2,370,000	1,620,000
Total Non-current Assets		9,535,728	9,629,364
TOTAL ASSETS		\$ 13,490,862	\$ 10,768,046
LIABILITIES and EQUITY			
LIABILITIES			
<i>Current Liabilities</i>			
Accounts payable and accrued liabilities		\$ 256,301	\$ 216,464
Current portion of bond payable	6	186,368	-
Loan payable	5	-	8,824,062
Deferred liability	13(d)	191,643	31,000
Trailers liability	13(c)	54,006	-
Total Current Liabilities		688,318	9,071,526
<i>Non-current Liabilities</i>			
Bond Payable	6	11,718,633.00	-
Special Purpose Fund	10	30,300	-
Total Non-current Liabilities		11,748,933	-
EQUITY			
Retained Earnings		(2,076,389)	76,520
Contributed Capital		3,130,000	1,620,000
Total Equity		1,053,611	1,696,520
TOTAL LIABILITIES and EQUITY		\$ 13,490,862	\$ 10,768,046

Approved on behalf of the National Housing and Community Development Trust on June 29, 2007:


 Leonard Ebanks
 Chair of the Board


 Maxine Gibson
 Manager

The notes on pages 7 to 14 are an integral part of these financial statements.

The National Housing and Community Development Trust
Income Statement
For the year ended June 30, 2005
(expressed in Cayman Islands Dollars)

INCOME	Note	2005	2004
Rent, Strata and Interest		\$ 404,971	\$ -
Interest and other income		47,787	-
Total Income		452,758	-
EXPENSES			
Personal emoluments		673,156	17,525
Depreciation	2(f), 3 and 4	590,435	1,913
Interest on loans		399,175	-
Finance costs		178,950	-
Community project		57,762	-
Property insurance		57,475	-
Audit and professional fees		48,040	33,533
Office rent and parking		38,943	22,850
Security services		18,728	-
Utilities		16,153	4,940
Miscellaneous		12,001	3,666
Office supplies		10,765	9,053
Bad debts		7,234	-
Office maintenance		5,026	-
Travel		3,682	-
Repairs and maintenance		2,847	-
Total Expenses		2,120,372	93,480
Net (Deficit)/Surplus from operations		(1,667,614)	(93,480)
<i>Other income</i>			
Insurance proceeds - hurricane	8	2,151,362	-
Government Grants	2(h) and 7	800,000	170,000
		2,951,362	170,000
<i>Other expenses</i>			
Loss due to hurricane	8	2,098,068	-
Recovery operations - hurricane		1,160,761	-
Loss due to abandoned project	9	177,828	-
Total Other Expenses		3,436,657	-
Net (Deficit)/Surplus from other		(485,295)	170,000
Net (Deficit)/Surplus		\$ (2,152,909)	\$ 76,520

The notes on pages 7 to 14 are an integral part of these financial statements.

The National Housing and Community Development Trust
Statement of Changes in Net Assets
For the year ended June 30, 2005
(expressed in Cayman Islands Dollars)

	<u>Note</u>	<u>CONTRIBUTED CAPITAL</u>	<u>ACCUMULATED SURPLUS/(LOSS)</u>	<u>TOTAL</u>
June 30, 2004		1,620,000	76,520	*1,696,520
Net loss during the year			(2,152,909)	(2,152,909)
Capital contributed during the year				
Capital Injection	7(c)	760,000		760,000
Land	7(b)	750,000		750,000
June 30, 2005		<u>\$ 3,130,000</u>	<u>\$ (2,076,389)</u>	<u>\$ 1,053,611</u>

The notes on pages 7 to 14 are an integral part of these financial statements.

The National Housing and Community Development Trust
Statement of Cash Flows
For the year ended June 30, 2005
(Expressed in Cayman Islands Dollars)

	2005	2004
Cash flows from operating activities		
Net (loss)/surplus	\$ (2,152,909)	\$ 76,520
Add/(deduct) items not involving cash:		
Depreciation	590,435	1,913
Accrued vacation leave	27,882	-
Loss due to hurricane	2,098,068	-
	<u>2,716,385</u>	<u>1,913</u>
Operating profit before working capital changes	563,476	78,433
(Increase)/decrease in:		
Receivables	(171,376)	(2,818)
Prepaid expenses	(5,043)	(1,849)
Increase/(decrease) in:		
Accrued liabilities (except accrued vacation leave)	11,955	216,464
Deferred liability	160,643	31,000
Trailer liability	54,006	-
Special purpose fund	30,300	-
Cash used in operations	<u>643,961</u>	<u>321,230</u>
Investing Activities		
Decreases/(Additions) to:		
Low-income housing properties	(1,037,278)	(9,016,994)
Fixed Assets	(29,521)	(53,916)
	<u>(1,066,799)</u>	<u>(9,070,910)</u>
Financing Activities		
Proceeds from/(payment for):		
Bond issuance	11,905,001	-
Loans payable	(8,824,062)	8,824,062
Capital injection	760,000	-
	<u>3,840,939</u>	<u>8,824,062</u>
Increase in Cash and Cash Equivalents	<u>3,418,101</u>	<u>74,382</u>
Movement in Cash		
Balance 1 July	\$ 74,382	\$ -
Increase	3,418,101	74,382
Balance at 30 June	<u>\$ 3,492,483</u>	<u>\$ 74,382</u>

