



Financial Statements of

**PORT AUTHORITY OF THE
CAYMAN ISLANDS**

June 30, 2007

PORT AUTHORITY OF THE CAYMAN ISLANDS

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Port Authority of the Cayman Islands
Financial Statements
June 30, 2007

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 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, 2007 and performance for the financial year ended June 30, 2007; and
- (c) comply with generally accepted accounting practice



Mr. Stefan Baraud
Chairman
Port Authority of the Cayman Islands

Date: *Sept 3, 2009*



Mr. Paul Hurlston
Port Director
Port Authority of the Cayman Islands

Date: *Sept 3, 2009*



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 sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow for the year then ended and a summary of significant accounting policies and other explanatory notes as set out on pages 4 to 21 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 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 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 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 Port Authority of the Cayman Islands as of 30 June 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Garnet Harrison, CA
Acting Auditor General

Cayman Islands
September 03, 2009

PORT AUTHORITY OF THE CAYMAN ISLANDS

Balance Sheets

June 30, 2007

(stated in Cayman Islands dollars)

	Note	2007	2006
Current assets			
Cash and cash equivalents	3	5,952,974	4,998,763
Accounts receivable	5	1,299,788	1,202,563
Insurance claims receivable	4	0	341,656
Inventory		109,839	120,448
Prepaid expenses		997,961	89,839
Advances paid to contractor		0	449,888
Other receivables and deposits		132,146	584,267
		8,492,708	7,787,424
Current liabilities			
Accounts payable and accrued expenses		2,770,130	997,771
Retention payable to contractor		0	240,315
Current portion of long term debt	8	1,623,291	1,979,756
Current portion of lease-purchase		0	44,280
		4,393,421	3,262,122
Working capital		4,099,287	4,525,302
Plant, property and equipment	6	52,979,035	36,391,841
Capital work in progress	7	1,465,442	17,167,918
Long term debt	8	(17,120,527)	(18,552,765)
Net assets	CI\$	41,423,237	39,532,296
Represented by			
General reserve	CI\$	41,423,237	39,532,296

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

Approved on behalf of the Board on

Stefan Baraud (Chairman)

Paul Hurlston (Port Director)

PORT AUTHORITY OF THE CAYMAN ISLANDS

Statements of Income

Year ended June 30, 2007

(stated in Cayman Islands dollars)

	Note	2007	2006
Operating income			
Cargo handling		15,727,180	15,663,440
Cruise ship passenger fees		3,146,811	3,049,011
Port development fees		1,532,915	1,467,625
Maritime services		1,094,323	1,283,525
Rental income		284,902	115,892
Other income		341,203	222,425
Diesel income (net)	15	135,341	37,898
		22,262,675	21,839,816
Operating expenses			
Staff costs		12,093,790	12,069,182
Repairs and maintenance		1,427,027	1,688,188
Finance charges	8	1,079,174	325,811
Insurance		1,001,459	811,101
Contracted services		896,536	764,197
Utilities		439,867	387,715
Diesel		240,823	257,264
Travel, conventions & training		183,287	39,661
Stationery, supplies & computer supplies		81,173	105,918
Advertising and entertainment		77,823	54,287
Miscellaneous		77,576	229,207
Rent		36,250	137,402
		17,634,785	16,869,933
Net operating income		4,627,890	4,969,883
Other income / (expenses)			
Interest income		217,863	180,812
Other income/ (expense)		(3,600)	(3,726)
Gain (Loss) on disposal of fixed assets		(21,493)	4,610
Depreciation	6	(1,929,719)	(1,394,952)
		(1,736,949)	(1,213,256)
Net income for year	CI\$	2,890,941	3,756,627

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

PORT AUTHORITY OF THE CAYMAN ISLANDS

Statements of Changes in General Reserve

Year ended June 30, 2007

(stated in Cayman Islands dollars)

	Note	2007	2006
General reserve at beginning of year		39,532,296	36,127,972
Net income for year		2,890,941	3,756,627
Distribution	9	(1,000,000)	(352,303)
General reserve at end of year	CI\$	41,423,237	39,532,296

