



Cayman Islands Airports Authority

Financial Statements

Year Ended 30 June 2007

**Cayman Islands Airports Authority
Financial Statements
Year Ended 30 June 2007**

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Cayman Islands Airports Authority
STATEMENT OF RESPONSIBILITY FOR FINANCIAL STATEMENTS
30 June 2007

These financial statements have been prepared by the Cayman Islands Airports Authority in accordance with the provisions of the *Public Management and Finance Law, (2005 Revision)*. The financial statements comply with generally accepted accounting principles as defined in International Financial Reporting Standards.

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

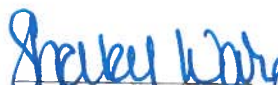
To the best of our knowledge the statements are:

- (a) complete and reliable;
- (b) fairly reflect the financial position as at 30 June 2007 and performance for the financial year ended 30 June 2007; and
- (c) comply with generally accepted accounting principles.



Chief Executive Officer

Date: JUNE 2ND, 2010



Financial Controller

Date: 2 June 2010



Cayman Islands

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AUDITOR GENERAL'S REPORT

To the Board of Directors of the Cayman Islands Airports Authority

I have audited the accompanying financial statements of the Cayman Islands Airports Authority which comprise of the balance sheet as at 30 June 2007, the statement of income and expenditure, statement of changes in equity and statement of cash flows for the year then ended, and a statement of significant accounting policies and other explanatory notes as set out in pages 8 to 18, in accordance with the provisions of Section 26 (1) of the *Airports Authority Law, 2005* and Section 52 (3) of the *Public Management and Finance Law (2005 Revision)*.

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error; selecting and applying appropriate 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. 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.

Opinion

In my opinion these financial statements present fairly, in all material respects, the financial position of the Cayman Islands Airports Authority as at June 30, 2007, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Garnet Harrison, CA
Acting Auditor General

Cayman Islands
June 2, 2010

Cayman Islands Airports Authority
Balance Sheet
As at June 30, 2007
(in Cayman Islands dollars)

	<u>Note</u>	<u>2007</u>	<u>2006</u>
ASSETS			
Current assets			
Cash and cash equivalents	3	12,388,942	12,627,195
Accounts receivable	4	6,842,768	5,637,580
Other receivables and prepaid expenses		<u>1,968,325</u>	<u>1,898,010</u>
		<u>21,200,035</u>	<u>20,162,785</u>
Non current assets			
Property, plant and equipment	5	<u>32,903,035</u>	<u>32,420,728</u>
TOTAL ASSETS		<u>54,103,070</u>	<u>52,583,513</u>
LIABILITIES AND RESERVES			
Current liabilities			
Current portion of long-term debt	6	1,529,577	1,009,096
Accounts payable and accrued expenses	7	<u>2,976,476</u>	<u>4,277,322</u>
		<u>4,506,053</u>	<u>5,286,418</u>
Non current liabilities			
Long-term debt	6	3,427,864	4,510,345
Employee pensions	8	<u>3,366,000</u>	<u>3,055,000</u>
		<u>6,793,864</u>	<u>7,565,345</u>
TOTAL LIABILITIES		<u>11,299,917</u>	<u>12,851,763</u>
Equity			
Contributed capital		32,285,399	32,285,399
General reserves		<u>10,517,754</u>	<u>7,446,351</u>
		<u>42,803,153</u>	<u>39,731,750</u>
TOTAL LIABILITIES AND RESERVES		<u>54,103,070</u>	<u>52,583,513</u>

Approved

.....
Chief Executive Officer

.....
Financial Controller

Date: *JUNE 2ND, 2010*

Date: *2 June 2010*

Cayman Islands Airports Authority
Statement of Income and Expenditure
for the year ended June 30, 2007
(in Cayman Islands dollars)

