Financial Statements of

PORT AUTHORITY OF THE CAYMAN ISLANDS

June 30, 2006

PORT AUTHORITY OF THE CAYMAN ISLANDS

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June 30, 2006

STATEMENT OF RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements have been prepared by the Port Authority of the Cayman Islands in accordance with the provisions of the Public Management and Finance Law, (2005 Revision). The financial statements comply with generally accepted accounting practice as defined in International Public Sector Accounting Standards and International 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 my knowledge the statements are:

(a) complete and reliable;

(b) fairly reflect the financial position as at June 30, 2006 and performance for the financial year ended June 30, 2006; and

(c) comply with generally accepted accounting practice

Mr. Wayne Panton	*Mr. Paul Hurlston*
Chairman	*Port Director*
Port Authority of the Cayman Islands	*Port Authority of the Cayman Islands*
Date: December 17, 2008	Date: December 17 2008

Port Authority of the Cayman Islands

CERTIFICATE OF THE AUDITOR GENERAL

To the Members of the Port Authority of the Cayman Islands And the Financial Secretary of the Cayman Islands

I have audited the accompanying financial statements of the Port Authority, which comprise the balance sheets as at June 30, 2006, the statements of income, statements of changes in general reserve and statements 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 22 in accordance with the provisions of Section 4(7) of the Port Authority Law (1999 Revision), and Section 60(a) of the Public Management and Finance Law (2005 Revision).

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair representation 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 from 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. 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 and 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.

Limitation on Scope

We did not observe the counting of the physical inventories as of June 30, 2006, since that date was prior to the time we were fully engaged as auditors of the Authority. Owing to the nature of the company's records, we were unable to satisfy ourselves as to the inventory quantities by other audit procedures.

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the physical inventory quantities, the financial statements present fairly, in all material respects, the financial position of the Port Authority of the Cayman Islands as of June 30, 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Don Duguay

Dan Duguay, MBA, FCGA
Auditor General

Grand Cayman
January 14, 2009

PORT AUTHORITY OF THE CAYMAN ISLANDS

Balance Sheets

As at June 30, 2006
(stated in Cayman Islands dollars)

	Note		2006	2005
Current assets				
Cash and cash equivalents	3		4,998,763	7,141,244
Accounts receivable	5		1,202,563	1,411,135
Insurance claims receivable	4		341,656	1,249,102
Inventory			120,448	137,288
Prepaid expenses			89,839	45,735
Advances paid to contractor			449,888	471,560
Advances paid to related party			0	2,487
Other receivables and deposits			584,267	148,690
			7,787,424	10,607,241
Current liabilities				
Accounts payable and accrued expenses			997,771	1,480,744
Retention payable to contractor			240,315	261,987
Current portion of long term debt	8		1,979,756	2,045,233
Current portion of lease-purchase	9		44,280	284,705
			3,262,122	4,072,669
Working capital			4,525,302	6,534,572
Plant, property and equipment	6		36,391,841	34,429,410
Capital work in progress	7		17,167,918	14,017,089
Long term debt	8		(18,552,765)	(18,785,204)
Long term lease-purchase	9		0	(67,895)
Net assets		CI$	39,532,296	36,127,972
Represented by				
General reserve		CI$	39,532,296	36,127,972

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

Approved on behalf of the Board on December 17, 2008

Wayne Panton (Chairman)

Paul Hurlston (Port Director)

PORT AUTHORITY OF THE CAYMAN ISLANDS

Statements of Income

For the year ended June 30, 2006
(stated in Cayman Islands dollars)

