



**OWNERSHIP AGREEMENT  
ANNUAL REPORT**

**For**

***Information & Communications Technology  
Authority***

***For the 2005/6 Financial Year***

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## **1. Purpose**

This annual report details the performance of the Information & Communications Technology Authority for the fiscal year ending 30 June 2006.

It includes information about the actual performance delivered during the year as compared to the planned performance documented in the Ownership Agreement for Information & Communications Technology Authority for 2005/6, or as amended through the supplementary appropriation process.

## **2. Nature and Scope of Activities**

This section outlines the Nature and Scope of Activities within which Information & Communications Technology Authority operated during the year.

### **Approved Nature and Scope of Activities**

#### **General Nature of Activities**

The Information and Communications Technology (ICT) Authority was established in May 2002 by the Information and Communications Technology Authority Law 2002 (now the Information and Communications Technology Authority Law (2004 Revision)). Its powers and functions are specified in Sections 9 and 10 of that Law, and may be summarised as doing all things necessary or convenient to properly regulate and license the ICT sector in the Cayman Islands. The ICT sector includes, but is not limited to, telecommunications, broadcasting, radio, e-business and the .ky Internet domain. The Authority is also to act on any matter referred to it by the Minister responsible for ICT, or the managing director.

It also collects and verifies on behalf of Government the coercive element of all licence fees, and immediately deposits such fees in a Government bank account.

#### **Scope of Activities**

The scope of *Information & Communications Technology Authority* activities is as follows:

- (a) allocate the electromagnetic spectrum for facilities and specified services within the Cayman Islands, or between the Cayman Islands and elsewhere;
- (b) determine methods for assigning the electromagnetic spectrum;
- (c) issue licences authorising the use of specified portions of the electromagnetic spectrum, including those used on any ship, aircraft, vessel, or other floating or airborne contrivance or spacecraft registered in the Islands;
- (d) institute procedures for ensuring the compliance by licensees with any obligations regarding the use of the electromagnetic spectrum, imposed by or under the licence, any provisions of the ICTA Law or any regulations made hereunder.
- (e) to promote competition in the provision of ICT services and ICT networks where it is reasonable or necessary to do so;
- (f) to advise the Minister on ICT matters, including compliance with Government's international obligations, market liberalisation and competitive pricing;
- (g) to investigate and resolve complaints from consumers and service providers concerning the provision of ICT services and ICT networks;
- (h) to determine the categories of licences to be issued under the ICTA Law and the Electronic Transactions Law 2000;
- (i) to license and regulate ICT services and ICT networks as specified in the ICTA Law and the Electronic Transactions Law 2000;
- (j) to collect all fees, including licence fees, and any other charges levied under the ICTA Law or the Electronic Transactions Law 2000 or regulations made thereunder;

- (k) to resolve disputes concerning the interconnection or sharing of infrastructure between or among ICT service providers or ICT network providers;
- (l) to promote and maintain an efficient, economic and harmonised ICT infrastructure;
- (m) to be the sole person appointed under the ICTA Law to be the Administrative Point of Contact and the only person responsible for the management and control of the top level of the global Internet Domain Name System held in trust for the Internet and the Islands;
- (n) to act on any matter referred to it by the Minister or the managing director; and
- (o) to carry out such other functions as are conferred on the Authority by or under the ICTA Law or any other Law.

In addition, the Authority may regulate the rate, prices, terms and conditions of any ICT service or ICT network that is required to be licensed where the Authority is of the opinion that it is in the interests of the public to do so.

### **Customers and Location of Activities**

The Authority's customers are the Government, all residents of and visitors to the Cayman Islands, potential and actual licensees of ICT networks or ICT services originating or terminating in the Cayman Islands, the owners of any ship, aircraft, vessel or other floating or airborne contrivance or spacecraft registered in the Cayman Islands, and all potential or actual registrants in the .ky Internet domain.

### **Compliance during the Year**

The Authority complied with the Nature and Scope of Activities specified above.