	Note	<u>2007</u>	<u>2006</u>
INCOME			
Travel tax		6,432,343	5,775,137
Government subsidy	7	4,915,474	4,315,417
Security tax and terminal facility charges		4,040,982	3,727,513
Aircraft handling income		3,222,675	2,986,413
Rent - government		1,538,882	1,594,572
Rent - commercial		926,902	1,171,927
Permits and parking		771,284	604,209
Interest		476,562	270,836
Petrol concession		368,609	338,687
Sundry		83,356	64,705
Gain on disposal of property, plant and equipment		-	1,175
TOTAL INCOME		<u>22,777,069</u>	<u>20,850,591</u>
EXPENSES			
Salaries and wages		5,286,679	5,589,265
Fire services	7	4,530,970	3,930,913
Depreciation	5	2,544,180	2,311,318
Utilities		1,188,076	1,073,452
Repairs and maintenance		1,112,244	936,215
Property & liability insurance		1,014,083	912,192
CAA certification		1,010,973	1,476,000
Pension contributions	8	612,500	687,543
Passenger screening		549,102	432,624
Medical		532,863	702,219
Past service pension expense	8	311,000	-
Loan interest		277,360	274,033
Bad debts expense		145,577	-
Miscellaneous		124,151	102,691
Legal and professional fees		110,683	88,449
Training		80,315	42,214
Security		73,088	62,644
Travel and subsistence		55,037	140,310
Meteorological regional contribution		54,743	50,880
Printing and stationery		52,604	33,479
Foreign exchange losses		32,668	58,618
Uniforms		6,770	13,943
TOTAL EXPENSE		<u>19,705,666</u>	<u>18,919,002</u>
NET INCOME		<u><u>3,071,403</u></u>	<u><u>1,931,589</u></u>

Cayman Islands Airports Authority
Statement of Changes in Equity
for the year ended June 30, 2007
(in Cayman Islands dollars)

	Contributed Capital	General Reserves	Total
Balance at June 30, 2005	32,285,399	5,514,762	37,800,161
Net Income for 2006	-	1,931,589	1,931,589
Balance at June 30, 2006	32,285,399	7,446,351	39,731,750
Net Income for 2007	-	3,071,403	3,071,403
Balance at June 30, 2007	32,285,399	10,517,754	42,803,153

**Cayman Islands Airports Authority
Statement of Cash Flows
for the year ended June 30, 2007
(in Cayman Islands dollars)**

	<u>2007</u>	<u>2006</u>
CASH FLOW FROM OPERATING ACTIVITIES		
Net income for year	3,071,403	1,931,589
Items not affecting working capital:		
Gain on disposal of fixed assets	-	(1,175)
Depreciation	<u>2,544,180</u>	<u>2,311,318</u>
	5,615,583	4,241,732
Net changes in working capital balances		
(Increase) in accounts receivable	(1,205,188)	(2,616,891)
(Increase)/decrease in other receivables and prepaid expenses	(70,315)	6,639,079
(Decrease)/Increase in accounts payable and accrued expenses	(1,300,847)	596,813
Increase in employee pensions liability	<u>311,000</u>	<u>611,000</u>
Net cash provided by operating activities	<u>3,350,233</u>	<u>9,471,733</u>
CASH FLOW FROM INVESTING ACTIVITY		
Purchase of fixed assets	(3,026,487)	(2,843,537)
Disposal of fixed assets	<u>-</u>	<u>1,175</u>
Net cash used in investing activities	<u>(3,026,487)</u>	<u>(2,842,362)</u>
CASH FLOW FROM FINANCING ACTIVITY		
Loans paid by government	540,405	-
Repayment of loans (Note 6)	<u>(1,102,404)</u>	<u>(1,761,836)</u>
Net cash used in financing activities	<u>(561,999)</u>	<u>(1,761,836)</u>
Net (decrease)/increase in cash equivalent during the year	(238,253)	4,867,535
Cash and cash equivalents at beginning of year	<u>12,627,195</u>	<u>7,759,660</u>
Cash and cash equivalents at end of year	<u>12,388,942</u>	<u>12,627,195</u>
Supplementary Information on Cash Flows From Operations		
Interest received during the year	476,562	270,837
Interest paid during the year	277,359	274,033

Cayman Islands Airports Authority
Notes to Financial Statements
June 30, 2007
(in Cayman Islands dollars)

1. Background Information

The Cayman Islands Airports Authority ("the Authority") is a statutory body established on June 14, 2004 under The *Airports Authority Law, 2004*, and began operations on July 1, 2004. The registered office of the Authority is P.O. Box 10098 APO, Grand Cayman, Cayman Islands, KY1-1001. The Authority had 130 employees as of June 30, 2007 (2006: 139 employees).

