



OWNERSHIP AGREEMENT ANNUAL REPORT

For

Port Authority of the Cayman Islands

For the 2013 Financial Year

Contents

| | Page |
|------------------------------------|--------------------|
| 1. Purpose | 3 |
| 2. Nature and Scope of Activities | 4 |
| 3. Strategic Goals and Objectives | 5 |
| 4. Ownership Performance Targets | 6 |
| 5. Summarised Financial Statements | 9 |
| 6. Other Financial Information | 10 |
| 7. Agreement | 11 |
| Appendix: Financial Statements | as per attached FS |

1. Purpose

This annual report details the performance of the **Port Authority of the Cayman Islands** for the fiscal year ending 30 June 2013.

It includes information about the actual performance delivered during the year as compared to the planned performance documented in the Ownership Agreement for **Port Authority of the Cayman Islands** for 2013, 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 **Port Authority of the Cayman Islands** operated during the year.

Approved Nature and Scope of Activities

General Nature of Activities

The Port Authority of the Cayman Islands activities involves the management of the maritime affairs of the Cayman Islands.

Scope of Activities

The scope of the Port Authority of the Cayman Islands activities is as follows:

1. Providing and maintaining facilities for the offloading of cargo imports into all three Islands.
2. To contribute to the growth of cruise tourism (and thereby the economy), by providing and maintaining facilities to accommodate the cruise ship passengers.
3. Providing and maintaining navigational markers in Cayman Islands waters.
4. Providing a patrolling presence, using two fully equipped motor vessels, in the immediate harbour area of the Cayman Islands during cruise ship visits.
5. Providing a safe and enjoyable environment for the Port Authority's staff and customers.
6. Carrying out the Port Authority Laws

Customers and Location of Activities

The services provided by the Port Authority of the Cayman Islands are provided only in the Cayman Islands.

Compliance during the Year

The Port Authority of the Cayman Islands (Port Authority) has complied with the Nature and Scope of Activities as specified in the 2013 Ownership Agreement as follows. The Port Authority

1. has provided and maintained all operating facilities that have to do with the offloading of cargo in the three islands,
2. has contributed largely to the cruise tourism by providing and maintaining its facilities to accommodate the cruise passengers embarking and disembarking the Cruise Facilities.
3. patrols along the waterways around the harbour during the cruise ships visit is an integral part of the responsibilities the Port Authority is tasked with in order to ensure the safety of the ships and its passengers. To accomplish this, the Port Authority uses its two well maintained and fully equipped patrol boats which are staffed with qualified personnel.
4. is responsible for providing a safe and enjoyable environment for its staff and customers which it gives high priority to and has complied with this area of its responsibility to the fullest while carrying out the various other responsibilities as set out in the Port Authority laws and regulations.

3. Strategic Goals and Objectives

Approved Strategic Goals and Objectives

1. Improve the image of the Cayman Islands and the experience of the cruise tourist, by maintaining and upgrading the existing cruise ship arrival facilities in George Town and at Spotts.
2. To fine tune the existing computer system, to meet management's need for more useful management reports and to serve the customer needs more efficiently.
3. To improve operations through the continued upkeep of existing equipment.
4. Improve the efficiency of both the cruise and cargo operations by planning to separate and erect new facilities.

Achievement during the Year

1. There is continuous upkeep to all cruise facilities as the Port Authority is endeavouring to give the cruise passengers an excellent experience during its visit. The Port Authority along with the Government continues to explore the possibility of embarking on cruise piers that will further enhance the passenger visit to the island. The favoured model is the construction of two piers that will accommodate four ships, one of which will accommodate the Genesis class.
2. Continual refinement of the accounting module in Port Manager as well as additional work to the Port web-site.
3. The Port completed a major refurbishment of one of its main cranes and improved the facilities at the Royal Watler Cruise terminal to enhance the visitor experience.
4. The procurement process for the cruise berthing facility is still on going with the outline business case completed by the independent accounting firm PriceWaterhouseCoopers. Further phases of the procurement process will be completed within the next fiscal year.

4. Ownership Performance Targets

The ownership performance targets achieved (as specified in schedule 5 to the Public Management and Finance Law (2005 Revision) for the **Port Authority of the Cayman Islands** for the 2013 financial year are as follows.

Financial Performance

| Financial Performance Measure | 2013 Actual \$ | 2013 Budget \$ | Annual Variance \$ |
|---|---------------------------|---------------------------|--------------------------|
| Revenue from Cabinet | None | None | |
| Revenue from ministries, portfolios, statutory authorities and government companies | Not Separately Identified | Not Separately Identified | |
| Revenue from other persons or organisations | 19,491,638 | 17,141,848 | 2,349,790 |
| Surplus/deficit from outputs | | | |
| Other expenses | 19,111,911 | 16,451,580 | (2,660,331) |
| Net Surplus/Deficit | 378,000 | 690,268 | (312,268) |
| Total Assets | 51,940,091 | 50,637,455 | 1,302,636 |
| Total Liabilities | 11,571,677 | 9,948,068 | (1,623,609) |
| Net Worth | 40,368,414 | 40,689,387 | (320,973) |
| Cash flows from operating activities | 2,717,123 | 2,785,883 | (68,760) |
| Cash flows from investing activities | (953,301) | 0 | (953,301) |
| Cash flows from financing activities | (381,417) | 510,040 | (891,457) |
| Change in cash balances | | | |

| Financial Performance Ratio | 2013 Actual | 2013 Budget | Annual Variance |
|-------------------------------------|----------------|----------------|--------------------|
| Current Assets: Current Liabilities | .60:1 | .52:1 | 0.08 |
| Total Assets: Total Liabilities | 4.48:1 | 5.1:1 | (.62) |

Explanation of Variances

The favourable variance in total assets is due mainly to the slight increase in cargo imports and cruise passenger arrivals, investment in capital projects, namely the refurbishment of a crane, provision of shade and tents at the Royal Watler Cruise terminal, upgrades to the computer system, refurbishment of buildings and purchase of equipment. The unfavourable variance in Liabilities is a result of insurance premiums owed to the government. An unfavourable variance in Net Worth is a direct result of the change of assets over liabilities. The favourable Revenues is a result in the slight increase in Imports and cruise passenger numbers while Expenses increased as a result of consultancy fees, high maintenance on

aging equipment, write off of a crane deemed unfit for further investment, and increase in some operating costs.

Maintenance of Capability

| Human Capital Measures | 2013 Actual | 2013 Budget | Annual Variance |
|--|-------------|-------------|-----------------|
| Total full time equivalent staff | 153 | 157 | (4) |
| Staff turnover (%) | 1 | 3 | (2) |
| Average length of service (Number) | | | |
| Senior management | 14 | 10 | 4 |
| Professional staff | 13 | 10 | 3 |
| Administrative staff | 20 | 25 | 5 |
| Significant changes to personnel management system | None | None | None |

| Physical Capital Measures | 2013 Actual \$ | 2013 Budget \$ | Annual Variance \$ |
|--|---------------------------|---------------------------|---------------------------|
| Value of total assets | Unknown | Unknown | Unknown |
| Asset replacements: total assets | Less than 1% | Less than 0% | Less than 1% |
| Book value of depreciated assets: initial cost of those assets | 66% | 66% | 0 |
| Depreciation: Cash flow on asset purchases | Not Separately identified | Not Separately identified | Not Separately identified |
| Changes to asset management policies | None | None Planned | None |

| Major Capital Expenditure Projects | 2013 Actual \$ | 2013 Budget \$ | Annual Variance \$ |
|------------------------------------|----------------|----------------|--------------------|
| Assets Additions and Replacements | 951,749 | 0 | 951,749 |
| | | | |
| | | | |
| | | | |

Risk Management

| Key risks | Status of Risk | Actions taken during 2013 to Manage risk | Financial Value of risk |
|---|----------------|---|-------------------------|
| Hurricane or Storm | None | Hurricane Plan Practised on a continuous basis | \$2 million |
| Personal injury or fatality during operations | None | Employ safety procedures and installed lighting | Unknown |

Explanation of Variances

The unfavourable result in human capital resulted from over budgeting. All other variances were within acceptable ranges. No asset investment was planned but the actual was \$951k, due to needed asset refurbishment. This resulted in a variance of an equal amount.