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

PORT AUTHORITY OF THE CAYMAN ISLANDS

Statements of Cash Flows

Year ended June 30, 2007

(stated in Cayman Islands dollars)

	2007	2006
Cash provided by / (applied in):		
Operating activities		
Net income for year	2,890,941	3,756,627
Add items not affecting working capital:		
Loss (Gain) on disposal of fixed assets	21,493	(4,610)
Depreciation	1,929,719	1,394,952
Net changes in non-cash working capital		
balances relating to operations:		
Insurance claims receivable	341,656	907,446
Accounts receivable	(97,225)	208,572
Inventory	10,609	16,840
Prepaid expenses	(908,122)	(44,104)
Advances paid to contractor	449,888	21,672
Advances paid to related party	0	2,487
Other receivables	452,121	(435,577)
Accounts payable and accrued expenses	1,772,360	(482,973)
Retention payable to contractor	(240,315)	(21,672)
	6,623,125	5,319,660
Investing activities		
Net cost of property, plant and equipment	(685,737)	(2,977,178)
Net movement in capital work in progress	(2,150,193)	(3,526,422)
	(2,835,930)	(6,503,600)

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, 2007

(stated in Cayman Islands dollars)

	2007	2006
Financing activities		
Repayment of long term debt	(1,788,704)	(2,304,339)
Proceeds from long term debt	0	2,006,421
Repayment of lease-purchase	(44,280)	(308,320)
Distribution	(1,000,000)	(352,303)
	(2,832,984)	(958,541)
Increase in cash during year	954,211	(2,142,481)
Cash and cash equivalents at beginning of year	4,998,763	7,141,244
Cash and cash equivalents at end of year	CI\$ 5,952,974	4,998,763
Supplementary information on cash flows from operating activities:		
Interest received	217,863	182,583
Interest paid	CI\$ 1,053,400	319,251

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

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to Financial Statements

June 30, 2007

(stated in Cayman Islands dollars)

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, 2007 the Port Authority had 164 employees (2006: 173 employees). The Port Authority is located in the Port Authority Building on Harbour Drive, P.O. Box 1358 GT, Grand Cayman, Cayman Islands.

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 accruals 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.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to Financial Statements (continued)

June 30, 2007

(stated in Cayman Islands dollars)

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.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to Financial Statements (continued)

June 30, 2007

(stated in Cayman Islands dollars)

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.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to Financial Statements (continued)

June 30, 2007

(stated in Cayman Islands dollars)

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 2007 were CI\$959,958 (2006: CI\$952,885).

3. Cash and cash equivalents

	2007	2006
Unrestricted bank balances	1,087,267	645,069
Restricted bank balances	4,865,707	4,353,694
	CI\$ 5,952,974	4,998,763

Restricted bank balances

Fixed deposits included in restricted bank balances mature in July 2007 with interest rates ranging from 4.65% to 5.00%.

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.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to Financial Statements (continued)

June 30, 2007

(stated in Cayman Islands dollars)

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, 2007 \$0 (2006: CI\$341,656) 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

	2007	2006
Accounts receivable	1,447,770	1,320,178
Allowance for bad debts	(147,982)	(117,615)
	CI\$ 1,299,788	1,202,563

6. Plant, property and equipment

	Land	Docks and Buildings	Other Assets	Total
Cost:				
At beginning of year	14,137,322	22,246,451	11,092,927	47,476,700
Additions during year	27,167	18,159,271	351,591	18,538,029
Disposals during year	0	0	(35,535)	(35,535)
	14,164,489	40,405,722	11,408,983	65,979,194
Accumulated depreciation:				
At beginning of year	0	6,269,080	4,815,779	11,084,859
Charge for year	0	1,122,077	807,642	1,929,719
Disposals during year	0	0	(14,419)	(14,419)
	0	7,391,157	5,609,002	13,000,159
Net book value:				
June 30, 2007	CI\$ 14,164,489	33,014,565	5,799,981	52,979,035
June 30, 2006	CI\$ 14,137,322	15,977,371	6,277,148	36,391,841