### **3. Strategic Goals and Objectives**

#### **Approved Strategic Goals and Objectives**

The key strategic goals and objectives (from an ownership perspective) for the *Information & Communications Technology Authority* for the 2005/6 financial year are as follows:

- Contribute to the social property of the Cayman Islands by increasing access to a variety of innovative, high-quality ICT services, at reasonable prices, that meet the consumers' needs and reflect their values.
- Contribute to the economic prosperity of the Cayman Islands by encouraging the development of a sustainable competitive ICT industry.
- Contribute to the protection of consumers in the Cayman Islands by enhancing existing legislation or assisting with the development of new legislation.
- Maintain and enhance a regulatory environment that is fair, equitable, and transparent by:
  - o Undertaking public consultation on relevant regulatory issues on a timely basis.
  - o Resolving as quickly as possible any disputes between ICT suppliers concerning interconnection, infrastructure sharing, resale tariffs and other technical and economic issues that could adversely impact the development of sustainable competition.
  - o Introducing any necessary retail price controls (e.g. price cap and floors), based upon Long Range Incremental Costing, on the incumbent operator to protect the interests of consumers and prevent anti-competitive practices.
  - o Continuing the process of updating and validating the licensing information taken over by the Authority, with the aim of reducing non-compliance and increasing Government revenue.

#### **Achievement during the Year**

The proceeding leading to the establishment of a Long Range Incremental Costing model is still underway and, as a result, retail price caps have not yet been introduced. All other aspects of these Strategic Goals and Objectives have been achieved.

#### 4. Ownership Performance Targets

The ownership performance targets achieved (as specified in schedule 5 to the Public Management and Finance Law (2005 Revision) for Information & Communications Technology Authority for the 2005/6 financial year are as follows.

##### Financial Performance

| Financial Performance Measure                                                       | 2005/6<br>Actual<br>\$ | 2005/6<br>Budget<br>\$ | Annual<br>Variance<br>\$ |
|-------------------------------------------------------------------------------------|------------------------|------------------------|--------------------------|
| Revenue from Cabinet                                                                | 469,161                | 474,517                | (5,356)                  |
| Revenue from ministries, portfolios, statutory authorities and government companies | Nil                    | Nil                    | Nil                      |
| Revenue from other persons or organisations                                         | 1,093,048              | 1,249,882              | (156,834)                |
| Surplus/deficit from outputs                                                        | 385,074                | 70,793                 | 314,281                  |
| Other expenses ( Transfer to Authority's Reserve)                                   | 360,000                | 60,000                 | 300,000                  |
| Net Surplus/Deficit                                                                 | 25,074                 | 10,793                 | 14,281                   |
| Total Assets                                                                        | 1,882,250              | 1,404,623              | 477,627                  |
| Total Liabilities                                                                   | 78,677                 | 13,679                 | 64,998                   |
| Net Worth                                                                           | 1,803,573              | 1,390,944              | 412,629                  |
| Cash flows from operating activities                                                | 389,249                | 44,734                 | 344,515                  |
| Cash flows from investing activities                                                | (19,781)               | (85,505)               | 65,724                   |
| Cash flows from financing activities                                                | Nil                    | Nil                    | Nil                      |
| Change in cash balances                                                             | 369,468                | (40,771)               | 410,239                  |

| Financial Performance Ratio         | 2005/6<br>Actual | 2005/6<br>Budget | Annual<br>Variance |
|-------------------------------------|------------------|------------------|--------------------|
| Current Assets: Current Liabilities | 22:1             | 98:1             | -                  |
| Total Assets: Total Liabilities     | 24:1             | 103:1            | -                  |

##### Explanation of Variances

The Authority did not use all the hours available under ICT06 (Education), and therefore did not bill Cabinet for the full amount in the budget.

Because of delays in the development of an online payment system, it was not possible to introduce fees for the registration of .ky domain names. In addition, the number of ships seeking radio licences

was less than anticipated. This resulted in total revenue that was below the budgetary estimate. However this was more than matched by savings in expenditure. These savings were made in payroll (one post was vacant for much of the year), official travel, directors' fees, legal expenses and consultancy fees.

Since 2004, the Authority has been transferring \$60,000 per year into a Reserve Account (authorised by the ICTA Law) with the target of reaching and maintaining the equivalent of four months operating expenses or approximately \$400,000. The main purpose of the reserve is to cover unexpected legal and consultancy fees arising from challenges by, or disputes between, Licensees. As the majority of this year's operating surplus arose because of savings in legal expenses and consultancy fees, the Board took the decision to increase the amount transferred to the reserve from \$60,000 to \$360,000 in order to reach its target more quickly and to reduce the requirement in subsequent budgets.

There was less than anticipated expenditure on assets because of the delays in the development of the online payment system.