	Note		2006	2005
Operating income				
Cargo handling			15,663,440	15,961,747
Cruise ship passenger fees			3,049,011	2,722,566
Port development fees			1,467,625	1,324,666
Maritime services			1,283,525	1,531,561
Other income			222,425	158,878
Rental income			115,892	115,892
Diesel income (net)			37,898	85,467
			21,839,816	21,900,777
Operating expenses				
Staff costs			12,069,182	10,271,176
Repairs and maintenance			1,688,188	1,985,001
Insurance			811,101	509,210
Contracted services			764,197	555,122
Utilities			387,715	325,311
Finance charges	8		325,811	324,381
Diesel			257,264	217,641
Miscellaneous			229,207	118,518
Rent			137,402	248,292
Stationery, supplies & computer supplies			105,918	95,715
Advertising and entertainment			54,287	46,878
Travel, conventions & training			39,661	19,281
			16,869,933	14,716,526
Net operating income			4,969,883	7,184,251
Other income / (expenses)				
Interest income			180,812	70,812
Other income			(3,726)	1,519,979
Gain (Loss) on disposal of fixed assets			4,610	(49,401)
Impairment of fixed assets	6		0	(80,000)
Loss on write down of capital work in progress	7		0	(387,281)
Depreciation	6		(1,394,952)	(1,281,232)
			(1,213,256)	(207,123)
Net income for year		CI$	3,756,627	6,977,128

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

PORT AUTHORITY OF THE CAYMAN ISLANDS

Statements of Changes in General Reserve

For the year ended June 30, 2006
(stated in Cayman Islands dollars)

	Note		2006	2005
General reserve at beginning of year			36,127,972	29,501,228
Net income for year			3,756,627	6,977,128
Distribution	9		(352,303)	(350,384)
General reserve at end of year		CI$	39,532,296	36,127,972

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

PORT AUTHORITY OF THE CAYMAN ISLANDS

Statements of Cash Flows

For the year ended June 30, 2006
(stated in Cayman Islands dollars)

	2006	2005
Cash provided by / (applied to):		
Operating activities		
Net income for year	3,756,627	6,977,128
Add items not affecting working capital:		
(Gain)/Loss on disposal of fixed assets	(4,610)	49,401
Depreciation	1,394,952	1,281,232
Impairment of fixed assets	0	80,000
Loss on write down of capital work in progress	0	387,281
Net changes in non-cash working capital balances relating to operations:		
Insurance claims receivable	907,446	(1,249,102)
Accounts receivable	208,572	(541,599)
Inventory	16,840	(60,654)
Prepaid expenses	(44,104)	350,089
Advances paid to contractor	21,672	(471,560)
Advances paid to related party	2,487	(2,487)
Other receivables	(435,577)	(114,560)
Accounts payable and accrued expenses	(482,973)	278,473
Retention payable to contractor	(21,672)	261,987
	5,319,660	7,225,629
Investing activities		
Net cost of property, plant and equipment	(2,977,178)	(3,309,008)
Net movement in capital work in progress	(3,526,422)	(8,114,284)
Other assets	0	17,111
	(6,503,600)	(11,406,181)

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

(Continued)

PORT AUTHORITY OF THE CAYMAN ISLANDS

Statements of Cash Flows (continued)

Year ended June 30, 2006
(stated in Cayman Islands dollars)

		2006	2005
Financing activities			
Repayment of long term debt		(2,304,339)	(2,045,233)
Proceeds from long term debt		2,006,421	8,492,122
Repayment of lease-purchase		(308,320)	(675,711)
Lease-purchase acquired		0	615,000
Distribution		(352,303)	(350,384)
		(958,541)	6,035,794
Increase in cash during year		(2,142,481)	1,855,242
Cash and cash equivalents at beginning of year		7,141,244	5,286,002
Cash and cash equivalents at end of year	CI$	4,998,763	7,141,244
Supplementary information on cash flows from operating activities:			
Interest received		182,583	66,863
Interest paid	CI$	319,251	314,374

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

1. Background information

The Port Authority of the Cayman Islands (the "Port Authority") is a statutory body established on September 15, 1976 under the Port Authority Law.

The Port Authority is principally engaged in the management of the maritime affairs of the Cayman Islands.

As at June 30, 2006 the Port Authority had 173 employees (2005: 181 employees). The Port Authority is located in the Port Authority Building on Harbour Drive, P.O. Box 1358 GT, Grand Cayman, Cayman Islands, B.W.I.

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 accounting

The financial statements of the Port Authority are prepared on an accrual basis under the historical cost convention.