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to Financial Statements (continued)

June 30, 2007

(stated in Cayman Islands dollars)

7. Capital work in progress

Capital work in progress relates to expenses incurred in connection with the following:

	Note	Costs to June 30, 2007	Additional costs to completion
George Town cruise/cargo facilities (RWCT)		18,481,149	
Transfers to Fixed Assets (RWCT)	7 (a)	<u>(17,845,075)</u>	
Net CWIP for RWCT		636,074	519,295
Marine contracting services		356,888	92,430
Forklift refurbishment		130,576	117,424
Cruise Terminal expansion project (Consultancy)	7 (b)	23,365	On going
Website re-designs		52,700	9,300
Bunker project	7 (c)	19,551	On hold
CDC Office extension		246,288	246,238
	CI\$	1,465,442	

7(a) Transfers to Fixed Assets

The Royal Watler Cruise Terminal was completed in October 2006. However, upgrades were required to satisfy building code requirements as well as to improve the usability of the facility. The transfers to fixed assets represent the completed portion of the works which are separate and distinguishable from the improvements required.

7 (b) Cruise Terminal expansion project (Consultancy)

The Authority engaged the services of a consulting firm on a hourly fee basis, to determine the method of financing that would be most appropriate for the further development and expansion of the cruise terminal and cargo facilities. This project is ongoing and the Authority will continue to incur costs of which the total is unknown at this time.

7 (c) Bunker Project

The Authority commenced work on a radio antenna building. This project was put on hold as other projects were deemed to be of greater priority, and it is anticipated that this project will be completed in the future.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to Financial Statements (continued)

June 30, 2007

(stated in Cayman Islands dollars)

8. Long term debt

	2007	2006
(a) Cayman Islands Government		
-Grand Cayman ⁽¹⁾	215,545	269,438
-Grand Cayman ⁽²⁾	20,294	30,441
-Cayman Brac ⁽³⁾	447,364	516,189
(b) Commercial bank loans	18,060,615	19,716,453
	18,743,818	20,532,521
Less current portion of long term debt	(1,623,291)	(1,979,756)
	CI\$ 17,120,527	18,552,765

(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:

	2007	2006
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 2007), and repayable in monthly instalments until July 31, 2008	0	88,367
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 (5.36% as at 30 June 2007) plus 1%, and repayable in monthly instalments until May 31, 2008	20,740	326,533
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*	0	46,695
Carried forward	20,740	461,595

8. Long term debt (continued):

b) Commercial bank loans comprise (continued):

	2007	2006
Brought forward	20,740	461,595
CI\$3,444,000 (US\$4,200,000) loan for the purchase of the Fort building bearing interest of LIBOR (5.36% as at 30 June 2007) plus 1%, and repayable in monthly instalments until June 2008	1,125,939	1,426,987
CI\$4,510,000 (US\$5,500,000) loan for the George Town Dock Rehabilitation bearing interest of LIBOR (5.36% as at 30 June 2007) plus 1.5%, and repayable in monthly instalments until March 2014	3,165,062	3,504,642
CI\$14,350,000 (US\$17,500,000) for the Royal Watler Terminal and bearing interest of LIBOR (5.36% as at 30 June 2007) plus 1.5% and repayable in monthly instalments starting from May 1, 2005 until May 1, 2009	13,108,707	13,655,647
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 **	640,167	667,582
	CI\$ 18,060,615	19,716,453

Included in operating expenses for the year ended June 30, 2007 is interest expense of CI\$1,079,174 (2006 CI\$325,811) 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. The Port Authority has 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. The Port Authority has 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.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to Financial Statements (continued)

June 30, 2007

(stated in Cayman Islands dollars)

9. Contingencies and commitments (continued)

During the year ending June 30, 2007, the Port Authority made total contributions of CI\$1,000,000 (2006: CI\$352,303), being 35% (2006: 9%) 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) Marina development

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

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\$1,001,459 (2006: CI\$811,101).