The notes on pages 7 to 14 are an integral part of these financial statements.

Notes to Financial Statements

For the year ended June 30, 2005

(expressed in Cayman Islands Dollars)

1. ORGANIZATION AND OBJECTIVES

The National Housing and Community Development Trust (the "Trust") was incorporated on September 29, 2003 as a not for profit company limited by guarantee and not having a share capital. In the May 5, 2004 business plan, the Trust's mission statement is stated as follows: *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, George Town, Grand Cayman and its office operation located at Elizabethan Square, George Town, Grand Cayman.

On July 1, 2004, the Cayman Islands Government seconded the Community Development unit to the Trust. The seven employees' salaries and benefits were paid by the Social Services vote and their tenure as employees of the Cayman Islands Government remained. The Trust repaid the Cayman Islands Government for the salaries and benefits paid by Social Services.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

These financial statements are prepared in accordance with International Public Sector Accounting Standards ("IPSAS") under the historical cost convention, and are expressed in Cayman Islands Dollars.

b) Use of estimates

The preparation of financial statements in accordance with IPSAS 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 those estimates.

c) Revenue Recognition

Income and expenses are recognized on the accrual basis of accounting.

d) Financial Instruments

Financial instruments are measured initially at cost, including transaction costs. The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using management's best estimates, taking into account current market conditions and the credit quality of the counterparties.

The fair value of derivatives that are not exchange traded is estimated at the amount that the Bank would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

Notes to Financial Statements

For the year ended June 30, 2005

(expressed in Cayman Islands Dollars)

(continued)

e) Cash and cash equivalents

Cash and cash equivalents comprise of deposits held at call with banks maturing within 90 days.

Description	Amount
CI dollar chequing accounts	\$ 825,697
CI dollar petty cash	100
US dollar chequing account	1,660,842
CI dollar fixed deposit, 30 day term, maturing 21 July 2005	1,005,844
Total	\$3,492,483

The US dollar balance of \$2,015,716 was translated at 0.8239466 at June 30, 2005.

f) Fixed assets and low-income housing properties

Fixed assets and low-income housing properties are stated at cost less accumulated depreciation and any recognized impairment loss. Depreciation is charged to write off the cost or valuation of assets over their estimated useful lives, using the straight-line method, on the following bases:

	Years
Computer equipment	3
Furniture and fixtures	12
Office and telephone equipment	5
Vehicle	4
Low-income housing properties	10

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized as income.

The low-income housing properties are held to provide housing services rather than for rentals or capital appreciation and are therefore accounted for under IPSAS 17, Property, Plant and Equipment.

g) Foreign currency

Transactions involving foreign currencies are recorded at the exchange rate prevailing on the transaction date. All assets and liabilities originating in other currencies are translated at rates of exchange in effect at the balance sheet date. Gains and losses on exchange are credited or charged to the statement of income.

h) Government grants

The Trust is dependent upon annual operating grants from the Cayman Islands Government to meet its obligations and to continue carrying out its operations.

Notes to Financial Statements

For the year ended June 30, 2005
(expressed in Cayman Islands Dollars)

(continued)

l) Employee benefits

Obligations for contributions to defined contribution pension plans are recognized as an expense in the statement of revenues and expenses as incurred. Pension contributions for eligible employees of the Trust are paid to the Public Service Pensions Fund which is administered by the Public Service Pensions Board.