The Authority's net worth grew because of the significant savings in costs which allowed it to increase the cash reserves to fully back the Authority's reserve position while maintaining adequate working capital.

## Maintenance of Capability

| Human Capital Measures                                                                                | 2005/6<br>Actual                      | 2005/6<br>Budget                      | Annual<br>Variance |
|-------------------------------------------------------------------------------------------------------|---------------------------------------|---------------------------------------|--------------------|
| Total full time equivalent staff                                                                      | 8                                     | 9.5                                   |                    |
| Staff turnover (%)                                                                                    |                                       | 0%                                    |                    |
| Average length of service (Number)<br>Senior management<br>Professional staff<br>Administrative staff | 1 yr (3)<br>0.1 yr (1)<br>1.75 yr (4) | 1 yr (3)<br>0.1 yr (1)<br>1.75 yr (4) |                    |
| Significant changes to personnel management system                                                    | Nil                                   | Nil                                   |                    |

| Physical Capital Measures                                      | 2005/6<br>Actual<br>\$ | 2005/6<br>Budget<br>\$ | Annual<br>Variance<br>\$ |
|----------------------------------------------------------------|------------------------|------------------------|--------------------------|
| Value of total assets                                          | 1,882,250              | 1,404,623              | 477,627                  |
| Asset replacements: total assets                               | 1%                     | 6%                     | -                        |
| Book value of depreciated assets: initial cost of those assets | 36%                    | 15%                    | -                        |
| Depreciation: Cash flow on asset purchases                     | 380%                   | 120%                   | -                        |
| Changes to asset management policies                           | NIL                    | NIL                    | -                        |

| Major Capital Expenditure Projects | 2005/6<br>Actual<br>\$ | 2005/6<br>Budget<br>\$ | Annual<br>Variance<br>\$ |
|------------------------------------|------------------------|------------------------|--------------------------|
| Nil                                | Nil                    | Nil                    |                          |
|                                    |                        |                        |                          |
|                                    |                        |                        |                          |
|                                    |                        |                        |                          |

## Risk Management

| Key risks                                                | Status of Risk | Actions taken during<br>2006/6 to Manage risk                               | Financial Value of risk |
|----------------------------------------------------------|----------------|-----------------------------------------------------------------------------|-------------------------|
| Unanticipated failure or amalgamation of major licensees | No change      | Establishment of a fair, transparent and independent regulatory environment | Cannot be estimated     |

## Explanation of Variances

See Explanations on pages 7 and 8

## 5. Summarised Financial Statements

A full set of financial statements for Information & Communications Technology Authority is provided in the Appendix to this Ownership Agreement.

A summary of those is as follows.

| <b>Operating Statement</b> | <b>2005/6<br/>Actual<br/>\$</b> | <b>2005/6<br/>Budget<br/>\$</b> | <b>Annual<br/>Variance<br/>\$</b> |
|----------------------------|---------------------------------|---------------------------------|-----------------------------------|
| Revenue                    | 1,562,209                       | 1,724,399                       | (162,190)                         |
| Operating Expenses         | 1,177,135                       | 1,713,606                       | (536,471)                         |
| <i>Net Surplus/Deficit</i> | <i>385,074</i>                  | <i>10,793</i>                   | <i>374,281</i>                    |

| <b>Balance Sheet</b> | <b>2005/6<br/>Actual<br/>\$</b> | <b>2005/6<br/>Budget<br/>\$</b> | <b>Annual<br/>Variance<br/>\$</b> |
|----------------------|---------------------------------|---------------------------------|-----------------------------------|
| Assets               | 1,882,250                       | 1,404,623                       | 477,627                           |
| Liabilities          | 78,677                          | 13,679                          | 64,998                            |
| <i>Net Worth</i>     | <i>1,803,573</i>                | <i>1,390,944</i>                | <i>412,629</i>                    |

| <b>Statement of Cash Flows</b>           | <b>2005/6<br/>Actual<br/>\$</b> | <b>2005/6<br/>Budget<br/>\$</b> | <b>Annual<br/>Variance<br/>\$</b> |
|------------------------------------------|---------------------------------|---------------------------------|-----------------------------------|
| Net cash flows from operating activities | 389,249                         | 44,734                          | 344,515                           |
| Net cash flows from investing activities | (19,781)                        | (85,505)                        | 65,724                            |
| Net cash flows from financing activities | Nil                             | Nil                             | Nil                               |