The Authority is principally engaged in the general management and operation of airports, air traffic, and navigation, within the Cayman Islands as set out in the aforementioned law. The Authority currently operates two airports, one on the island of Grand Cayman and the other on the island of Cayman Brac.

The Authority is regulated by the Civil Aviation Authority ("CAA") of the Cayman Islands.

2. Significant Accounting Policies

The significant accounting policies adopted by the Authority in these financial statements are as follows:

a) Basis of accounting

The financial statements of the Authority are prepared on the accrual basis under the historic cost convention in accordance with International Financial Reporting Standards.

b) Depreciation

Property plant and equipment are depreciated on the straight-line basis over the estimated useful lives. The estimated useful lives of the other assets are as follows:

Computer	3 Years
Furniture and Fixtures	5 years
Motor Vehicles	5 Years
Equipment	10 Years
Building, Runways, Aprons and Car Parks	40 Years

c) Foreign currency translation

Assets and liabilities denominated in currencies other than Cayman Islands dollars are translated at exchange rates in effect at the balance sheet date. Revenue and expense transactions denominated in currencies other than Cayman Islands dollars are translated at exchange rates ruling at the time of those transactions. Gains and losses on exchange are credited or charged in the statement of income and expenditure.

Cayman Islands Airports Authority
Notes to Financial Statements
June 30, 2007
(in Cayman Islands dollars)

2. Significant Accounting Policies (continued)

d) 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.

e) Cash and cash equivalents

Cash and cash equivalents include cash on demand and at short notice and all deposits placed for not more than three months.

f) Revenue Recognition

The Authority recognizes revenues in the period in which they are earned. For example, taxes, rent and aircraft handling revenues are recognized when the related service is provided.

g) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

h) Financial Instruments

(i) Classification

A financial asset is classified as 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 of cash and cash equivalents, accounts receivables and prepaid expenses

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

(ii) Recognition

The Authority recognises financial assets and financial liabilities on the date it becomes 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 operating revenues and expenses.

Cayman Islands Airports Authority
Notes to Financial Statements
June 30, 2007
(in Cayman Islands dollars)

2 Significant Accounting Policies (continued)

(iii) Derecognition

A financial asset is derecognised when the Authority realises the rights to the benefits specified in the contract or 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 expires.

(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 measured at their estimated fair value. Financial liabilities are subsequently measured at amortized cost, being the amount at which the liability was initially recognized less any principal repayments plus any amortization (accrued interest) of the difference between that initial amount and the maturity amount.

3. Cash and Cash Equivalents	2007	2006
Cash on hand	12,328	13,588
Current and call accounts	927,834	2,069,849
Fixed deposit accounts	<u>11,448,780</u>	<u>10,543,758</u>
Total cash and cash equivalents	<u>\$12,388,942</u>	<u>\$12,627,195</u>

4. Accounts Receivable

There was no provision for doubtful accounts in 2007 (2006: nil)

Cayman Islands Airports Authority
Notes to Financial Statements
June 30, 2007
(in Cayman Islands dollars)

5. Fixed Assets

	<u>Cost</u> <u>1 July 2006</u>	<u>Addition</u>	<u>Transfer</u>	<u>Cost</u> <u>June 2007</u>	<u>Acc. Deprn.</u> <u>1 July 2006</u>	<u>Charge</u> <u>for year</u>	<u>Acc. Deprn.</u> <u>June 2007</u>	<u>NBV</u> <u>June 2007</u>	<u>NBV</u> <u>June 2006</u>
Computer Equipment	98,083	58,360	-	156,443	49,085	35,843	84,928	71,515	48,998
Furniture & Fixtures	541,385	30,460	-	571,845	95,161	97,332	192,493	379,352	446,224
Vehicles	518,723	38,800	-	557,523	104,451	59,183	163,634	393,889	414,272
Equipment	3,399,430	87,564	356,017	3,843,011	780,382	607,694	1,388,076	2,454,935	2,619,048
Buildings and Structures	21,746,794	1,330,378	548,218	23,625,390	3,461,773	1,744,129	5,205,902	18,419,488	18,285,021
Land	8,909,041	28,146	26,910	8,964,097	-	-	-	8,964,097	8,909,041
Construction in Progress	1,698,124	1,452,780	(931,145)	2,219,759	-	-	-	2,219,759	1,698,124
Total	36,911,580	3,026,488	-	39,938,068	4,490,852	2,544,181	7,035,033	32,903,035	32,420,728