5. Summarised Financial Statements

A full set of financial statements for the **Port Authority of the Cayman Islands** is provided in the Appendix to this Ownership Agreement.

A summary of those is as follows.

| Operating Statement | 2013 Actual \$ | 2013 Budget \$ | Annual Variance \$ |
|----------------------------|-------------------------------|-------------------------------|-----------------------------------|
| Revenue | 19,491,638 | 17,141,848 | 2,349,790 |
| Operating Expenses | 19,111,911 | 16,451,580 | (2,660,331) |
| <i>Net Surplus/Deficit</i> | <i>378,000</i> | <i>690,268</i> | <i>(312,268)</i> |

| Balance Sheet | 2013 Actual \$ | 2013 Budget \$ | Annual Variance \$ |
|----------------------|-------------------------------|-------------------------------|-----------------------------------|
| Assets | 51,940,091 | 50,637,455 | 1,302,636 |
| Liabilities | 11,571,677 | 9,948,068 | (1,623,609) |
| <i>Net Worth</i> | <i>40,368,414</i> | <i>40,689,387</i> | <i>(320,973)</i> |

| Statement of Cash Flows | 2013 Actual \$ | 2013 Budget \$ | Annual Variance \$ |
|--|-------------------------------|-------------------------------|-----------------------------------|
| Net cash flows from operating activities | 2,717,123 | 2,785,883 | (68,760) |
| Net cash flows from investing activities | (953,301) | 0 | (953,301) |
| Net cash flows from financing activities | (2,145,239) | (2,275,843) | 130,604 |

Explanation of Variances

The favourable variance in total Assets is due mainly to the slight increase in cargo imports and cruise passenger arrivals, investment in capital projects, namely the refurbishment of a crane, provision of shade and tents at the Royal Watler Cruise terminal, upgrades to the computer system, refurbishment of buildings and purchase of equipment. The unfavourable variance in Liabilities is a result of insurance premiums owed to the government. An unfavourable variance in Net Worth is a direct result of the change of assets over liabilities. The favourable Revenues is a result in the slight increase in Imports and cruise passenger numbers while Expenses increased as a result of consultancy fees, high maintenance on aging equipment, write off of a crane deemed unfit for further investment, and increase in some operating costs.

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 (2010 Revision).

| Transaction | 2013 Actual \$ | 2013 Budget \$ | Annual Variance \$ |
|---|----------------------|----------------------|--------------------------|
| Equity Investments into <i>Port Authority of the Cayman Islands</i> . | None | None | |
| Capital Withdrawals from <i>Port Authority of the Cayman Islands</i>]. | None | None | |
| Dividend or Profit Distributions to be made by <i>Port Authority of the Cayman Islands</i> . | None | None | |
| Government Loans to be made to <i>Port Authority of the Cayman Islands</i> . | None | None | |
| Government Guarantees to be issued in relation to <i>Port Authority of the Cayman Islands</i> . | None | None | |
| Related Party Payments (Non Remuneration) made to Key Management Personnel ¹ | None | None | |
| Remuneration ² Payments made to Key Management Personnel | None | None | |
| Remuneration Payments made to Senior Management | None | None | |

| | 2013 Actual | 2013 Budget |
|--------------------------------|----------------|----------------|
| No of Key Management Personnel | 3 | 3 |
| No of Senior Management | 7 | 6 |

Explanation of Variances

There was one change in the number of managers from the Budget.

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

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

7. Agreement

We jointly agree that this Ownership Agreement Annual Report accurately documents the ownership performance that the **Port Authority of the Cayman Islands** achieved for the 2013 financial year.

Being the Minister in charge during this fiscal year.

Hon. Deputy Premier Moses Kirkconnell
Minister of District Administration, Tourism and Transport
On behalf of the Cabinet

Being the Chairman during this fiscal year.

Errol L Bush
Chairman of the Board
The Port Authority of the Cayman Islands
Date:

Appendix: Financial Statements for the Year

PORT AUTHORITY OF THE CAYMAN ISLANDS STATEMENT OF RESPONSIBILITY FOR FINANCIAL STATEMENTS FOR THE YEAR ENDING 30 JUNE 2013

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 (2010 Revision).

The Financial Statements comply with generally accepted accounting practice as defined in International Public Sector Accounting Standards and International Accounting Standards.

We accept responsibility for the accuracy and integrity of the financial information in these financial statements and their compliance with Public Management and Finance Law (2010 Revision).

To the best of our knowledge the financial statements are:

- (a) complete and reliable;
- (b) fairly reflect the financial position as at 30 June 2013 and performance for the year ended 30 June 2013;
- (c) comply with International Financial Reporting Standards.

Being the Chairman during this fiscal year.

Errol L Bush

Chairman of the Board

The Port Authority of the Cayman Islands

Date:

Financial Statements of the

**PORT AUTHORITY OF THE
CAYMAN ISLANDS**

June 30, 2013



**FINANCIAL STATEMENTS OF THE
PORT AUTHORITY OF THE CAYMAN ISLANDS**

| | |
|--|-----------|
| Table of Contents | |
| Statement of Responsibility for the Financial Statements | Page 1 |
| Auditor General's Report | 2-3 |
| Statement of Financial Position | 4 |
| Statement of Comprehensive Income | 5 |
| Statement of Cash Flows | 6 |
| Statement of Changes in Equity | 7 |
| Notes to the Financial Statements | 8-29 |



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Statement of Responsibility for the Financial Statements

These financial statements have been prepared by the Port Authority of the Cayman Islands in accordance with International Financial Reporting Standards.

We accept responsibility for the accuracy and integrity of the financial information in these financial statements and their compliance with International Financial Reporting Standards.

As Port Director, I am responsible for establishing; and have established and maintained a system of internal controls designed to provide reasonable assurance that the transactions recorded in the financial statements are authorised by law, and properly record the financial transactions of the Port Authority of the Cayman Islands.

As Port Director and Deputy Port Director, Finance, we are responsible for the preparation of the Port Authority of the Cayman Islands financial statements and for the judgements made in them.

The financial statements fairly present the financial position, financial performance and cash flows of the Port Authority of the Cayman Islands for the financial year ended 30 June 2013.

To the best of our knowledge we represent that these financial statements:

- (a) Completely and reliably reflect the financial transactions of Port Authority of the Cayman Islands for the year ended 30 June 2013;
- (b) Fairly reflect the financial position as at 30 June 2013 and performance for the Year ended 30 June 2013;
- (c) Comply with International Financial Reporting Standards as set out by the International Accounting Standards Board under the responsibility of the International Federation of Accountants.

The Office of the Auditor General conducts an independent audit and expresses an opinion on the accompanying financial statements. The Office of the Auditor General has been provided access to all the information necessary to conduct an audit in accordance with International Standards of Auditing.

Paul Hurlston
Port Director

Date: 10/31/2013

James Parsons
Deputy Port Director Finance

Date: 10/31/2013

AUDITOR GENERAL'S REPORT

To the Board of Directors of Port Authority of Cayman Islands

I have audited the accompanying financial statements of Port Authority of Cayman Islands, which comprise the balance sheet as at 30 June 2013 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 8 to 29 in accordance with the provisions of Section 4(7) of the Port Authority Law (1999 Revision) and Section 60(1)(a) of the *Public Management and Finance Law (2012 Revision)*.