### Explanation of Variances

See Explanations on pages 7 and 8

## 6. Other Financial Information

Detailed below is information about specific financial transaction required to be included in the Ownership Agreement by the Public Management and Finance Law (2005 Revision).

| Transaction                                                                                          | 2005/6<br>Actual<br>\$ | 2005/6<br>Budget<br>\$ | Annual<br>Variance<br>\$ |
|------------------------------------------------------------------------------------------------------|------------------------|------------------------|--------------------------|
| Equity Investments into Information & Communications Technology Authority                            | Nil                    | Nil                    | Nil                      |
| Capital Withdrawals from Information & Communications Technology Authority.                          | Nil                    | Nil                    | Nil                      |
| Dividend or Profit Distributions to be made by Information & Communications Technology Authority .   | Nil                    | Nil                    | Nil                      |
| Government Loans to be made to Information & Communications Technology Authority.                    | Nil                    | Nil                    | Nil                      |
| Government Guarantees to be issued in relation to Information & Communications Technology Authority. | Nil                    | Nil                    | Nil                      |
| Related Party Payments (Non Remuneration) made to Key Management Personnel <sup>1</sup>              | Nil                    | Nil                    | Nil                      |
| Remuneration <sup>2</sup> Payments made to Key Management Personnel                                  | Nil                    | Nil                    | Nil                      |
| Remuneration Payments made to Senior Management                                                      | 350,361                | 344,658                | 5,703                    |

|                                | 2005/6<br>Actual | 2005/6<br>Budget |
|--------------------------------|------------------|------------------|
| No of Key Management Personnel | NIL              | NIL              |
| No of Senior Management        | 3                | 3                |

### Explanation of Variances

No significant variances

<sup>1</sup> Key Management Personnel as defined by International Public Accounting Standards No 20, eg Minister, Board Member and Senior Management Team

<sup>2</sup> Remuneration as defined by International Public Accounting Standards No 20 Par 34(a)

**Agreement**

We jointly agree that this Ownership Agreement accurately documents the ownership performance that the Information & Communications Technology Authority achieved for the 2005/6 financial year

**Minister of Communications, Works and Infrastructure**  
**on behalf of the Cabinet**

**Chairman of the Board**  
*The Information & Communications Technology Authority*

Date 2007

## Appendix: Financial Statements for the Year

### Information & Communications Technology Authority Financial Statements June 30, 2006

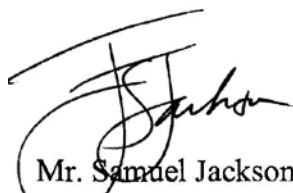
#### STATEMENT OF RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements have been prepared by the Information & Communications Technology Authority 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, 2006 and performance for the financial year ended June 30, 2006; and
- (c) comply with generally accepted accounting practice



Mr. Samuel Jackson  
Chairman  
Information & Communications  
Technology Authority

Date: 4 July 07



Mr. Dave Archbold  
Managing Director  
Information & Communications  
Technology Authority

Date: 4 July 07



Cayman Islands

## **Information & Communications Technology Authority**

### **CERTIFICATE OF THE AUDITOR GENERAL**

**To the Board of Directors of the  
Information & Communications Technology Authority  
And the Financial Secretary of the Cayman Islands**

I have audited the accompanying financial statements of the Information & Communications Technology Authority which comprise the balance sheet as at 30 June 2006, the Statement of Net Income & Retained Earnings, Statement 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 12 in accordance with the provisions of Section 20 of the *Information and Communications Technology Authority Law (2006 Revision)*, and Section 60(a)(ii) 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 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 Information & Communication Technology Authority as of 30 June 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

A handwritten signature in black ink that reads "Dan Duguay". The signature is written in a cursive, flowing style.

