

Financial Statements of the

**PORT AUTHORITY OF THE  
CAYMAN ISLANDS**

June 30, 2014



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

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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 2014.

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 2014;
- (b) Fairly reflect the financial position as at 30 June 2014 and performance for the year ended 30 June 2014;
- (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: Oct 31, 2014

James Parsons  
Deputy Port Director Finance

Date: Oct 31 / 2014

## AUDITOR GENERAL'S REPORT

### To the Board of Directors of the Port Authority of Cayman Islands

I have audited the accompanying financial statements of the Port Authority of Cayman Islands, ("the Authority"), which comprise the statement of financial position as at 30 June 2014 and the statement of comprehensive income, statement of changes in net assets/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 31 in accordance with the provisions of Section 60(1)(a) of the *Public Management and Finance Law (2013 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 qualified audit opinion.



***Basis for Qualified Opinion******Property & Equipment – Land: Scope Limitation***

Included in the books of the Authority is Land relating to Safe Haven amounting to CI\$ 1.45 million. In 2009, the land was re-parcelled as part of the agreement with a third party to form a Marina. Various pieces of land were in effect swapped between the Authority and the Developer. I was not provided sufficient evidence to be able to conclude that the value of Land and the Marina are fairly stated.

***Equity & Depreciation Expense***

Due to the scope limitation as described in the above paragraph, I have not been able to verify the extent to which any adjustments, were they to be done, would have an impact on the depreciation expense and the equity of the Authority.

***Qualified Opinion***

In my opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion the financial statements present fairly, in all material respects, the financial position of Port Authority of Cayman Islands, ("the Authority") as at 30 June 2014 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 my opinion, I draw attention to Note 19 which details that the Port Authority was unable to charge tender fees totalling \$519,988 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 Florida-Caribbean Cruise Association (FCCA) in 2003 which prohibits the Port Authority from unilaterally increasing fees.

Without further qualifying our opinion we draw attention to Note 12 which discloses that for the year ended 30 June 2014, the Port Authority's current liabilities exceeded its current assets by \$879,733. This condition along with other matters as set forth in Note 12, indicate the existence of a 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 owned entity, whose operations are critical to the survival of the Cayman Islands.



Alastair Swarbrick, MA (Hons), CPFA  
Auditor General


31 October 2014  
Cayman Islands

**PORT AUTHORITY OF THE CAYMAN ISLANDS**  
**Statement of Financial Position**

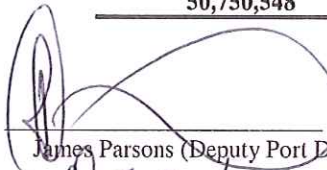
As at June 30, 2014  
*(Stated in Cayman Islands dollars)*

	Note	2014	2013
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	3	1,384,195	1,258,963
Accounts receivable (Net of allowance for Bad Debts)	4	1,378,413	1,131,531
Inventory	2(h)	759,264	705,877
Prepaid expenses	8	624,480	805,040
Other receivables and deposits		54,015	176,662
<b>Total Current Assets</b>		<b>4,200,367</b>	<b>4,078,073</b>
<b>Non-Current Assets</b>			
<b>Fixed Assets</b>			
Land- freehold		14,436,077	14,436,077
Docks and buildings		11,563,551	11,985,062
Other assets		4,225,452	4,563,684
Work in progress	6	120,644	247,268
<b>Total Fixed Assets</b>	5,6	<b>30,345,724</b>	<b>31,232,091</b>
Long Term Investments	7	16,204,457	16,629,927
<b>Total Non-Current Assets</b>		<b>46,550,181</b>	<b>47,862,018</b>
<b>TOTAL ASSETS</b>		<b>50,750,548</b>	<b>51,940,091</b>
<b>LIABILITIES and EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued expenses	8b	3,599,542	5,181,503
Current maturities on long term liabilities	8	1,480,558	1,551,721
<b>Total Current Liabilities</b>		<b>5,080,100</b>	<b>6,733,224</b>
<b>Non – Current Liabilities: Long term Loans</b>	8	<b>3,330,159</b>	<b>4,838,453</b>
<b>TOTAL LIABILITIES</b>		<b>8,410,259</b>	<b>11,571,677</b>
<b>EQUITY</b>		<b>42,340,289</b>	<b>40,368,414</b>
<b>TOTAL LIABILITIES and EQUITY</b>		<b>50,750,548</b>	<b>51,940,091</b>