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Port Authority of Cayman Islands as at 30 June 2013 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without further qualifying our opinion, we draw attention to note 21 which details that the Port Authority was unable to charge tender fees totalling \$505,432 for the manifested cruise passengers as required by Section 26 (e) of the Port Regulations (2011 Revision). This was due to an existing agreement with the FCCA in 2003 which prohibits the Port Authority from unilaterally increasing fees.

Without further qualifying our opinion we draw attention to note 13 which discloses that for the year ended 30 June 2013, the Port Authority's current liabilities exceeded its current assets by \$2,655,151. This condition along with other matters as set forth in Note 13, indicate the existence of a material uncertainty that may cast significant doubt about the Authority's ability to continue as a going concern. The concern about the continued viability of the Port Authority is mitigated by the fact that the Port Authority is a 100% government owed entity, whose operations are critical to the survival of the Cayman Islands.



Alastair Swarbrick, MA (Hons), CPFA
Auditor General

31 October 2013
Cayman Islands


PORT AUTHORITY OF THE CAYMAN ISLANDS
Statement of Financial Position

As at June 30, 2013

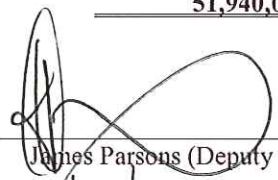
(Stated in Cayman Islands dollars)

| | Note | 2013 | 2012 |
|--|------|-------------------|-------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | 3 | 1,258,963 | 1,640,380 |
| Accounts receivable (Net of allowance for Bad Debts) | 4 | 1,131,531 | 1,031,196 |
| Inventory | 2(h) | 705,877 | 347,930 |
| Prepaid expenses | 8 | 805,040 | 857,108 |
| Other receivables and deposits | | 176,662 | 46,540 |
| Total Current Assets | | 4,078,073 | 3,923,154 |
| Non-Current Assets | | | |
| Fixed Assets | | | |
| Land- freehold | | 14,436,077 | 14,436,077 |
| Docks and buildings | | 11,985,062 | 12,529,575 |
| Other assets | | 4,563,684 | 4,986,416 |
| Work in progress | 6 | 247,268 | 771,818 |
| Total Fixed Assets | 5,6 | 31,232,091 | 32,723,886 |
| Long Term Investments | 7 | 16, 629,927 | 17, 041,121 |
| Total Non-Current Assets | | 47,862,018 | 49,765,007 |
| TOTAL ASSETS | | 51,940,091 | 53,688,161 |
| LIABILITIES and EQUITY | | | |
| Current Liabilities | | | |
| Accounts payable and accrued expenses | 8b | 5,181,503 | 5,281,079 |
| Current maturities on long term liabilities | 8 | 1,551,721 | 2,143,068 |
| Total Current Liabilities | | 6,733,224 | 7,424,147 |
| Non – Current Liabilities: Long term Loans | 8 | 4,838,453 | 6,392,295 |
| TOTAL LIABILITIES | | 11,571,677 | 13,816,442 |
| EQUITY | | 40,368,414 | 39,871,719 |
| TOTAL LIABILITIES and EQUITY | | 51,940,091 | 53,668,161 |

Approved:


 Paul Hurlston (Port Director)

10/31/13
 Date


 James Parsons (Deputy Port Director –Finance)
10/31/2013
 Date

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

PORT AUTHORITY OF THE CAYMAN ISLANDS
Statement of Comprehensive Income

For the year ended June 30, 2013
(Stated in Cayman Islands dollars)

| | Note | 2013 | 2012 |
|--|------|--------------------|--------------------|
| OPERATING REVENUE | | | |
| Cargo handling | | 12,669,134 | 12,390,072 |
| Cruise ship passenger fees | | 2,394,020 | 2,416,108 |
| Port development fees | | 1,102,024 | 1,140,818 |
| Rental income | 22 | 1,224,252 | 1,067,585 |
| Maritime services | | 1,310,339 | 1,218,543 |
| Other income | | 441,047 | 386,201 |
| Diesel sales | 17 | 350,822 | 329,993 |
| Total Operating Revenue | | 19,491,638 | 18,949,320 |
| OPERATING EXPENSES | | | |
| Staff costs | 18 | 11,461,705 | 11,565,009 |
| Contracted services | 19 | 1,301,295 | 958,155 |
| Repairs and maintenance | 20 | 1,080,744 | 1,189,307 |
| Insurance | 8 | 992,546 | 963,633 |
| Utilities | | 649,224 | 627,935 |
| Diesel | | 348,504 | 231,061 |
| Finance charges | 8 | 137,828 | 192,319 |
| Miscellaneous | | 137,277 | 370,125 |
| Stationery, supplies & computer supplies | | 53,033 | 36,631 |
| Travel, conventions & training | | 38,820 | 14,933 |
| Rent | | 38,000 | 36,000 |
| Advertising and entertainment | | 20,049 | 13,119 |
| Total Operating Expenses | | 16,259,025 | 16,198,227 |
| GROSS OPERATING SURPLUS FOR THE YEAR | | 3,232,613 | 2,751,093 |
| OTHER INCOME/ (EXPENSES) | | | |
| Interest income | | 1,727 | 1,436 |
| Gain (Loss) on disposal of fixed assets | 14 | (928,612) | (249,839) |
| Depreciation | 5,7 | (1,927,728) | (1,953,692) |
| Total Other Income/(Expenses) | | (2,854,613) | (2,202,095) |
| NET INCOME FOR YEAR | | 378,000 | 548,998 |
| Other Comprehensive income for the year | | - | - |
| Total Comprehensive Income for the year | | 378,000 | 548,998 |

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

PORT AUTHORITY OF THE CAYMAN ISLANDS
Statement of Cash Flows

For the year ended June 30, 2013
(stated in Cayman Islands dollars)

| | 2013 | 2012 |
|---|--------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income for year | 378,000 | 548,998 |
| Adjustments to reconcile net income to net cash used in Operating activities: | | |
| Depreciation | 1,927,728 | 1,953,692 |
| Loss on disposal of fixed assets | 928,612 | 249,839 |
| Prior Period Adjustment | 118,695 | (7,739) |
| Net change in working capital: | | |
| Accounts receivable | (100,335) | (81,178) |
| Inventory | (357,947) | (125,112) |
| Prepaid expenses | 52,068 | (35,078) |
| Other receivables | (130,123) | (12,823) |
| Accounts payable and accrued expenses | (99,575) | 1,268,887 |
| Net Cash Provided by Operating Activities | 2,717,123 | 3,759,486 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Fixed Assets purchased | (411,165) | (278,683) |
| Long Term Investment purchased | (38,914) | (9,045) |
| Construction in progress (Net) | (503,222) | (474,259) |
| Net Cash Used by Investing Activities | (953,301) | (761,987) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Repayment of long term debt | (2,145,239) | (2,187,228) |
| Repayment of lease-purchase | - | - |
| Contribution to Government | - | - |
| Net Cash Used by Financing Activities | (2,145,239) | (2,187,228) |
| Net Increase in cash and Cash Equivalents during the year | (381,417) | 810,271 |
| Cash and cash equivalents at the beginning of the year | 1,640,380 | 830,109 |
| Cash and cash equivalents at the end of year | 1,258,963 | 1,640,380 |

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

PORT AUTHORITY OF THE CAYMAN ISLANDS
Statement of Changes in Equity

For the year ended June 30, 2013
(stated in Cayman Islands dollars)

| | |
|--|-------------------|
| Year ended June 30, 2012 | |
| Balance, beginning of year | 39,330,460 |
| Year ended June 30, 2011 | |
| Correction for understatement of | |
| General reserves in prior period (Work in progress, Expenses) | (7,739) |
| Net income for the year | 548,998 |
| Total comprehensive income | 548,998 |
| Transactions with shareholder: | |
| Contributions to Cayman Islands Government | - |
| Total transactions with shareholder | - |
| Balance, end of year | 39,871,719 |
| Year ended June 30, 2013 | |
| Correction for understatement of General reserves in prior period (Work in progress, Expenses, Accruals) | 118,695 |
| Comprehensive income: | |
| Net income for the year | 378,000 |
| Total comprehensive income/(loss) | 378,000 |
| Balance, end of year | 40,368,414 |

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

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

June 30, 2013

(stated in Cayman Islands dollars)

1. Establishment and Principal Activities

The Port Authority of the Cayman Islands (the "Port Authority") is a statutory body established on September 15, 1976 under the *Port Authority Law*. This Law was revised in 1999. The Port Authority is also governed by the *Port Regulations (2010 Revision)*.