Dan Duguay, MBA, CGA  
Auditor General

Cayman Islands  
4 July 2007

**Information & Communications Technology Authority**

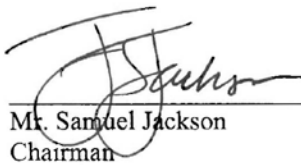
**BALANCE SHEET**

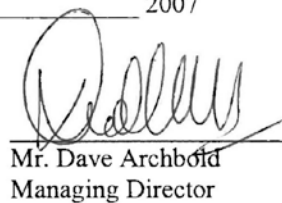
**As At 30 June 2006**

**(Stated in Cayman Islands Dollars)**

| <b>CURRENT ASSETS</b>                      | <b>Notes</b> | <b>2006</b>        | <b>2005</b>        |
|--------------------------------------------|--------------|--------------------|--------------------|
| Cash & Cash Equivalents                    |              | \$1,269,424        | \$899,956          |
| Accounts Receivables                       | 3,5          | 398,534            | 308,163            |
| Prepaid Expenses                           |              | 77,238             | 88,010             |
| <b>Total Current Assets</b>                |              | <b>1,745,196</b>   | <b>1,296,129</b>   |
| <b>NON-CURRENT ASSETS</b>                  |              |                    |                    |
| Property, Plant & Equipment                | 4            | 137,054            | 192,316            |
| <b>Total Non-Current Assets</b>            |              | <b>137,054</b>     | <b>192,316</b>     |
| <b>TOTAL ASSETS</b>                        |              | <b>1,882,250</b>   | <b>1,488,445</b>   |
| <b>CURRENT LIABILITIES</b>                 |              |                    |                    |
| Accounts Payable and Accrued Liabilities   |              | 78,677             | 69,946             |
| <b>Total Current Liabilities</b>           |              | <b>78,677</b>      | <b>69,946</b>      |
| <b>TOTAL ASSETS LESS TOTAL LIABILITIES</b> |              | <b>1,803,573</b>   | <b>1,418,499</b>   |
| <b>NET WORTH</b>                           |              |                    |                    |
| Contributed Capital                        |              | 887,500            | 887,500            |
| General Reserve                            | 6            | 600,000            | 240,000            |
| Retained Earnings                          |              | 316,073            | 290,999            |
| <b>TOTAL NET WORTH</b>                     |              | <b>\$1,803,573</b> | <b>\$1,418,499</b> |

Approved on behalf of the Board on the 4<sup>th</sup> of July 2007

  
 Mr. Samuel Jackson  
 Chairman

  
 Mr. Dave Archbold  
 Managing Director

The accompanying notes form an integral part of these financial statements

**Information & Communications Technology Authority**  
**STATEMENT OF NET INCOME & RETAINED EARNINGS**

For the Year Ended 30 June 2006  
(Stated in Cayman Islands Dollars)

| <b>INCOME</b>                           | <b>Notes</b> | <b>2006</b>      | <b>2005</b>      |
|-----------------------------------------|--------------|------------------|------------------|
| Regulatory Fees                         | 2f)          | \$955,781        | \$884,889        |
| Output Revenue                          | 2f),5,7      | 469,161          | 520,070          |
| Licensing Fees                          | 2f)          | 93,110           | 96,045           |
| Radio Licences                          | 2f)          | 21,796           | 12,039           |
| Other                                   |              | 22,361           | 6,543            |
| Operational Income                      |              | <b>1,562,209</b> | <b>1,519,586</b> |
| Net Insurance Proceeds                  | 8            | -                | 19,637           |
|                                         |              | <b>1,562,209</b> | <b>1,539,223</b> |
| <b>OPERATING EXPENSES</b>               |              |                  |                  |
| Staff Costs                             | 2(g), 9      | 660,517          | 615,258          |
| Legal & Professional fees               |              | 111,815          | 235,956          |
| KY Domain Administration                |              | 94,836           | 94,836           |
| Miscellaneous Expenses                  |              | 78,510           | 76,802           |
| Depreciation                            | 4            | 75,043           | 75,977           |
| Lease of Property & Equipment           | 10           | 64,292           | 57,993           |
| Utilities                               |              | 37,839           | 46,532           |
| Travel and Subsistence                  |              | 26,591           | 101,054          |
| Computer Maintenance                    |              | 18,566           | 12,702           |
| Supplies and Materials                  |              | 6,330            | 4,289            |
| Provision for bad debt                  | 3            | 2,796            | -                |
| Loss on Disposal                        |              | -                | 2,117            |
|                                         |              | <b>1,177,135</b> | <b>1,323,516</b> |
| <b>NET INCOME FOR THE YEAR</b>          |              | <b>385,074</b>   | <b>215,707</b>   |
| Transfer to General Reserve             | 6            | <b>(360,000)</b> | <b>(180,000)</b> |
|                                         |              | <b>25,074</b>    | <b>35,707</b>    |
| Retained Earnings at beginning of year  |              | <b>290,999</b>   | <b>255,292</b>   |
| <b>RETAINED EARNINGS AT END OF YEAR</b> |              | <b>\$316,073</b> | <b>\$290,999</b> |