The accounting policies have been applied consistently and are consistent with those used in the previous year. These financial statements are prepared for the year ended June 30, 2006 and are comparable to the financial statements prepared for the year ended June 30, 2005.

(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.

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(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) 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.

(iv) Specific instruments

Cash and cash equivalents

For the purposes of the statements 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 accruals basis. Interest income represents the interest earned on term deposits. Interest expense includes interest paid on long term debt and bank overdraft.

(v) 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.

2. Significant accounting policies (continued)

(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:

Land	Nil
Buildings	4% per annum
Marine Dock	2% per annum
Other fixed assets	2% - 20% per annum

(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 ruling 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 ruling 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 ruling 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 ruling 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.

2. Significant accounting policies (continued)

(h) Inventory

Inventory is 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 of income when the rendering of a service is completed or substantially completed, and the customer is invoiced.

(j) Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

(k) Pensions and other post-retirement benefits

The Port Authority participates in the Silver Thatch Pension Plan, a defined contribution pension fund, in accordance with the Cayman Islands National Pension Law. The Port Authority makes monthly contributions at a rate of 5% and 10% of an employee's salary depending on the employee's position. Contributions are charged to expenses as they are incurred based on set contribution rates. Total contributions for 2006 were CI$952,885 (2005: CI$652,485).

3. Cash and cash equivalents

	2006	2005
Unrestricted bank balances	645,069	788,285
Restricted bank balances	4,353,694	6,352,959
	CI$ 4,998,763	7,141,244

Restricted bank balances

Fixed deposits included in restricted bank balances mature in July 2006 with interest rates ranging from 4.00% to 4.90625%.

Management has placed restrictions on the use of certain bank balances in case of an emergency. The emergency fund is intended to cover the cost of the deductible on the Port Authority's property insurance (US$2,000,000) plus a contingency to cover any additional losses.

4. Insurance claim receivable

In September 2004, the Port Authority suffered substantial damage to its property and equipment and inventory as a result of Hurricane Ivan.

At June 30, 2006 CI$341,656 (2005: CI$1,249,102) was due from the insurers for the significant damages from Hurricane Ivan in 2004 all of which has subsequently been received by the Port Authority.

5. Accounts receivable

		2006	2005
Accounts receivable		1,320,178	1,498,708
Allowance for bad debts		(117,615)	(87,573)
	CI$	1,202,563	1,411,135

6. Plant, property and equipment

		Land	Docks and Buildings	Other Assets	Total
Cost:					
At beginning of year		12,800,778	21,064,349	10,612,913	44,478,040
Additions during year		1,336,544	1,188,196	906,039	3,430,779
Disposals during year		0	(6,094)	(426,025)	(432,119)
		14,137,322	22,246,451	11,092,927	47,476,700
Accumulated depreciation:					
At beginning of year		0	5,549,904	4,497,110	10,047,014
Charge for year		0	707,824	687,128	1,394,952
Disposals during year		0	(2,738)	(354,369)	(357,107)
		0	6,254,990	4,829,869	11,084,859
Net book value:					
June 30, 2006	CI$	14,137,322	15,991,461	6,263,058	36,391,841
June 30, 2005	CI$	12,777,115	15,111,860	6,540,435	34,429,410

7. Capital work in progress

The upgrading of the George Town cruise facilities was completed in October 2006, and the total expenditure was capitalised at that time. These fixed assets will be depreciated on a straight line basis over their future economic lives. An amount of $ 649,363 was incurred on the project subsequent to the year end.

		Costs to June 30, 2006	Additional costs to completion
George Town cruise/cargo facilities	CI$	17,167,918	649,363

8. Long term debt

		2006	2005
(a) Cayman Islands Government			
-Grand Cayman (1)		269,438	323,330
-Grand Cayman (2)		30,441	40,588
-Cayman Brac (3)		516,189	585,015
(b) Commercial bank loans		19,716,453	19,881,504
		20,532,521	20,830,437
Less current portion of long term debt		(1,979,756)	(2,045,233)
	CI$	18,552,765	18,785,204

(a) Cayman Islands Government loans

The three loans from the Cayman Islands Government, two for Grand Cayman and one for Cayman Brac port facilities are denominated in Cayman Islands dollars, are unsecured, interest free, and are repayable in annual and semi-annual instalments until the years 2011[(1)], 2009[(2)] and 2013[(3)], respectively.