The Port Authority is engaged in the management of the maritime affairs of the Cayman Islands. This includes –

- general management and control of all ports;
- establishment and control of lighthouses and day markers;
- establishment and control of berths;
- provision, maintenance, and control of cranes, launches, lighters, rafts, trucks, capstans, winches, windlasses, bollards, and other machinery, apparatus, tackle and gear used in ports and territorial waters for the securing, loading, unloading and maintenance of vessels;
- establishment, maintenance and control of transit sheds, offices, and all other buildings in ports other than buildings under the control of the Collector of Customs, the Chief Immigration Officer or the Chief Medical Officer;
- general supervision of territorial waters, and of vessels and wrecks located therein;
- loading and unloading of vessels;
- establishment and supervision of safety measures in respect of vessels or classes of vessels in ports and in territorial waters;
- enforcement of the Port Authority Law and the Regulations;
- inspection of vessels for the purpose of checking and enforcing compliance with the Port Authority Law.

As at June 30, 2013 the Port Authority had 154 employees (2012-152 employees). The Port Authority is located in the Port Authority Building on Harbour Drive, P.O. Box 1358 GT, Grand Cayman, Cayman Islands, as well as a branch at 385 Creek Road, P.O. Box 9, Cayman Brac.

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 preparation

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

The accounting policies are consistent with those used in the previous year.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

June 30, 2013

(stated in Cayman Islands dollars)

2. Significant accounting policies (continued)

(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.

(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) 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.

(iv) Measurement

Financial instruments are measured initially at cost which is the fair value of the consideration given or received. Subsequent to initial recognition all financial assets are 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.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

June 30, 2013

(stated in Cayman Islands dollars)

2. Significant accounting policies (continued)

(v) *Specific instruments*

Cash and cash equivalents

For the purpose of the statement 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 accrual basis. Interest income represents the interest earned on term deposits. Interest expense includes interest paid on long term debt and bank overdraft.

(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:

| | |
|----------------------------|----------|
| Buildings | 4% |
| Investment Property | 2% |
| Marine Dock | 2% |
| Cranes and Heavy Equipment | 5% - 10% |
| Lights and buoys | 2% - 20% |
| Equipment and furniture | 20% |
| Computer Equipment | 20% |

(i) *Additions*

The cost of an item of property, plant, and equipment is recognized as an asset only when it is probable that future economic benefits or service potential associated with the item will flow to the Port Authority and the cost of the item can be measured reliably.

Work in progress is recognized at cost less impairment and is not depreciated.

(ii) *Disposals*

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are reported net in the Statement of Comprehensive Income.

(iii) *Subsequent costs*

Costs incurred subsequent to initial acquisition are capitalized only when it is probable that future economic benefits or service potential associated with the item will flow to the Port Authority and the cost of the item can be measured reliably.

The costs of day-to-day servicing of property, plant, and equipment are recognized in the Statement of Comprehensive Income as they are incurred.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

June 30, 2013

(stated in Cayman Islands dollars)

2. Significant accounting policies (continued)

(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 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 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 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 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.

(h) Inventory

Inventory consists of diesel fuel and service parts and consumables for the port Authority's fleet of vehicles, cranes and other specialised equipment. These are 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 as 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 of 10% of an employee's salary to an approved pension provider. Contributions are charged to expenses as they are incurred based on set contribution rates. Total contributions for 2013 were \$950,874 - (2012-\$992,356).

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

June 30, 2013

(stated in Cayman Islands dollars)

2. Significant accounting policies (continued)

(l) Changes in International Financial Reporting Standards

Several new standards and amendments effective January 2013. However, they do not impact the annual financial statements of the Authority. The nature and impact of each new standard/amendment is described below:

IAS 1 Clarification of the requirement for comparative information (Amendment)

The amendment to IAS 1 clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional voluntarily comparative information does not need to be presented in a complete set of financial statements.

An opening statement of financial position (known as the 'third balance sheet') must be presented when an entity applies an accounting policy retrospectively, makes retrospective restatements, or reclassifies items in its financial statements, provided any of those changes has a material effect on the statement of financial position at the beginning of the preceding period. The amendment clarifies that a third balance sheet does not have to be accompanied by comparative information in the related notes. This standard does not have an impact on the Authority's financial statements.

IAS 32 Tax effects of distributions to holders of equity instruments (Amendment)

The amendment to IAS 32 *Financial Instruments: Presentation* clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders. The amendment did not have an impact on the financial statements for the Authority, as there is no tax consequences attached to cash or non-cash distribution.

IAS 34 Interim financial reporting and segment information for total assets and liabilities (Amendment)

The amendment clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 *Operating Segments*. Total assets and liabilities for a reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity's previous annual consolidated financial statements for that reportable segment. This standard does not have an impact on the Authority's financial statements.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

June 30, 2013

(stated in Cayman Islands dollars)

2. Significant Accounting Policies (continued)

IAS 19 Employee Benefits (Revised 2011) (IAS 19R)

IAS 19R includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in other comprehensive income (OCI) and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as, quantitative sensitivity disclosures.

IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities Amendments to IFRS 7

The amendment requires an entity to disclose information about rights to set-off financial instruments and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32. As the Authority is not setting off financial instruments in accordance with IAS 32 and does not have relevant offsetting arrangements, the amendment does not have an impact on the Authority.

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 *Consolidated and Separate Financial Statements* that dealt with consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the financial statements of the Authority.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

June 30, 2013

(stated in Cayman Islands dollars)

3. Cash and cash equivalents

| | 2013 | 2012 |
|---------------|-----------|-----------|
| Bank balances | 1,258,963 | 1,640,380 |

These consist of operating bank balances held by the Port Authority.

Management has, over the years, adopted a policy to retain cash balances to facilitate liquidity 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. However, due to economic changes and financial challenges experienced over the past four years the cash reserves has been depleted. Note 13 further explain the financial position that the Port Authority is currently faced with.

Restricted cash

Included in the bank balances above is restricted cash of \$114,333 representing deposits held on escrow for tenants of renting the Authority's investment properties.

4. Accounts receivable

| | 2013 | 2012 |
|--------------------------------|-----------|-----------|
| Accounts receivable | 1,202,617 | 1,085,469 |
| Less: provision for impairment | (71,085) | (54,273) |
| | 1,131,532 | 1,031,196 |

Fair value

The carrying value of receivables approximates their fair value.

Impairment

The ageing profile of receivables at year end is detailed below:

| | 2013 | | | 2012 | | |
|-----------------------|----------------|---------------------|--------------|----------------|---------------------|--------------|
| | Gross \$000 | Impairment \$000 | Net \$000 | Gross \$000 | Impairment \$000 | Net \$000 |
| Past due 1-45 days | 945 | (55) | 890 | 942 | (47) | 942 |
| Past due 46- 89 days | 72 | (4) | 68 | 75 | (4) | 71 |
| Past due over 90 days | 185 | (12) | 173 | 68 | (3) | 65 |
| Total | 1,202 | (71) | 1,131 | 1,085 | (54) | 1,031 |

Management makes a provision for a significant portion of accounts overdue in excess of 90 days. In addition, specific provision was made for some clients whose ability to pay was in doubt.