6. Short and Long Term Debt Payable

	2007	2006
Cayman Islands Government Loan	540,405	Nil
External Loans		
Caribbean Development Bank		
#5/SFR/ - OR - CI	67,204	179,211
#6/OR - CI	1,858,588	2,405,231
European Community Loan		
1981 Loan	171,202	173,798
1987 Loan	521,938	515,197
Cayman National Bank	<u>1,798,105</u>	<u>2,246,004</u>
Total loans payable	\$4,957,442	\$5,519,441
Less: portion due with one year	<u>\$1,529,578</u>	<u>\$1,009,096</u>
Long term loans payable	<u>\$3,427,864</u>	<u>\$4,510,345</u>

Cayman Islands Airports Authority
Notes to Financial Statements
June 30, 2007
(in Cayman Islands dollars)

6. Short and Long Term Debt Payable (continued)

Cayman Islands Government Loan

During the year, the Caymans Islands Government made all loan payments on the Caribbean Development Bank and European Community loans on behalf of the Authority. The total of these principal and interest payments made were \$540,405 (2006: \$562,258). Of this amount, \$540,405 was owed to the Government at June 30, 2007 (2006: \$0).

Caribbean Development Bank

#5/SFR – OR-CI – Airport Facilities: Loan of US\$ 2,117,000 denominated in US dollars, repayable quarterly over 18 years, commencing 1991/92 at a variable interest rate of 5.5% and 5.75%.

#6/OR – CI – Third Airport Project: Loan of US\$ 8,570,000 denominated in US dollars, repayable quarterly over 15 years, commencing in 1997. Interest accrues on the loan at a variable interest rate of 5.5% and 5.75%.

European Community Loan

1981 Loan – Cayman Brac Airport: EUR 330,000 repayable over 30 years, commencing 1990 at interest rate of 1% on outstanding balance.

1987 Loan – Cayman Brac Airport: EUR 658,000 repayable over 30 years, commencing 1997 at interest rate of 1% on outstanding balance.

Cayman National Bank Loan

Loan of US\$ 5,400,000 repayable quarterly over 10 years, commencing April 2001 with interest accruing at 2.07% as of June 30, 2004 and adjusted every 3 months to 0.75 % above the LIBOR rates.

All external loans (except Cayman National Bank Loan) are in the name of the Cayman Islands Government and on lent to the Authority. The Cayman National Bank Loan was taken out in the name of the Civil Aviation Authority, and guaranteed by the Cayman Islands Government. The responsibility for servicing the loan was taken over by the Authority as of July 1, 2004. In January of 2007, the Cabinet of the Cayman Islands Government officially passed a resolution to transfer the loan into the name of the Authority.

7. Related Party Transactions

Included in the balance sheet and statement of income and general reserve are the following items not disclosed elsewhere in the financial statements, with Cayman Airways Ltd. and other Cayman Islands Government agencies, companies, and/or authorities, all of which are related parties:

	2007 \$	2006 \$
Balance Sheet		
Accounts receivable		
Cayman Airways/Cayman Express	3,905,183	2,918,070
Ministry of Tourism/Health Services	-	391,660
Department of Immigration	963,661	807,607
Other Government Departments	<u>428,973</u>	<u>288,949</u>
	<u>5,297,817</u>	<u>4,406,286</u>

Cayman Islands Airports Authority
Notes to Financial Statements
June 30, 2007
(in Cayman Islands dollars)

7. Related Party Balances and Transactions (continued)

	2007	2006
Accounts Payable	\$	\$
Fire Service	567,836	1,836,356
Civil Aviation Authority	260,973	0
Other Departments	<u>131,596</u>	<u>60,193</u>
	<u>960,405</u>	<u>1,896,549</u>

Statement of income and expenditure

Income

Cayman Airways/Cayman Express	5,637,109	6,020,814
Civil Aviation Authority	1,010,973	1,476,000
Government Contribution – Runways, etc.	4,530,970	3,930,913
Government Contribution – National Weather Centre	<u>384,504</u>	<u>384,504</u>
	<u>11,563,556</u>	<u>11,812,231</u>

Expenses

Fire services	<u>4,530,970</u>	<u>3,930,913</u>
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Key Management

For the year ended June 30, 2007, CIAA had 7 key management personnel positions (2006: 7). Total compensation to key management personnel for the year amounted to \$645,556 (2006: \$600,136) representing salary, pension and other employee benefits.