(b) Commercial bank loans comprise:

	2006	2005
CI$1,320,000 loan for construction of cruise ship tender facilities, secured by a first charge over the facilities, bearing interest of CI$ Prime (8.25% as at 30 June 2006), and repayable in monthly instalments until July 31, 2008	88,367	316,487
CI$1,500,000 loan for the purchase of land, secured by a first charge over the property acquired, bearing interest at CI$ Prime. This was fully repaid during the financial year.	0	126,222
CI$1,826,197 (US$2,227,070) loan to purchase a crane, secured by a charge over the property acquired bearing interest of LIBOR (5.76% as at 30 June 2006) plus 1%, and repayable in monthly instalments until May 31, 2008	326,533	642,848
Carried forward	414,900	1,085,557

8. Long term debt (continued):

b) Commercial bank loans comprise (continued):

		2006	2005
Brought forward		414,900	1,085,557
CI$1,500,000 loan for the purchase of land, secured by a first charge over the property acquired bearing interest at CI$ Prime (8.25% as at 30 June 2006), and repayable in monthly instalments until February 28, 2008. This was settled during the financial year.		0	21,371
CI$6,000,000 loan for permanent cruise ship moorings, unsecured bearing interest of CI$ Prime (8.25% as at 30 June 2006), and repayable in monthly instalments until December 18, 2007*		46,695	136,062
CI$3,444,000 (US$4,200,000) loan for the purchase of the Fort building bearing interest of LIBOR (5.76% as at 30 June 2006) plus 1%, and repayable in monthly instalments until June 2008		1,426,987	1,728,486
CI$4,510,000 (US$5,500,000) loan for the George Town Dock Rehabilitation bearing interest of LIBOR (5.76% as at 30 June 2006) plus 1.5%, and repayable in monthly instalments until March 2014		3,504,642	3,865,944
CI$14,350,000 (US$17,500,000) for the Royal Watler Terminal and bearing interest of LIBOR (5.76% as at 30 June 2006) plus 1.5% and repayable in monthly instalments starting from May 1, 2005 until May 1, 2009		13,655,647	12,343,577
CI$6,970,000 (US$8,500,000) for the acquisition of properties in West Bay and for the construction, the fit out cost to be incurred in connection with the construction of a new passenger terminal, pier and commercial buildings on the properties and the construction of a sea wall, bearing interest of LIBOR (5.76% as at 30 June 2006) plus 1.5% and repayable in monthly instalments starting from August 1, 2005 until August 1, 2009 **		667,582	700,507
	CI$	19,716,453	19,881,504

Included in operating expenses for the year ended June 30, 2006 is interest expense of CI$319,251 (2005 CI$314,374) relating to these loans.

* At December 31, 1997 CI$630,000 was drawn on the loan facility for the permanent moorings to fund contributions to the Cayman Islands Government. Subsequent to December 31, 1997 the Port Authority decided to abandon this project. Consequently, the full loan amount was not borrowed.

** At June 30, 2005 CI$700,507 was drawn down on the loan facility for the acquisition of properties in West Bay. Subsequent to June 30, 2005 the Port Authority decided to abandon this project, and therefore the full loan amount was not borrowed.

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, 2006, the Port Authority made payments of CI$350,000 and waived port fees of CI$2,303, bringing the total contributions to CI$352,303 (2005: CI$350,384), being 9% (2005: 12%) of the year's net income to the general revenue of the Cayman Islands Government.

b) Leases

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

c) Lease-purchase agreement

During 2005 the Port Authority entered into a purchase agreement for a crane for CI$615,000 (US$750,000). The net carrying value of the crane is CI$582,200 at June 30, 2006. Payment terms are US$350,000 when the crane was received and 10 monthly payments of US$40,000. Title of the crane transferred to the Port Authority upon final payment.