Due to the large number of receivables, the impairment assessment is generally performed on a collective basis, based on an analysis of past collection history and write-offs. Special consideration is also given to those with a higher degree of risk for default.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

June 30, 2013

(stated in Cayman Islands dollars)

Movements in the provision for impairment of receivables are as follows:

| | Actual 2013 \$000 | Actual 2012 \$000 |
|---|----------------------|----------------------|
| Balance at 1 July | 54 | 42 |
| Increase in provisions during the year | 17 | 12 |
| Receivables written off during the year | - | - |
| Balance at 30 June | 71 | 54 |

5. Fixed Assets

| Cost | Freehold Land | Docks and Buildings | Other Assets | Construction In Progress | Total |
|-----------------|------------------|------------------------|-----------------|-----------------------------|---------------|
| At 30 June 2012 | \$ 14,436,077 | \$ 23,023,191 | \$ 14,228,412 | \$ 771,818 | \$ 52,459,498 |
| Additions | - | 118,366 | \$ 292,799 | \$ 540,584 | \$ 951,749 |
| Disposals | - | - | (\$ 865,044) | - | (\$ 865,044) |
| Write offs | - | - | - | (\$403,019) | (\$403,019) |
| Transfers | - | - | 623,201 | (662,115) | (38,914) |
| At 30 June 2013 | \$ 14,436,077 | \$ 23,141,557 | \$ 14,279,368 | \$ 247,268 | \$ 52,104,270 |

**Accumulated
Depreciation**

| | | | | | |
|-----------------|---|---------------|--------------|---|---------------|
| At 30 June 2012 | - | \$ 10,493,616 | \$ 9,241,996 | - | \$ 19,735,612 |
| Charge for Year | - | \$ 662,928 | \$ 814,742 | - | \$ 1,477,621 |
| Write offs | - | - | - | - | - |
| Disposals | - | - | (\$ 341,054) | - | (\$ 341,054) |
| At 30 June 2013 | - | \$ 11,156,544 | \$ 9,715,684 | - | \$ 20,872,179 |

Net Book Value

| | | | | | |
|-----------------|---------------|---------------|--------------|------------|---------------|
| At 30 June 2013 | \$ 14,436,077 | \$ 11,985,062 | \$ 4,563,684 | \$ 247,268 | \$ 31,232,091 |
| At 30 June 2012 | \$ 14,436,077 | \$ 12,529,575 | \$ 4,986,416 | \$ 771,818 | \$ 32,723,886 |

Included in Other assets are Cranes: NBV of \$ 3,089,147 and Heavy equipment, including forklifts and trucks with a NBV \$714,549 as at the 30 June 2013. The Port Authority utilizes two cranes to offload containers and other cargo requiring heavy lifting capacity at the GT dock and one in Cayman Brac. The remaining part relates to Motor vehicles, office equipment, furniture and computers and computer software.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

June 30, 2013

*(stated in Cayman Islands dollars)***6. Capital works in progress**

| | 2013 | 2012 |
|--|----------------|----------------|
| George Town cruise/cargo facilities (RWCT) | - | 82,287 |
| Forklift / Crane refurbishment | 126,624 | 236,870 |
| Bunker project | - | 34,776 |
| Improvement to CDC | - | 5,000 |
| New Building (CB) | 120,644 | 120,644 |
| New Spotts dock | - | 5,286 |
| RWCT - Expansion | - | 38,913 |
| RWCT – Redevelopment Project - 2011 | - | 248,042 |
| Total | 247,268 | 771,818 |

7. Investment Property

| Cost | Buildings |
|---------------------------------|----------------------|
| At 30 June 2012 | \$ 19,854,061 |
| Additions | 38,914 |
| At 30 June 2013 | \$ 19,892,975 |
| Accumulated Depreciation | |
| At 30 June 2012 | \$ 2,812,940 |
| Charge for Year | \$ 450,107 |
| At 30 June 2013 | \$ 3,263,047 |
| Net Book Value | |
| At 30 June 2013 | \$ 16,629,928 |
| At 30 June 2012 | \$ 17,041,121 |

Investment Property is reported under IAS 40, using the Cost model. Investment Property consist of retail shops which are leased. This is stated at cost less accumulated depreciation and impairment losses. Depreciation on investment property is charged to the Statement of Comprehensive Income on a straight-line basis at 2% which approximate to a useful life of 50 years.

Management estimates that the fair value of the investment property approximates to the book value as reflected in note 7 above, due to the illiquid nature of the assets and the fact that they are government strategic property not likely to be placed on the open market for sale. A professional appraisal was not done at year end but consideration will be given to having this done periodically in the future.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

June 30, 2013

*(stated in Cayman Islands dollars)***8. Long Term Liabilities**

| | Current | 1-2 yrs | 3-5 yrs | 2013 | 2012 |
|--|------------------|------------------|------------------|------------------|------------------|
| a) CIG - Cayman Brac (0%) | 34,407 | - | - | 34,407 | 103,233 |
| b) Fort Building - Libor + 1% (1.18505%) | - | - | - | - | 84,876 |
| c) George Town Dock Rehabilitation Libor +1.5% (1.68555%) | 91,706 | - | - | 91,706 | 655,438 |
| d) Royal Watler Terminal | | | | | |
| (i) Royal Bank of Canada LIBOR plus 1.5% (1.68580%) | 679,229 | 1,358,458 | 950,717 | 2,988,404 | 3,668,682 |
| (ii) Bank of Nova Scotia LIBOR plus 1.5% (1.68580%) | 679,229 | 1,358,458 | 950,717 | 2,988,404 | 3,668,682 |
| e) West Bay Terminal | | | | | |
| (i) Royal Bank of Canada LIBOR plus 1.5% (1.68580%) | 33,575 | 68,965 | 41,089 | 143,627 | 177,226 |
| (ii) Bank of Nova Scotia LIBOR plus 1.5% (1.68580%) | 33,575 | 68,965 | 41,089 | 143,627 | 177,226 |
| Total | 1,551,721 | 2,854,843 | 1,983,610 | 6,390,174 | 8,535,363 |

| | 2013 | 2012 |
|-----------------------------|------------------|------------------|
| Total Long term Liabilities | 6,390,174 | 8,535,363 |
| Less Current Maturities | (1,551,721) | (2,143,068) |
| Total | 4,838,453 | 6,392,295 |

(a) Cayman Islands Government loan

The loan from the Cayman Islands Government for the Cayman Brac port facility is denominated in Cayman Islands dollars, is unsecured, interest free, and repayable in semi-annual instalments until the 2014. The principal amount was \$1,517,314 with annual payment being \$34,407. At 30 June 2013, the principal amount outstanding was \$34,407.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

June 30, 2013

(stated in Cayman Islands dollars)