The accompanying notes form an integral part of these financial statements

**Information & Communications Technology Authority**  
**STATEMENT OF CASH FLOWS**  
For the Year Ended 30 June 2006  
(Stated in Cayman Islands Dollars)

|                                                           | <u>Notes</u> | <u>2006</u>               | <u>2005</u>             |
|-----------------------------------------------------------|--------------|---------------------------|-------------------------|
| <b>CASH FLOW FROM OPERATING ACTIVITIES</b>                |              |                           |                         |
| Net Income for year                                       |              | \$385,074                 | \$215,707               |
| Adjustment for non cash transactions:                     |              |                           |                         |
| Depreciation                                              | 4            | 75,043                    | 75,977                  |
| Loss on Disposal of Non-Current Assets                    |              | -                         | 2,117                   |
| Provision for Bad of Debt                                 | 3            | 2,796                     | -                       |
|                                                           |              | <u>462,913</u>            | <u>293,801</u>          |
| Net changes in non-cash operating balances:               |              |                           |                         |
| Accounts Receivable                                       | 3            | (93,167)                  | 173,241                 |
| Prepaid Expenses                                          |              | 10,772                    | (34,094)                |
| Accounts Payable and Accrued Liabilities                  |              | 8,731                     | (9,087)                 |
| <b>Net Cash provided by Operating Activities</b>          |              | <u>389,249</u>            | <u>423,861</u>          |
| <b>CASH FLOW FROM INVESTING ACTIVITIES</b>                |              |                           |                         |
| Purchase of Non-Current Assets                            | 4            | (19,781)                  | (42,526)                |
| Proceeds from sale of Non-Current Assets                  |              | -                         | 36,779                  |
| <b>Net Cash Used by Investing Activities</b>              |              | <u>(19,781)</u>           | <u>(5,747)</u>          |
| Net Increase in Cash and Cash Equivalents During the Year |              | 369,468                   | 418,114                 |
| Cash and Cash Equivalents at the Beginning of the Year    |              | 899,956                   | 481,842                 |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>           |              | <u><b>\$1,269,424</b></u> | <u><b>\$899,956</b></u> |

The accompanying notes form an integral part of these financial statements

**Information & Communications Technology Authority**  
**Notes to the Financial Statements**  
**For The Year Ended 30 June 2006**  
**(Stated in Cayman Islands Dollars)**

**1. Establishment and Principal Activity**

The Information and Communications Technology Authority ("ICTA" or "Authority") is an independent Statutory Authority which was created on 17 May 2002 by the Information and Communication Technology Authority Law, 2002. The Authority reports on its operations to the Ministry of Communications, Works & Infrastructure of the Cayman Islands Government.

The ICTA is responsible for the regulation and licensing of telecommunications, broadcasting, and all forms of radio transmission which includes ship, aircraft, mobile and amateur radio in the Cayman Islands. The ICTA conducts the administration and management of the ".ky" domain, and also has a number of responsibilities under the Electronic Transactions Law 2000.

As at 30 June 2006, the ICTA had 8 employees (30 June 2005: 9). The ICTA is located at 85 North Sound Way, 3<sup>rd</sup> floor of Alissta Tower, P.O. Box 2502, George Town KY1-1104, Grand Cayman, Cayman Islands.

**2. Significant Accounting Policies**

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB. The significant accounting policies adopted by the ICTA in these financial statements are as follows:

*(a) Basis of preparation*

The financial statements of the ICTA are presented in Cayman Island dollars and are prepared on the accrual basis under the historical cost convention.

*(b) Property, Plant & Equipment/depreciation*

Property, Plant & Equipment are stated at cost less accumulated depreciation and impairment losses.

Depreciation is charged to the Income Statement on a straight-line basis over the estimated useful lives of the property, plant & equipment and leasehold improvements are accounted for over the life of the lease.

The estimated useful lives of the other fixed assets are as follows:

|                              |              |
|------------------------------|--------------|
| Office Equipment & Furniture | 4 - 12 Years |
| IT Equipment                 | 3 Years      |
| Leasehold improvements       | 5 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 date of those transactions. Gains and losses arising on translation are included in the Statement of Net Income & Retained Earnings.