3. LOW-INCOME HOUSING PROPERTIES

The Trust holds housing units to provide housing to low income families at below market rental. Low-income housing properties comprised the following as of June 30, 2005:

	Housing units for rent	Work Progress in	Materials Inventory
Construction costs			
Opening balance, 30 June 2004		\$9,016,994	
Reclassified to Materials Inventory		(1,059,633)	\$1,059,633
Opening balance restated, 1 July 2004		<u>\$7,957,361</u>	<u>\$1,059,633</u>
Transfer from WIP to housing units	\$7,957,361	(\$7,957,361)	
2005 Additions	1,037,278		
Loss on destroyed units	(1,320,000)		
Loss on damaged materials			(778,068)
	7,674,639		
Depreciation during the year	(575,598)		
Closing balance, 30 June 2005	<u>\$7,099,041</u>	<u>\$ nil</u>	<u>\$281,565</u>

Work in Progress: As at June 30, 2004, all properties were still under development and therefore held as "Work in progress" with a balance of \$9,016,994. This balance has now been restated and shown separately as components "Materials Inventory" (\$1,059,633) and "Housing units for rent" (\$7,957,361).

Materials Inventory: Materials were purchased to build 200 housing units. Before the hurricane, 132 housing units had been substantially completed. The materials inventory consisted of materials to build the remaining 68 housing units.

Housing units for rent: In late 2005 the work in progress was transferred to the low-income housing properties account. As at 30 June 2005, 112 houses are operational and fully let.

Notes to Financial Statements

For the year ended June 30, 2005

(expressed in Cayman Islands Dollars)

(continued)

4. FIXED ASSETS

Fixed assets were comprised of the following as of June 30, 2005:

	Computer Equipment	Furniture & Fixtures	Office & Telephone	Vehicle	Total
Costs					
Opening Balance	\$18,463	\$15,599	\$19,854	\$ -	\$53,916
Acquisitions	16,194	-	-	13,327	29,521
	34,657	15,599	19,854	13,327	83,437
Accumulated Depreciation					
Opening balance	1,030	218	665	-	1,913
Depreciation during the year	8,744	1,300	3,682	1,111	14,837
	9,774	1,518	4,347	1,111	16,750
Net book value, June 30, 2005	\$24,883	\$14,081	\$15,507	\$12,216	\$66,687
Net book value, June 30, 2004	\$17,433	\$15,381	\$19,189	\$ -	\$52,003

5. LOAN PAYABLE

Before the incorporation of the Trust, the Cayman Islands Government advanced funds toward the Affordable Housing Initiative and the Trust as follows:

Fiscal year ended	Amounts
December 31, 2002	\$ 657,197
June 30, 2003	3,881,762
June 30, 2004	4,285,103
	<u>\$ 8,824,062</u>

On June 30, 2004, the Trust obtained a loan for US\$10,782,927 (CI\$8,958,456) from Scotiabank and paid off the balance owing to the Cayman Islands Government. An additional amount of US\$360,000 (CI\$300,000) was borrowed from Scotiabank on July 9, 2004. The loan was a temporary bridging loan which was paid in full when a bond issue was obtained (see note 6).

Notes to Financial Statements

For the year ended June 30, 2005

(expressed in Cayman Islands Dollars)

(continued)

6. BOND PAYABLE

In October 2004, the Trust secured a US\$14.5 million bond issuance from Scotia Capital at a fixed interest rate of 5.238%, guaranteed by the Cayman Islands Government. This bond issuance was used primarily to pay off the temporary bridging loan (US\$11,142,927) obtained from Scotiabank (see note 5). The remainder (US\$3,357,073) was designated for current and future operating expenses.

Bi-annual interest payments commenced 28 April 2005 and bi-annual principal payments will commence 28 April 2006. The loan will be paid in full by October 2024. The bond payable balance was translated at 0.82 at June 30, 2005. As at June 30, 2005, the balance of the bond payable was:

Bond payable	CI\$
Current portion	186,368
Long-term portion	11,718,633
Total	11,905,001

The Trust must pay interest and principal payments on the bond payable as follows:

Time period	Interest (US\$)	Principal (US\$)	Total (US\$)
One year or less	759,510	227,277	986,787
Over one year to five years	2,810,131	2,046,129	4,856,260
Over five years	5,377,347	12,226,594	17,603,941
Total	8,946,988	14,500,000	23,446,988

7. RELATED PARTY TRANSACTIONS

Transactions with related parties other than those disclosed elsewhere in the financial statements are as follows:

- a) Grant income – During the fiscal year ended June 30, 2005 the Trust received a monetary grant of CI\$800,000 from the Cayman Islands Government (2004: CI\$170,000). The increase was due to the addition of the Community Development unit effective July 1, 2004, and the fact that the Trust began operations with its own bank accounts in May 2004.
- b) Land - During the fiscal year ended June 30, 2005, property valued at CI\$750,000 located at Fairbanks in George Town was transferred from the Cayman Islands Government to the Trust. During the previous fiscal year ended June 30, 2004, the Trust received 2 parcels of land valued at CI\$1,620,000 located at West Bay and George Town from the Cayman Islands Government.
- c) Equity injection – During the fiscal year ended June 30, 2005 the Trust received CI\$760,000 from the Cayman Islands Government.