8. Long Term Liabilities - continued

(b) Commercial bank loans are comprised of:

| | <u>2013</u> | <u>2012</u> |
|---|-------------|-------------|
| \$3,444,000 (US\$4,200,000) loan issued 08 June 1988 for the purchase of the Fort building secured by a charge over the property acquired bearing interest of LIBOR (1.06920% as at 30 June 2012) plus 1%, and repayable in monthly instalments until May 2013 | - | 84,876 |
| \$4,510,000 (US\$5,500,000) loan issued 06 May 2003 for the George Town Dock Rehabilitation bearing interest of LIBOR (1.06920% as at 30 June 2012) Plus 1.5%, and repayable in monthly instalments until March 2014. The securities pledged by the Port Authority for this loan are as follows: | | |
| • Registered First Charge for US\$5,500,000 on GT OPY, Parcel #133, and collateral charge on OPY Parcels 25 and 127. | 91,706 | 655,438 |
| \$14,350,000 (US\$17,500,000) issued 30 March 2004 for the Royal Watler Terminal and bearing interest of LIBOR (1.06920% as at 30 June 2012) plus 1.5% and repayable in monthly instalments starting from May 1, 2005 until May 1, 2014. The securities pledged by the Port Authority for this loan are as follows: | | |
| • Registered Second Demand Legal Charge stamped in the amount of US\$17,500,000 covering George Town Commercial Block OPY, Parcel 133. | | |
| • Registered Second Demand Collateral Legal Charges in the amount of US\$17,500,000 over George Town Commercial Block OPY, Parcels 25 and 127 | | |
| • Registered First Collateral Legal Charge in the amount of US \$17,500,000 over raw land parcel described as West Bay South, Block 5B Parcel 36. | 5,976,807 | 7,337,364 |
| Carried forward | 6,068,513 | 8,077,678 |

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

June 30, 2013

(stated in Cayman Islands dollars)

8. Long Term Liabilities - continued

Commercial bank loans (continued)

| | | |
|-----------------|-----------|-----------|
| Brought forward | 6,068,513 | 8,077,678 |
|-----------------|-----------|-----------|

\$6,970,000 (US\$8,500,000) issued 20 August 2004 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 (1.06920% as at 30 June 2012) plus 1.5% and repayable in monthly instalments starting from August 1, 2005 until August 1, 2015 *

The securities pledged by the Port Authority for this loan are as follows:

- Registered Third Demand Legal Charge stamped in the amount US\$8,500,000 covering George Town Commercial, Block OPY Parcel 133
- Registered Third Demand Collateral Legal Charges in the amount of US\$8,500,000 each over George Town Commercial, Block OPY Parcels 25 and 127
- Registered Second Collateral Legal Charge in the amount of US\$8,500,000, over raw land legally described as West Bay South, Block 5B, Parcel 36.

287,203 354,452

| | | |
|-----------------------------|-----------|-----------|
| Total Commercial Bank Loans | 6,355,716 | 8,432,130 |
|-----------------------------|-----------|-----------|

Included in operating expenses for the year ended June 30, 2013 is interest expense of CI\$138,439 (2012 CI\$168,411) relating to these loans.

* 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.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

June 30, 2013

(stated in Cayman Islands dollars)

8. Long Term Liabilities - continued

Sensitivity Analysis

The sensitivity analyses below are based on a change in one assumption while holding all other assumptions constant. In practice, this is unlikely to occur, as changes in some of the assumptions may be correlated.

| Sensitivity factor | Description of sensitivity factor applied |
|--------------------|---|
| Interest rate (1) | The impact of an absolute change in market interest rates by approximately 1% |

1 - Related to loan expense and interest income

| | Interest rates | |
|--|----------------|--------|
| | 1% | -1% |
| Sensitivities as at June 30, 2013 | | |
| Impact on Net income for the year | (85,200) | 87,295 |
| Impact on Shareholder's equity | (85,200) | 87,295 |
| | | |
| | Interest rates | |
| | 1% | -1% |
| Sensitivities as at June 30, 2012 | | |
| Impact on Net income for the year | (90,514) | 92,025 |
| Impact on Shareholder's equity | (90,514) | 92,025 |

8b. Accounts Payable and Accrued Expenses

This represents unpaid expenses incurred in the current and prior years which are due within the next twelve months. The majority of this or approximately \$3.6M is due to the Cayman Islands Government for unpaid insurance premiums dating back several years. The remaining \$1.5M comprises payables occurring in the normal course of business, year- end accruals for employee entitlements (i.e. Wages and vacation leave), and amounts held in escrow for tenants of rental properties.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

June 30, 2013

(stated in Cayman Islands dollars)

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, 2013, the Port Authority did not make any payments (2012: \$0), to the Cayman Islands Government in the form of a dividend distribution.

b) *Leases*

The Port Authority leases a portion of land for its operations. The minimum lease payments are CI\$40,000 per annum for the ten years of the lease, which commenced November 30, 2012, and continues to 29 November 2022.

| | |
|-------------------------------|-------------|
| Lease Obligation for 1 year | CI\$40,000 |
| Lease Obligation after 1 year | CI\$360,000 |

c) *Marina development*

In an agreement dated January 2009, the Port Authority contributed access to its parcels of land adjoining the Ritz Carlton property, in exchange for the developers of Ritz Carlton Grand Cayman Resort to develop a public marina and associated facilities to enhance the local boating community. The management of the Port Authority expects no financial impact on the Port Authority on account of this arrangement.

d) *Project Management fees*

The Port Authority entered into a contract with Burns Connolly Group Ltd (BCG) on September 6, 2004 to provide Project Management and Engineering on the construction of Royal Watler Cruise Terminal for a fixed price of \$282,500 (\$157,500 & \$125,000) respectively. On August 1 2012, the balance owing to BCG on both contracts totalling \$38,913 (\$17,218 & \$21,694) respectively was paid, fully discharging the Authority's liability of \$38,913.

e) *Legal Proceedings against the Authority*

1. On July 13, 2012, a claim was made due to perceived negligence by the Authority which resulted in the total loss of a third party's vessel while in Cayman Waters. The amount of the Claim is CI\$ 280,178. Management is reviewing the Claim with its legal representatives with the aim of vigorously defending its position.
2. During the year, a compensation demand was made by a local vendor for lost income due to his being asked to discontinue selling fuel at the dock. No specific amount has been demanded and neither has the issue proceeded to court and as such the Authority is unable to assess the impact, if any, this may have on its operations. The Authority is addressing the issue through its legal representatives. The vendor has been given initial communication to

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

June 30, 2013

(stated in Cayman Islands dollars)

9) Contingencies and commitments (continued)

the effect that his demand is unwarranted and frivolous as he did not have permission to engage in commercial activities at the Dock in the first place.

3. On September 14, 2012, a statement of claim was served upon the Authority, as the second defendant, with regard to certain declaratory rights to a Marina under development on the Authority's Land. The Action is on-going. The Authority has involved its lawyers who are vigorously defending its position.
4. On 19 March 2009, legal proceedings were commenced against the Port Authority regarding injury sustained by a third party after an accident involving the Authority's vehicle. The Authority is reviewing its position on this matter. However any claims are anticipated to be settled by the Authority's Insurers.
5. In May 2012 an employee of the Authority was dismissed but later demanded reinstatement. The Authority is reviewing its position on the matter.

As at the date of these accounts, there was no further development on the aforementioned legal matters and management expects no loss arising from any potential action.

10. Related party transactions

The Port Authority engages the services of various departments of the Cayman Islands Government. Such services are provided on an arm's 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\$961,144 (2012: CI\$1,002,098). This insurance is procured by the Cayman Islands Government for all its entities at market rates, and they apportion the related liability according to the value of the entities' assets. The Port Authority has an outstanding balance of \$3.6m to its sole shareholder, the Cayman Islands Government, in this regard.

The insurance expense of \$992k in the Statement of Comprehensive income represents the amortized premium for nine months of the 2012/13 insurance period and three months of the 2013/14 insurance period. Included in Prepaid expenses in the Statement of Financial Position is \$721,000 representing insurance prepaid, with the corresponding liability reflected in Accounts payable representing the amount outstanding for the 2013 insurance premium. The remaining \$84k of prepaid expenses represents those occurring in the ordinary course of business during the year.