8. Employee Pensions

Pension contributions for eligible employees of the Authority are paid to the Public Service Pensions Fund (the "Fund"). The Fund is administered by the Public Service Pensions Board (the "Pensions Board") and is operated as a multi-employer program. Prior to April 14, 1999 the Fund operated as a defined benefit plan. With effect from April 14, 1999 the Fund has both a defined benefit and a defined contribution element. Participants joining after April 14, 1999 are members of the defined contribution element.

Using the projected unit credit method of measuring costs and obligations, the actuarial assessment for the Authority assessed the minimum normal annual contribution to be 13% in 2006-7 and 2005-6. This rate included a 1% for the cost of all of the benefits that are provided over and above those related to the participant's total account balance. Certain participants are reimbursed for their contributions.

The Plans are funded at the following rates:

	<u>2007</u>	<u>2006</u>
Defined Contribution Plans - Employee	6%	6%
- Employer	7%	7%
Defined Benefit Plans - Employee	6%	6%
- Employer	7%	7%

Cayman Islands Airports Authority
Notes to Financial Statements
June 30, 2007
(in Cayman Islands dollars)

8. Employee Pensions (continued)

An actuarial valuation was conducted. The Actuary to the Pensions Board valued the Fund as at June 30, 2007. The defined contribution part of the Fund is not subject to an actuarial valuation due to the nature of the benefits provided therein.

The actuarial position is as follows:	30 June 2007 CIS000	30 June 2006 CIS000
Net Present Value of Funded Obligation, beginning of year	6,052	5,252
Fair Value of Plan Assets	2,578	2,318
Defined Benefit Liability	(3,474)	(2,934)
Unrecognised Actuarial Net Gains /(Losses)	108	(121)
Net Liability in Balance Sheet, end of year	(3,366)	(3,055)

Reconciliation of Defined Benefit Asset/ (Liability)	30 June 2007 CIS000	30 June 2006 CIS000
Defined Benefit Obligation at beginning of year	(3,055)	(2,692)
Net Pension (Expense)/Income for Fiscal Year	(421)	(521)
Employer Contributions	110	158
Defined Benefit Asset/(Liability)	(3,366)	(3,055)

Pension Expense for fiscal year ending:	30 June 2007 CIS000	30 June 2006 CIS000
Company Service Cost	265	320
Interest Cost	328	311
Expected Return on Assets (net)	(172)	(148)
Recognition of Net (Gain)/Loss	-	38
Total Pension Expense	421	521

Cayman Islands Airports Authority
Notes to Financial Statements
June 30, 2007
(in Cayman Islands dollars)

8. Employee Pensions (continued)

Change in Defined Benefit Obligation over year ending:	30 June 2007	30 June 2006
	CIS\$000	CIS\$000
Defined Benefit Obligation at beginning of year	5,252	5,992
Company Service Cost	265	320
Interest Cost	328	311
Plan Participant Contributions	95	112
Net Actuarial (Gain)/Loss	284	(1,262)
Transfers Between Other Participating Entities	(172)	(221)
Defined Benefit Obligation at End of Year	6,052	5,252

Change in Plan Assets over year ending	30 June 2007	30 June 2006
	CIS\$000	CIS\$000
Fair Value of Plan Assets at End of Prior Year	2,318	2,102
Employer Contributions	110	158
Plan Participant Contributions	95	112
Transfers Between Other Participating Entities	(172)	(221)
Expected Return on Assets (net)	172	148
Asset Gain/(Loss)	119	19
Other	(64)	-
Fair Value of Plan Assets at End of Year	2,578	2,318

Change in Unrecognized Net Actuarial Loss/(Gain)	30 June 2007	30 June 2006
	CIS\$000	CIS\$000
Unrecognized Net Actuarial Loss/(Gain)- beginning of year	(121)	1,198
Amortization Credit/(Cost) for Year	-	(38)
Liability Loss/(Gain)	284	(1,262)
Asset Loss/(Gain)	(55)	(19)
Unrecognized Net Actuarial Loss/Gain	108	(121)

The Distribution of the Plan Assets based on the share of the total Fund allocated to the Authority was as follows:-