Notes to Financial Statements

For the year ended June 30, 2005

(expressed in Cayman Islands Dollars)

(continued)

- d) Social services support payments – During the fiscal year ended June 30, 2005 the Trust received payments from the Cayman Islands Government Department of Children and Family Services as follows:

Nature of payments	Total received	Total receivable
House: deposit, mortgage and strata	\$ 7,098	\$ nil
House: rental	\$ 7,700	\$ 7,510
Trailer: rental	\$15,400	\$ 4,600
Total	\$30,198	\$12,110

8. HURRICANE INSURANCE SETTLEMENT

On September 11, 2004, the Cayman Islands were hit by Hurricane Ivan which caused damage to approximately 95% of the houses and buildings on Grand Cayman Island. On January 6, 2005, the Trust received notification of a settlement from their insurers in the amount of CI\$2,151,362.

Prior to the hurricane, 132 of the proposed 200 houses were substantially completed. After the hurricane, it was determined that 20 houses were totally destroyed and would not be rebuilt, 79 houses would be repaired, 7 houses would be rebuilt, and 26 houses would be rehabilitated.

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.

The loss due to the hurricane was as follows:

Description	CI\$
20 houses destroyed	1,320,000
Materials	778,068
Total	2,098,068

9. LOSS DUE TO ABANDONED PROJECT

During the year the Trust entered into a contract with Staunch Limited to construct 20 temporary houses and a laundry and recreational facility. Details are as follows:

Description	Contract Amount (CI\$)	Amount paid (CI\$)	Percent paid	Percent of work completed
20 Temporary Houses	217,560	170,268	77%	10%
Laundry and Recreational Facility	25,200	7,560	30%	0%
Total	242,760	177,828		

The new management and Board of Directors of the Trust have decided to abandon this project and the costs have been expensed.

Notes to Financial Statements

For the year ended June 30, 2005
(expressed in Cayman Islands Dollars)

(continued)

10. SPECIAL PURPOSE FUND

During the year the Trust received a donation of \$32,800 from one of the cruise lines for the purpose of assisting Caymanians who were eligible for the affordable housing program but unable to pay the down payment required on the home. Two persons benefited from this donation in 2004-05.

11. CONTRACTUAL COMMITMENTS

a) The Trust has signed a lease agreement with Montpelier Properties (Cayman) Ltd. for the rental of their operating premises. The remaining contractual agreement as of June 30, 2005 was CI\$15,678.

12. CONTINGENCIES

There is one pending actions or claims against or threatened against the Trust. Mr. Ronnie Ebanks has entered a claim for adverse possession of property owned by the Trust. The Trust has reached an agreement in principle with Mr. Ebanks to provide him with a house to live in for the rest of his life. The agreement still needs to be approved in Chambers.

13. SUBSEQUENT EVENTS

- a) At an extraordinary general meeting of the members of the Trust held on May 18, 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.
- b) In September 2005, the Manager of the Trust was relieved of his duties. An interim manager was hired on January 3, 2006.
- c) Effective November 1, 2005, the Community Development unit of the Trust was transferred back to the Cayman Islands Government. Most of the employees were transferred to the Ministry of Health and Human Services. The remainder of the employees formed the Temporary Trailer Management under the responsibility of the Cabinet Office. Effective July 1, 2006, the Temporary Trailer Management ceased to have a formal/financial affiliation with the Trust.
- d) On March 22, 2006, the Board of Directors passed a resolution that the ownership in the existing homes would not be transferable. Instead, a deferred liability has been set up for the amount held in trust.
- e) On June 7, 2006, the Board of Directors amended the name of the Trust from *The National Housing and Community Development Trust* to *National Housing Development Trust*.
- f) On June 7, 2006, the Trust accepted responsibility for the administration of the Government Guaranteed Home Assistance Mortgage Scheme (GGHAM) on behalf of the Cayman Islands Government for an annual income of \$182,390.

Notes to Financial Statements

For the year ended June 30, 2005
(expressed in Cayman Islands Dollars)

(continued)

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- g) The Trust has received an unsolicited offer from an unrelated party to purchase the Eastern Avenue property. The Trust then offered the property by tender to the general public. The original offer was the highest, and the Trust is currently in negotiations to sell the property.
 - h) In June 2007, the Trust began to make the road going to the pit which will be used for digging out the fill for the Fairbanks property. This work is the preliminary stage for preparing the Fairbanks site for the building of housing units.