A Director of the Port Authority is the Proprietor of a company which conducts business with the Port Authority namely; Bodden Beverages, Ltd. Bodden Beverages, Ltd conducts business at an arm's length basis and is not given any preferential rates but is charged the standard Port fees as any ordinary company or citizen doing business with the Authority. Although Bodden Beverages Ltd has an account with the Authority, Port fees are settled upon clearing its cargo. Therefore, there is no outstanding balance for the current fiscal period ending June 30, 2013.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

June 30, 2013

(stated in Cayman Islands dollars)

Key Management Personnel

There are three full time personnel on open ended employment agreements considered to be at the senior management level. The total remuneration includes: regular salary, pension contribution, health insurance contribution and bonuses. The pension and health insurance benefits provided to key management personnel are similar to that provided for all employees. Total remuneration in 2013 for senior management was \$596,561 (2012 \$596,480).

Board members

There are 10 members that make up the Port Authority's board; of those members only seven receive a stipend of \$150.00 per meeting held. The other three are civil servants. The total fees paid and expenses for the eligible members for the year ended June 30 2013 was \$7,696 (2012 \$12,291).

11. Lines of credit

The Port Authority has a bank overdraft facility up to \$250,000 (US\$305,000) bearing interest at 1.5% above Prime. As at June 30, 2013, this overdraft facility has not been used. In addition, the Port Authority has three corporate credit cards with a total credit limit of \$24,600 (US\$30,000). At June 30, 2013 the outstanding balance was CI\$0 (2012 CI\$1,314.42).

12. Subsequent events

a) New Cruise Facility

The Cayman Islands Government is pursuing the development of a cruise berthing facility and has engaged professional services to assist in the process. It cannot be determined at this time the likely impact, if any; this process will have on the Financials and operations of the Port Authority.

b) Board of Directors

The Portfolio Ministry appointed a new Board of Directors in July 30, 2013.

13. Going Concern

There is significant concern on the Port Authority's ability to continue as a going concern. These relate to the declining liquidity ratios coupled with reduced volume of business. Given that the Port Authority has already increased fees in 2010, there is limited room for further manoeuvre on the revenue generation side, if the expected downward trajectory of cargo and cruise passenger volumes continues. The likely options include staff rationalization and direct government support to sustain the Port operations. The concern about the continued viability of the Port Authority is mitigated by the fact that the Port Authority is a 100% government owed entity, whose operations are critical to the survival of the Cayman Islands. In light of this, it is perceived that the Government will intervene if circumstances warrant, ensuring the PACI's continued viability.

14. Disposal of Property Plant and Equipment

During the financial year ended 30 June 2013. It was determined that an American crawler crane originally purchased in 2005 for CI\$615,000 to aid in the Hurricane Ivan restoration was beyond repair and was decommissioned. Between the purchase of this crane and the current financial year, a total of \$250,044 was spent refurbishing the crane for optimal performance and extended lifespan.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

June 30, 2013

(stated in Cayman Islands dollars)

14. Disposal of Property Plant and Equipment (continued)

Due to among other factors, the age and condition of the crane at the time of acquisition, and the accelerated wear and tear due to the harsh sea environment, the asset deteriorated to the point where further expenditure was deemed to not be worth the effort. Consequently, the cost and net book values on the books were written off.

In addition to the above, the Port Authority had amounts totalling CI\$353,561 being carried in the books for Port Development costs (RWCT Cruise berthing project). In light of recent developments management does not believe that any future benefit will be derived from these costs. As a result they were written off.

15. Fair value disclosure

At June 30, 2013 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 / other receivables/other assets /accounts payable and accrued expenses/related party/prepaid expenses

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.

All other loans are floating rate and 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 interest rate assumptions have been reflected in note 8. Changes in other assumptions could significantly affect the estimates

16. Financial instruments and associated risks

The Port Authority's activities expose it to various types of risk. Financial risk can be broken down into credit risk, interest rate risk, and foreign currency risk. The Authority is exposed to financial risks through its financial assets, and financial liabilities. The most important types of financial risk to which the Port Authority is exposed are credit and interest rate risk.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

June 30, 2013

*(stated in Cayman Islands dollars)***16 Financial instruments and associated risks (continued)***(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. It also holds receivables from clients. 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.

The following assets of the Port Authority are exposed to credit risk:

| | 2013 | 2012 |
|--|--------------------|--------------------|
| Cash and cash equivalents | 1,258,963 | 1,640,380 |
| Accounts receivables | 1,131,532 | 1,031,196 |
| Other receivables, prepaids and deposits | 981,702 | 903,648 |
| Total financial assets | <u>\$3,372,197</u> | <u>\$3,575,224</u> |
| Non-financial assets | - | - |
| Total assets per the balance sheet | <u>\$3,372,197</u> | <u>\$3,575,224</u> |

Balances past due but not impaired and those that are impaired are analyzed in the tables below:

| As at June 30, 2013: | Neither past due nor impaired | Past due but not impaired | Impaired | Total |
|---|----------------------------------|------------------------------|-------------------------|----------------------------|
| Cash and cash equivalents | 1,258,963 | - | - | 1,258,963 |
| Accounts receivables | - | 1,202,617 | 71,085 | 1,131,532 |
| Other receivables, prepaids and deposits | 981,702 | - | - | 981,702 |
| Total assets exposed to credit risks | <u>\$ 2,240,665</u> | <u>\$ 1,202,617</u> | <u>\$ 71,085</u> | <u>\$ 3,372,197</u> |

| As at June 30, 2012: | Neither past due nor impaired | Past due but not impaired | Impaired | Total |
|---|----------------------------------|------------------------------|-------------------------|----------------------------|
| Cash and cash equivalents | 1,640,380 | - | - | 1,640,380 |
| Accounts receivables | - | 1,031,196 | 54,273 | 1,085,469 |
| Other receivables, prepaids and deposits | 903,648 | - | - | 903,648 |
| Total assets exposed to credit risks | <u>\$ 2,544,028</u> | <u>\$ 1,031,196</u> | <u>\$ 54,273</u> | <u>\$ 3,629,497</u> |

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

June 30, 2013

(stated in Cayman Islands dollars)

16. Financial instruments and associated risks (continued)

The aging analysis of financial assets that are past due but not impaired is as follows:

| As at June 30, 2013: | Up to 45 days | 45 to 90 days | > 90 | Total |
|--|---------------------|------------------|-------------------|---------------------|
| Accounts receivables | 890,016 | 67,309 | 174,207 | 1,131,532 |
| Other receivables, prepaids and deposits | 981,702 | - | - | 981,702 |
| Total | \$ 1,871,718 | \$ 67,309 | \$ 174,207 | \$ 2,113,234 |

| As at June 30, 2012: | Up to 45 days | 45 to 90 days | > 90 | Total |
|--|---------------------|------------------|------------------|---------------------|
| Accounts receivables | 941,985 | 74,756 | 14,455 | 1,031,196 |
| Other receivables, prepaids and deposits | 903,648 | - | - | 903,648 |
| Total | \$ 1,845,633 | \$ 74,756 | \$ 14,455 | \$ 1,934,844 |

14.