	30 June 2007	30 June 2006
	%	%
Global Equities	59.00	47.80
Bonds	34.00	37.90
Other	0.00	3.80
Cash	7.00	4.60
Cash-Term Deposits	0.00	5.90

Cayman Islands Airports Authority
Notes to Financial Statements
June 30, 2007
(in Cayman Islands dollars)

8. Employee Pensions (continued)

The principal Actuarial Assumptions used to Determine Benefit Obligations at June 30, 2007 and 2006 are as follows:

	30 June 2007	30 June 2006
	%	%
Discount Rate	6.25	6.25
Rate of Salary Increase	4.00	4.00
Rate of Price Inflation	2.50	2.50
Rate of Pension Increases	2.50	2.50

The principal Actuarial Assumptions used to Determine Net Periodic Benefit Cost for the Year ending June 30, 2007 and 2006 are as follows:

	30 June 2007	30 June 2006
	%	%
Discount Rate	6.25	5.25
Expected long-term rate of return (net)	7.00	7.00
Expected long-term return on reimbursement rights	0.00	0.00
Rate of Salary increase	4.00	4.00
Rate of Price Inflation	2.50	2.50
Rate of Pension Increases	2.50	2.50

C. Other Assumptions –

1. Mortality – Standard U.S. mortality rates
2. Retirement Age – completion of age 57 and 10 years of service

D. Asset Valuation – Fair market value

9. Commitments

During the year, the Authority entered into a contract for architectural and engineering consulting services with a total value of \$5,475,818. Per the contract, the agreement may be terminated by the Authority upon not less than seven days written notice to the consultant for the owner's convenience and without cause and the consultant shall be compensated for services performed prior to termination. As at June 30, 2007, the authority is committed to \$4,546,617 under the contract within the years 2007/08 and 2008/9.

10. Financial Instruments

Credit risk

Credit risk is the risk that one party to a transaction will fail to discharge an obligation and cause the other party to incur a financial loss. Concentrations of credit risk relate to groups of customers or counter-

Cayman Islands Airports Authority
Notes to Financial Statements
June 30, 2007
(in Cayman Islands dollars)

10. Financial Instruments (Continued)

parties that have similar economic or industry characteristics that cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

Financial assets that potentially subject the Authority to credit risk consist principally of, trade receivables, and other receivables. Credit risk with respect to these receivables is limited because the Authority has a policy in place that is monitored by management on a consistent basis to ensure the timely collection of receivables. Accordingly, the Authority has no significant concentrations of credit risk.

Interest rate price risk

The Authority has loans with Government. Details of rates and maturities are presented in Note 7.

Interest rate cash flow risk

The Authority also has a loan with a local financial institution with a floating interest rate that is adjusted every six months to .75% above LIBOR rates.

Fair values

The carrying amount of cash deposits, accounts receivable, other receivables and accounts payables approximate their fair value due to their short-term maturities. Fair values are made at specific points 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 assumptions, economic conditions and other factors could cause significant changes in fair value estimates.

11. Contingent Liabilities

On February 25, 2008, a claim was filed against CIAA for personal injuries allegedly suffered on February 11, 2007 at the Owen Roberts International Airport. The CIAA filed a defense on March 14, 2008 denying liability and quantum. On November 20, 2008, attorneys representing the plaintiff offered to settle without prejudice in the amount of \$250,000. This offer was rejected by the CIAA as the claim remains unsubstantiated by any medical reports or other evidence. This type of claim is covered under CIAA's insurance policy.

12. Transfers to the Cayman Islands Government

Section 20 (3) of the *Airports Authority Law* states that the Authority shall make annual payments into the general reserves of the Islands, calculated by a formula determined by the Financial Secretary after consulting with the Authority and the Minister. For the year ended June 30, 2007, there were no consultations and the net income for the year was transferred to reserves.

13. Subsequent Events

Landscape and development contract

On July 24, 2007, the Authority entered into landscape and development contract for \$3,309,175. As at the date of the preparation of these financial statements, change orders had increased the contract value to \$3.5M.

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13. Subsequent Events Continued

Termination of contract

During the year, CIAA entered a contract for architectural and engineering consulting services with a total value of \$5.4M. At the date of these financial statements, \$3.3M has been invoiced and paid. CIAA is currently negotiating with the contractors with a view to exit the contract and may incur a penalty.