Approved:

  
 Paul Hurlston (Port Director)

Oct 31, 2014  
 Date

  
 James Parsons (Deputy Port Director –Finance)

Oct 31 / 2014  
 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, 2014

*(Stated in Cayman Islands dollars)*

	Note	2014	2013
<b>OPERATING REVENUE</b>			
Cargo handling		13,293,592	12,669,134
Cruise ship passenger fees		2,449,288	2,394,020
Port development fees		1,103,208	1,102,024
Maritime services		1,331,727	1,310,339
Rental income	22	1,187,664	1,224,252
Other income		436,437	441,047
Diesel sales	17	120,298	350,822
<b>Total Operating Revenue</b>		<b>19,922,214</b>	<b>19,491,638</b>
<b>OPERATING EXPENSES</b>			
Staff costs	18	11,670,920	11,461,705
Repairs and maintenance	20	1,253,387	1,080,744
Contracted services	19	1,014,580	1,301,295
Insurance		944,953	992,546
Utilities		651,676	649,224
Diesel		328,334	348,504
Finance charges	8	102,220	137,828
Miscellaneous		99,777	137,277
Rent		40,000	38,000
Stationery, supplies & computer supplies		36,770	53,033
Travel, conventions & training		21,902	38,820
Advertising and entertainment		17,121	20,049
<b>Total Operating Expenses</b>		<b>16,181,640</b>	<b>16,259,025</b>
<b>GROSS OPERATING SURPLUS FOR THE YEAR</b>		<b>3,740,574</b>	<b>3,232,613</b>
<b>OTHER INCOME/ (EXPENSES)</b>			
Interest income		1,188	1,727
Disposal of fixed assets	-	-	(928,612)
Depreciation	5,7	(1,769,786)	(1,927,728)
<b>Total Other Income/(Expenses)</b>		<b>(1,768,598)</b>	<b>(2,854,613)</b>
<b>NET INCOME FOR YEAR</b>		<b>1,971,976</b>	<b>378,000</b>
<b>Total Comprehensive Income for the year</b>		<b>1,971,976</b>	<b>378,000</b>

*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, 2014

*(Stated in Cayman Islands dollars)*

	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income for year	1,971,976	378,000
Adjustments to reconcile net income to net cash used in Operating activities:		
Depreciation	1,769,786	1,927,728
Disposal of fixed assets	-	928,612
Prior period adjustment	-	118,695
Net change in working capital:		
Accounts receivable	(246,882)	(100,335)
Inventory	(53,387)	(357,947)
Prepaid expenses	180,560	52,068
Other receivables	122,648	(130,123)
Accounts payable and accrued expenses	(1,581,963)	(99,575)
<b>Net Cash Provided in Operating Activities</b>	<b>2,162,738</b>	<b>2,717,123</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Fixed Assets purchased	(417,919)	(411,165)
Long Term Investment purchased	(10,304)	(38,914)
Construction in progress ( Net)	(126,624)	(503,222)
<b>Net Cash Used in Investing Activities</b>	<b>(554,848)</b>	<b>(953,301)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of long term debt	(1,482,658)	(2,145,239)
Repayment of lease-purchase	-	-
Contribution to Government	-	-
<b>Net Cash Used in Financing Activities</b>	<b>(1,482,658)</b>	<b>(2,145,239)</b>
<b>Net Increase in cash and Cash Equivalents during the year</b>	<b>125,232</b>	<b>(381,417)</b>
Cash and cash equivalents at the beginning of the year	1,258,963	1,640,380
<b>Cash and cash equivalents at the end of year</b>	<b>1,384,195</b>	<b>1,258,963</b>

*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, 2014  
*(stated in Cayman Islands dollars)*

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Year ended June 30, 2013	
<b>Balance, beginning of year</b>	39,871,719
Year ended June 30, 2013:	
Correction for understatement of	
General reserves in prior period (Work in progress, Expenses, Accruals)	118,695
Net income for the year	378,000
<b>Total comprehensive income</b>	378,000
<b>Balance, end of year</b>	<b>40,368,414</b>
Year ended June 30, 2014	
Correction for rounding errors in prior year	(101)
<b>Comprehensive income:</b>	
Net income for the year	1,971,976
<b>Total comprehensive income/(loss)</b>	<b>1,971,875</b>
<b>Balance, end of year</b>	<b>42,340,289</b>