**Information & Communications Technology Authority**  
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**2. Significant Accounting Policies (continued)**

*(d) Cash & cash equivalents*

For the purpose of the Statement of Cash Flows, cash and cash equivalents are considered as cash held on demand and fixed deposits with a maturity of three months or less.

*(e) Accounts Receivable*

Accounts receivable are recognized initially at fair value and are subsequently reviewed for impairment. Where there is objective evidence that a debt will not be collectible by the Authority according to the agreed terms then a provision for bad debt is established. If it comes to the notice of the Authority that a debtor is experiencing significant financial difficulties or if there is evidence that the debtor will default or become delinquent then these are indicators that a provision will have to be raised as the debt may be impaired.

*(f) Revenue recognition*

Output revenue is recognized when the services agreed in the Purchase Agreement are performed and the Government is invoiced. Services are billed at cost to the Authority (see also Related Party Note 5). Regulatory and Licensing Fees are recognised as revenue when they are due to the Authority. Radio Licence fee is recorded when received by the Authority. Application and Licence Fees are non-refundable.

*(g) Employee benefits*

The Authority participates in the Public Service Pensions Plan, a defined contribution pension fund, in accordance with the Public Service Pension Law. Contributions are charged to expenses as they are incurred based on set contribution rates. The Authority makes monthly contributions at a rate of 12%, whereby the employer pays both the employer and employee contributions. The Authority is also required to contribute to the Public Service Pension Plan, an extra 1% of each employee's monthly salary. This 1% is a Past Service Liability (PSL) cost to cover a deficiency in the Fund. This amount is included in Staff Costs in the Statement of Net Income & Retained Earnings.

Contributions are also made to Silver Thatch Pension Plan on behalf of one employee who is ineligible to participate in the Public Service Pension Fund. This is a defined contribution fund. The Authority pays both the employer and the employee contributions amounting to 12% of the employee's salary.

*(h) Operating Lease*

The Authority leases the 3<sup>rd</sup> floor of Alissta Towers under a two-year operating lease. Lease payments are recognized as an expense on a straight-line basis over the lease term. See also Note 10 - Lease Commitments.

*(i) 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

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**2. Significant Accounting Policies (continued)**

equity instrument of another enterprise. Financial assets comprise of cash and cash equivalents, accounts receivable and prepayments.

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 of accounts payables and accrued liabilities.

*(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 Statement of Net Income & Retained Earnings.

*(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.

*(iv) 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.

**3. Accounts Receivable**

|                                     | <b>2006</b>      | <b>2005</b>      |
|-------------------------------------|------------------|------------------|
| Accounts Receivable                 | \$390,319        | \$299,660        |
| Other Receivables                   | 11,011           | 8,503            |
| Total Receivables                   | 401,330          | 308,163          |
| Provision for bad debts             | (2,796)          | -                |
| Accounts Receivable after provision | <u>\$398,534</u> | <u>\$308,163</u> |

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**4. Fixed Assets**

| <b>Cost</b>                           | <b>Office Equipment<br/>&amp; Furniture</b> | <b>IT Equipment</b> | <b>Leasehold<br/>Improvements</b> | <b>Total</b>      |
|---------------------------------------|---------------------------------------------|---------------------|-----------------------------------|-------------------|
| Opening Balance                       | \$73,143                                    | \$59,429            | \$230,400                         | \$362,972         |
| Additions                             | 16,052                                      | 3,729               | -                                 | 19,781            |
| Balance at 30 June 2006               | 89,195                                      | 63,158              | 230,400                           | 382,753           |
| <b>Accumulated Depreciation</b>       |                                             |                     |                                   |                   |
| Opening Balance                       | 19,667                                      | 41,878              | 109,111                           | 170,656           |
| Charge for Year                       | 13,068                                      | 15,895              | 46,080                            | 75,043            |
| Balance at 30 June 2006               | 32,735                                      | 57,773              | 155,191                           | 245,699           |
| <b>Net Book Value At 30 June 2006</b> | <b>\$56,460</b>                             | <b>\$5,385</b>      | <b>\$75,209</b>                   | <b>\$137,054</b>  |
| <b>Net Book Value At 30 June 2005</b> | <b>\$ 53,476</b>                            | <b>\$ 17,551</b>    | <b>\$ 121,289</b>                 | <b>\$ 192,316</b> |

**5. Related Party Transactions**

The Cayman Islands Government appoints the Chairman and Members to the Authority's Board of Directors. The following transactions occurred during the period between the Authority and Cayman Islands Government.

|                                  | <b>2006</b> | <b>2005</b> |
|----------------------------------|-------------|-------------|
| Accounts Receivable – Government | \$129,012   | \$132,487   |
| Government Output Revenue        | \$469,161   | \$520,070   |

During this year the Authority provided Output Services of \$469,161 to the Government under a Purchase Agreement (2005: \$520,070). These services are charged to Government at cost.