Management of financial risks –

The following tables indicate the contractual timing of cash flows arising from financial assets and liabilities included in the Port Authority's financial statements as of June 30, 2013 and June 30, 2012.

| | Contractual cash flows (undiscounted) | | | | |
|--|---------------------------------------|--------------------|---------------------|-------------|-------------|
| | Carrying amount | No stated maturity | 0-1 yr | 1-2 yrs | > 2 yrs |
| June 30, 2013 | | | | | |
| Financial Assets | | | | | |
| Cash and cash equivalents | 1,258,963 | | 1,258,963 | | |
| Accounts receivable | 1,131,532 | | 1,131,532 | | |
| Other receivables, prepaids and deposits | 981,702 | | 981,702 | | |
| Total | \$ 3,372,197 | \$ - | \$ 3,372,197 | \$ - | \$ - |

Short term liabilities

| | | | | | |
|----------------------------------|---------------------|-------------|---------------------|-------------|-------------|
| Accounts Payables | 5,181,504 | | 5,181,504 | | |
| Loans repayable within 12 months | 1,551,721 | | 1,551,721 | | |
| Total | \$ 6,733,225 | \$ - | \$ 6,733,225 | \$ - | \$ - |

| | | | | | |
|---|-----------------------|-------------|-----------------------|-------------|-------------|
| Difference in contractual cash flows | \$ (3,361,028) | \$ - | \$ (3,361,028) | \$ - | \$ - |
|---|-----------------------|-------------|-----------------------|-------------|-------------|

| | Contractual cash flows (undiscounted) | | | | |
|---|---------------------------------------|--------------------|---------------------|-------------|-------------|
| | Carrying amount - \$ | No stated maturity | 0-1 yr | 1-2 yrs | > 2 yrs |
| June 30, 2012 | | | | | |
| Financial Assets | | | | | |
| Cash and cash equivalents | 1,640,380 | | 1,640,380 | | |
| Accounts receivable | 1,031,196 | | 1,031,196 | | |
| Other receivables, prepaid and deposits | 903,648 | | 903,648 | | |
| Total | \$ 3,575,224 | \$ - | \$ 3,575,224 | \$ - | \$ - |

Short term liabilities

| | | | | | |
|----------------------------------|---------------------|-------------|---------------------|-------------|-------------|
| Accounts Payables | 5,281,079 | | 5,281,079 | | |
| Loans repayable within 12 months | 2,143,068 | | 2,143,068 | | |
| Total | \$ 7,424,147 | \$ - | \$ 7,424,147 | \$ - | \$ - |

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

June 30, 2013

(stated in Cayman Islands dollars)

| | | | | | |
|---------------------------------|----------------|------|----------------|------|------|
| Difference in contractual Flows | \$ (3,848,923) | \$ - | \$ (3,848,923) | \$ - | \$ - |
|---------------------------------|----------------|------|----------------|------|------|

16. Financial instruments and associated risks (continued)*(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 (with sensitivity analysis) and cash and cash equivalents are presented in notes 3 and 8.

(c) Foreign currency risk

The Company receives revenue in Cayman Islands Dollars (CI\$) as well as US\$, and pays expenses in both Cayman Islands and United States dollars (US\$). Since the exchange between CI\$ and US\$ is fixed, the Company is not exposed to foreign currency risk.

17. Diesel Sales

The Port Authority sells diesel fuel to cargo and other vessels in port for profit.

Diesel sales are shown net in the Statement of Income:

| | 2013 | 2012 |
|------------------------------|-------------|-------------|
| Total diesel sales | 1,752,035 | 1,827,571 |
| Total diesel cost of sales | (1,401,213) | (1,497,578) |
| Net Income from Diesel sales | \$ 350,822 | \$ 329,993 |

18. Staff costs

| | 2013 | 2012 |
|---|---------------|---------------|
| Salary and Wages | 9,317,679 | 9,487,386 |
| Medical Insurance | 1,082,740 | 1,015,557 |
| Pension | 950,874 | 992,356 |
| Other staff costs – Uniforms, training etc. | 110,412 | 69,710 |
| Total Staff Costs | \$ 11,461,705 | \$ 11,565,009 |

19. Contracted services contains the costs incurred for security, janitorial, and professional services such as legal and audit.

20. Repairs and Maintenance consists of parts, consumables and external labour costs used in the upkeep of the cranes and heavy equipment, the fleet of vehicles, and overall maintenance of the physical plant infrastructure of the Port Authority.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

June 30, 2013

(stated in Cayman Islands dollars)

21. Tender fees

The Authority amended its tender fees in March 2010 along with other fees but before the implementation of those fees it was realized that the charges to the tender company will only be passed on to the cruise lines. The fees conflicted with the FCCA agreement and were never charged. The Authority reverted to the old fees and the new gazetted fees remain dormant. The effect on Income by not charging the new gazetted tender fees is \$500,545 (2011/12 \$505,432).

22. Rental Properties

The Port Authority owns properties that it lets to tenants for a monthly rental. The annual rent receipts are estimated at CI\$948,240 per annum.

| | |
|-----------------------------|---------------|
| Rental Income for 1 year | CI\$948,240 |
| Rental Income for 2-5 years | CI\$3,792,960 |

23. Branch Statements of Financial Position

| | Grand Cayman | Cayman Brac | Total | 2012 |
|---------------------------------------|---------------------|--------------------|---------------------|---------------------|
| Current assets | | | | |
| Cash and cash equivalents | 1,239,645 | 19,318 | 1,258,963 | 1,640,380 |
| Accounts receivable | 1,067,911 | 63,621 | 1,131,532 | 1,031,196 |
| Inventory | 603,921 | 101,956 | 705,877 | 347,930 |
| Prepaid expenses | 807,065 | -2,025 | 805,040 | 857,108 |
| Other receivables | 167,055 | 9,607 | 176,662 | 46,540 |
| | \$3,885,597 | \$192,477 | 4,078,074 | \$3,923,154 |
| Current liabilities | | | | |
| Accounts payable and accrued expenses | 5,148,367 | 33,137 | 5,181,504 | 5,281,079 |
| Current portion of long term debt | 1,517,314 | 34,407 | 1,551,721 | 2,143,068 |
| | \$6,665,681 | \$67,544 | \$6,733,225 | \$7,424,147 |
| Working capital | (2,780,084) | 124,933 | (2,655,151) | (3,500,993) |
| Plant, property and equipment | 27,325,345 | 3,659,477 | 30,984,822 | 31,952,068 |
| Capital work in progress | 126,624 | 120,644 | 247,268 | 771,818 |
| Long term Investment | 16,629,927 | - | 16,629,927 | 17,041,121 |
| Long term debt | (4,838,453) | 0 | (4,838,453) | (6,392,295) |
| Net assets | \$36,463,359 | \$3,905,054 | \$40,368,413 | \$39,871,719 |
| Represented by | | | | |
| General reserve | 46,435,180 | (6,066,767) | 40,368,413 | 39,871,719 |
| Inter-branch account | (9,971,821) | (9,971,821) | 0 | |
| Total | \$36,463,359 | \$3,905,054 | \$40,368,413 | \$39,871,719 |

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

June 30, 2013

*(stated in Cayman Islands dollars)***24. Branch Statements of Comprehensive Income**

| | Grand Cayman | Cayman Brac | Total | 2012 |
|---|---------------------|----------------------|---------------------|---------------------|
| Operating income | 18,802,767 | 688,871 | 19,491,638 | 18,949,320 |
| Operating expenses | 15,058,364 | 1,200,661 | 16,259,025 | 16,198,227 |
| | 3,744,403 | (511,790) | 3,232,613 | 2,751,093 |
| Other income/ (expenses) | | | | |
| Interest income | 1,727 | - | 1,727 | 1,436 |
| Other income/expense | - | - | - | - |
| Loss on disposal of fixed assets | (928,612) | 0 | (928,612) | (249,839) |
| Depreciation | (1,780,073) | (147,655) | (1,927,728) | (1,953,692) |
| | \$1,037,445 | (\$659,445) | 378,000 | \$548,998 |
| Net income/(loss) for year | 1,037,445 | (659,445) | 378,000 | 548,998 |
| General reserve/ (deficit) at beginning of year | 45,279,041 | (5,407,322) | 39,871,719 | 39,322,721 |
| Prior Year Adjustments | 118,695 | - | 118,695 | - |
| General reserve at end of year | \$46,435,181 | (\$6,066,767) | \$40,368,414 | \$39,871,719 |