The lease payment remaining for the lease above is as follows:

Year ending June 30		
2007		44,280
2008		0
	CI$	44,280

d) Marina development

With contributed land, the Port Authority has entered into a draft unsigned agreement with the Ritz Carlton Grand Cayman Resort to develop a public marina and associated facilities to enhance the local boating community.

e) Port development agreement development for the Royal Watler Terminal and West Bay Cruise facilities

During the year ended December 31, 2003, the Port Authority entered into an agreement with the Florida-Caribbean Cruise Association ("FCCA") whereby, commencing January 1, 2004 the FCCA will contribute each quarter CI$0.82 (US$1) per passenger for all port calls to the Cayman Islands by FCCA member cruise lines, to repay the loan for the development of both the George Town and West Bay cruise facilities.

9. Contingencies and commitments (continued)

e) On March 11, 2004, the Port Authority and a local lending institution entered into an agreement for the financing of the development of both the George Town and West Bay cruise facilities, for a total of US$26 million. The West Bay cruise facility was abandoned subsequent to June 30, 2005 (see note 13).

f) Port development agreement for the Royal Watler Cruise Terminal.

On March 16, 2004, the Port Authority entered into a CI$8.4 (US$10.2) million contract with Misener Marine Construction Inc., for the marine works portion of the development of the Royal Watler Cruise Terminal in George Town.

On May 28, 2004, the Port Authority entered into a CI$6.3 million contract with Hurlstone, Ltd. for the land based works portion of the development of the Royal Watler Cruise Terminal in George Town. The Royal Watler Cruise Terminal was completed in October 2006.

g) Unsettled judgement against the Port Authority

A personal injuries suit was brought against the Port Authority. Negotiations towards settlement were conducted without a settlement. This suit has not been settled and management do not expect the claim to have a material effect upon the Authority's financial position.

10. Related party transactions

The Port Authority engages the services of various departments of the Cayman Islands Government. Such services are provided on an arms length basis.

Insurance coverage for property, motor, workers compensation and other risks is provided through the Cayman Islands Government for an annual premium of CI$811,101 (2005: CI$973,227).

Mr Robert Foster, a Director of the Port Authority is also the Manager of the Cayman Freight and Shipping Services. As at June 30, 2006, there was account receivable balance from Cayman Freight and Shipping service of $56,500. All transactions in the year were completed on an arms length basis.

11. Lines of credit

The Port Authority has a revolving demand credit line for general business purposes in the amount of CI$250,000. Interest rate on the line of credit is CI$ Prime. This credit facility was not drawn down at June 30, 2006.

The Port Authority has a bank overdraft facility up to CI$250,000 (US$305,000) bearing interest at 1.5% above LIBOR. As at June 30, 2006, this credit facility has not been used. In addition, the Port Authority has a corporate visa with a credit limit of CI$24,600 (US$30,000). At June 30, 2006 the outstanding balance was CI$1,070 (US$1,305).

12. Subsequent events

(a) Insurance claims

The total Insurance Claims made for damages caused by Hurricane Ivan to Buildings, Vehicles and Heavy Equipment is in the amount of CI$2,052,628. The Estimated Insurance Settlement, is CI$1,519,979, with deductibles of CI$532,649. As at June 30, 2006 the total sum received was CI$1,178,323 with a further sum of CI$341,656 being received in July 2006. The C.I. Government Risk Management Department advised that the last amount paid in July 2006 represented the final payment as regards the insurance settlement.

(b) Royal Walter Cruise Terminal

The Former Chairman of the Board sent allocation letters to potential tenants which were not authorised by the Board. This resulted in an over allocation of available space.

Legal opinion was sought from legal counsel who concluded that the Port Authority was not contractually bound by the original allocation and a decision was made to re-allocate the available spaces. Subsequently, one of the persons who received an initial allocation letter brought a Writ against the Port Authority regarding the previous allocation. The Grand Court ruled in favour of the Port Authority. Management expects no loss to result from any subsequent action which may arise from this matter.