Mr Robert Foster, a Director of the Port Authority is also the Manager of the Cayman Freight and Shipping Services. As at June 30, 2007, there was account receivable balance from Cayman Freight and Shipping service of \$104,834. All transactions in the year were completed on an arms length basis.

Key Management Personnel

There are three full time personnel considered at the senior management level. The total remuneration includes: regular salary, pension contribution, health insurance contributions, and bonuses. Total remuneration for senior management in 2006/7 was \$608,429 (2005/6 \$565,077).

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, 2007.

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, 2007, 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, 2007 the outstanding balance was CI\$11,449 (US\$13,962).

12. Subsequent events

(a) Insurance claims – Hurricane Paloma

Hurricane Paloma caused severe destruction to the Port Authority's infrastructure in Cayman Brac in November 2008. The total insurance claims made for damages were \$1,125,433. At the date of this report a determination was not made regarding the final settlement to be made by the Insurance Company. However, an interim payment of \$562,717 was received by the Port Authority on March 12, 2009.

(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.

(c) Employee Claims

Two former employees of the Port Authority brought action against the Authority for negligence due to injuries sustained while within the employ of the Authority. These were settled by the Authority's insurance company in favour of the claimants. Management expects no payout from the funds of the Port Authority as a result from these claims or from any further action which may arise from these matters.

13. Fair value disclosure of financial instruments

At June 30, 2007 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.

(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.

15. Diesel Income

Diesel income shown net in the Statements of Income was obtained by the following:

	<u>2007</u>	<u>2006</u>
Total diesel sales	536,989	291,061
Total diesel cost of sales	<u>401,648</u>	<u>253,163</u>
Net Income from Diesel sales	CI\$ <u>135,341</u>	<u>37,898</u>

Schedule - 1

PORT AUTHORITY OF THE CAYMAN ISLANDS

Branch Balance Sheets

June 30, 2007

(stated in Cayman Islands dollars)

	Grand Cayman	Cayman Brac	Total
Current assets			
Cash and cash equivalents	5,873,994	78,980	5,952,974
Accounts receivable	1,236,457	63,331	1,299,788
Inventory	109,839	0	109,839
Prepaid expenses	995,610	2,351	997,961
Other receivables and deposits	132,146	0	132,146
	8,348,046	144,662	8,492,708
Current liabilities			
Accounts payable and accrued expenses	2,759,111	11,019	2,770,130
Current portion of long term debt	1,554,465	68,826	1,623,291
	4,313,576	79,845	4,393,421
Working capital	4,034,470	64,817	4,099,287
Plant, property and equipment	48,109,663	4,869,372	52,979,035
Capital work in progress	1,372,290	93,152	1,465,442
Long term debt	(16,741,990)	(378,537)	(17,120,527)
Net assets	CI\$ 36,774,433	4,648,804	41,423,237
Represented by			
General reserve	43,898,187	(2,474,950)	41,423,237
Interbranch account	(7,123,754)	7,123,754	0
	CI\$ 36,774,433	4,648,804	41,423,237

PORT AUTHORITY OF THE CAYMAN ISLANDS

Branch Statements of Income and General Reserve

Year ended June 30, 2007

(stated in Cayman Islands dollars)

	Grand Cayman	Cayman Brac	Total
Operating income	20,980,187	656,383	21,636,570
Operating expenses	(16,894,298)	(740,487)	(17,634,785)
	4,085,889	(84,104)	4,001,785
Other income/ (expenses)			
Other income	341,203	0	341,203
Rental income	284,902	0	284,902
Interest Income	217,863	0	217,863
Other Expense	(3,600)	0	(3,600)
Loss on disposal of fixed assets	(21,493)	0	(21,493)
Depreciation	(1,776,635)	(153,084)	(1,929,719)
	(957,760)	(153,084)	(1,110,844)
Net income/ (loss) for year	3,128,129	(237,188)	2,890,941
General reserve/ (deficit) at beginning of year	41,770,058	(2,237,762)	39,532,296
Distribution	(1,000,000)	0	(1,000,000)
General reserve at end of year	CI\$ 43,898,187	(2,474,950)	41,423,237