As detailed in Note 9, the Authority on behalf of its eligible employees paid contributions of \$48,099 to the Public Service Pensions Plan (2005: \$50,556).

**6. General Reserve**

Section 18 of the ICTA Law (2002) requires the Authority to maintain a reserve fund; the management of such fund being at the discretion of the Authority. The Law requires the fund to be applied only for the purposes of the Authority.

The Authority's target, at present, is to grow the fund until it equates to at least four months of operating expenses (actual general reserve: six months of operating expenses). The rate of growth is kept at a level that does not significantly impact the regulatory fees charged to Licensees.

For the financial year ended 30 June 2006 the Authority transferred \$360,000 to the General Reserve Fund (2005: \$180,000).

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**7. Output Revenue**

During the year the Cayman Islands Government engaged the Authority to provide, on its behalf, a number of ICT-related services. The provision of these services (or "Outputs") is formalized in a Purchase Agreement which includes the collection and verification of royalties paid by ICT Licensees, policy advice on ICT matters and drafting instructions for ICT legislation and regulations. Additionally, in lieu of subsidies, the Government pays the Authority for such services as the management of the Electromagnetic Spectrum.

For the year ended 30 June 2006 the Authority, as part of services provided to Government, collected, verified and paid over the 6% Royalty Fee from ICT Licensees to the Government of the Cayman Islands. During the year \$8.143 million were collected and paid over (2005: \$6.751 million).

**8. Hurricane Ivan Insurance Claim**

The Authority made an insurance claim in respect of losses it suffered as a result of Hurricane Ivan on 9 & 10 September 2004 for physical damage. The Authority received a payment in respect of this claim in the amount of \$77,000. The Authority recorded income for the year ending 30 June 2005 in the amount of \$19,637 net of related expenses in the Statement of Net Income & Retained Earnings.

**9. Pensions**

The pension contributions of employees of the Authority are paid directly to the Public Service Pensions Plan (the "Fund"). The Fund is administered by the Public Service Pensions Board and is operated as a multi-employer non-contributory Fund, whereby the employer pays both the employer and employee contributions.

During the current year the Authority recorded pension expense to the Public Service Pensions Board in the amount of \$48,099 (2005: \$50,556). This amount is included in Staff Costs.

During the year the Authority also recorded pension expensed to Silver Thatch Pension Plan of \$17,417 (2005: \$5,981) on behalf of an employee who has attained the age of 60 and is therefore no longer eligible to contribute to the Public Service Pension Fund. This amount is also included in Staff Costs.

**10. Lease Commitments**

The Authority leases the 3<sup>rd</sup> floor of Alissta Towers under a two-year operating lease ending 30 November 2007. The Authority exercised the option to renew the lease for a further two years under the First Option Term of the original lease agreement. Except for the rent, the terms, conditions and stipulations of this lease are the same as the previous lease and carry the option to renew the lease for a further two years. The Lease payments are \$5,492 per month and are subject to an increase in the second two-year option term by \$1, to \$18 per sq. ft. per annum. Future lease payments are:

| Period                          | Amount   |
|---------------------------------|----------|
| 1 July 2006 to 30 June 2007     | \$65,909 |
| 1 July 2007 to 30 November 2007 | \$27,462 |

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**10. Lease Commitments (continued)**

At the termination of the lease, unless agreed between the Landlord and the Authority in writing, the Authority is to remove at its cost and expense any partitions, structures, additions or improvements erected by the Authority and shall reinstate the premises to the condition they were in at the commencement of the term.

**11. Financial Instruments**

Fair values. The carrying amount of cash deposits, prepayments, accounts receivable and accounts payables and accrued liabilities 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 judgement and therefore cannot be determined with precision. Changes in assumptions, economic conditions and other factors could cause significant changes in fair value estimates.