13. Fair value disclosure of financial instruments

At June 30, 2006 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/insurance claims receivable/other receivables/other assets /accounts payable and accrued expenses/advances paid to contractor/related party/retention payable to contractor

The above items are substantially short term, and do not bear interest. As such, their carrying amount approximates their fair value.

13. Fair value disclosure of financial instruments (continued)

(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 as it would not provide any additional relevant information.

All other loans are floating rate and, therefore, 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 assumptions could significantly affect the estimates.

14. Financial instruments and associated risks

The Port Authority's activities expose it to various types of risk. The most important types of financial risk to which the Port Authority is exposed are credit and interest rate risk.

(a) Concentration of credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted. To reduce exposure to credit risk, the Port Authority performs ongoing credit evaluations of the financial condition of its customers but generally does not require collateral. The Port Authority invests available cash and cash equivalents with various banks. The Port Authority is exposed to credit-related losses in the event of non-performance by counterparties to these financial instruments. However, management does not expect the counterparties to fail to meet their obligations.

(b) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Port Authority holds long-term debts and cash and cash equivalents that are interest bearing and as a result the Port Authority is subject to risk due to fluctuations in the prevailing levels of market interest rates in relation to these financial instruments. The scheduled maturity dates and interest rates of the long-term debts and cash and cash equivalents are presented in notes 3 and 8.

Schedule - 1

PORT AUTHORITY OF THE CAYMAN ISLANDS

Branch Balance Sheets

June 30, 2006
(stated in Cayman Islands dollars)

		Grand Cayman	Cayman Brac	Total
Current assets				
Cash and cash equivalents		5,003,268	(4,505)	4,998,763
Accounts receivable		1,152,139	50,424	1,202,563
Insurance claims receivable		341,656	0	341,656
Inventory		120,448	0	120,448
Prepaid expenses		89,839	0	89,839
Advances paid to contractor		449,888	0	449,888
Other Receivables		530,415	53,852	584,267
		7,687,653	99,771	7,787,424
Current liabilities				
Accounts payable and accrued expenses		993,531	4,240	997,771
Retention payable		240,315	0	240,315
Current portion of long term debt		1,910,930	68,826	1,979,756
Current portion of lease-purchase		44,280	0	44,280
		3,189,056	73,066	3,262,122
Working capital		4,498,597	26,705	4,525,302
Plant, property and equipment		31,487,995	4,903,846	36,391,841
Capital work in progress		17,167,918	0	17,167,918
Long term debt		(18,105,402)	(447,363)	(18,552,765)
Long term lease-purchase				
Net assets	CI$	35,049,108	4,483,188	39,532,296
Represented by				
General reserve		41,770,058	(2,237,762)	39,532,296
Interbranch account		(6,720,950)	6,720,950	0
	CI$	35,049,108	4,483,188	39,532,296

Schedule - 2

PORT AUTHORITY OF THE CAYMAN ISLANDS

Branch Statements of Income and General Reserve

Year ended June 30, 2006
(stated in Cayman Islands dollars)

		Grand Cayman	Cayman Brac	Total
Operating income		21,264,453	459,472	21,723,925
Operating expenses		(16,234,276)	(635,657)	(16,869,933)
		5,030,177	(176,185)	4,853,992
Other income/ (expenses)				
Other income		(3,726)	0	(3,726)
Interest income		180,812	0	180,812
Rental Income		115,892	0	115,892
Loss on disposal of fixed assets		4,609	0	4,609
Impairment loss on fixed assets		0	0	0
Loss on write down of capital work in progress		0	0	0
Depreciation		(1,266,497)	(128,455)	(1,394,952)
		(968,910)	(128,455)	(1,097,365)
Net income/(loss) for year		4,061,267	(304,640)	3,756,627
General reserve/ (deficit) at beginning of year		38,061,094	(1,933,122)	36,127,972
Distribution		(352,303)	0	(352,303)
General reserve at end of year	CI$	41,770,058	(2,237,762)	39,532,296