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



# PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the Year Ended June 30, 2014

(stated in Cayman Islands dollars)

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## 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, 2014 the Port Authority had 154 employees (2013-154 employees). The Port Authority is located in the Port Authority Building on Harbour Drive, P.O. Box 1358, 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  
For the Year Ended June 30, 2014  
(stated in Cayman Islands dollars)

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### 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 statement of comprehensive 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  
For the Year Ended June 30, 2014  
(stated in Cayman Islands dollars)

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### 2. Significant accounting policies (continued)

#### (c) Financial Instruments (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 statement of comprehensive 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 statement of comprehensive 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  
For the Year Ended June 30, 2014  
(stated in Cayman Islands dollars)

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### 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 reporting 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 statement of comprehensive 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 statement of comprehensive 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 2014 were \$982,125 (2013-\$950,874).



## PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements  
For the Year Ended June 30, 2014  
(stated in Cayman Islands dollars)

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### 2. Significant accounting policies (continued)

#### *(1) Changes in International Financial Reporting Standards*

Several new standards and are amendments effective beginning 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 International Accounting Standards ("ISA") 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

For the Year Ended June 30, 2014

(stated in Cayman Islands dollars)

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### 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

For the Year Ended June 30, 2014

(stated in Cayman Islands dollars)

### 3. Cash and cash equivalents

	2014	2013
Bank balances	1,384,195	1,258,963

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 12 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

	2014	2013
Accounts receivable	1,449,498	1,202,616
Less: Allowance for bad debts	(71,085)	(71,085)
	1,378,413	1,131,531

#### *Fair value*

The carrying value of receivables approximates their fair value.

#### *Impairment*

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

	2014			2013		
	Gross \$000	Impairment \$000	Net \$000	Gross \$000	Impairment \$000	Net \$000
Past due 1-45 days	1,087	(54)	1,033	945	(55)	890
Past due 46- 89 days	142	(7)	135	72	(4)	68
Past due over 90 days	220	(10)	210	185	(12)	173
Total	1,449	(71)	1,378	1,202	(71)	1,131

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.

# PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the Year Ended June 30, 2014

(stated in Cayman Islands dollars)

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.

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

	2014 \$000	2013 \$000
Balance at 1 July	71	54
Increase in provisions during the year	-	17
Receivables written off during the year	-	-
Balance at 30 June	71	71

## 5. Fixed Assets

Cost	Freehold Land	Docks and Buildings	Other Assets	Construction In Progress	Total
At 30 June 2013	\$ 14,436,077	\$ 23,141,557	\$ 14,279,368	\$ 247,268	\$ 52,104,270
Additions	-	257,237	160,683	-	\$ 417,920
Disposals	-	-	-	-	-
Write offs	-	-	-	-	-
Transfers	-	-	156,348	(126,624)	29,724
At 30 June 2014	\$ 14,436,077	\$ 23,398,794	\$ 14,596,399	\$ 120,644	\$ 52,551,914
<b>Accumulated Depreciation</b>					
At 30 June 2013	-	\$ 11,156,544	\$ 9,715,684	-	\$ 20,872,228
Charge for Year	-	\$ 678,699	\$ 655,263	-	\$ 1,333,962
Write offs	-	-	-	-	-
Disposals	-	-	-	-	-
At 30 June 2014	-	\$ 11,835,243	\$ 10,370,947	-	\$ 22,206,190
<b>Net Book Value</b>					
At 30 June 2014	\$ 14,436,077	\$ 11,563,551	\$ 4,225,452	\$ 120,644	\$ 30,345,724
At 30 June 2013	\$ 14,436,077	\$ 11,985,013	\$ 4,563,684	\$ 247,268	\$ 31,232,091

Some of the land held by the Port Authority is held as collateral (Note 8).



## PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the Year Ended June 30, 2014

(stated in Cayman Islands dollars)

### 5A. Other Assets

DESCRIPTION	COST	ADDITIONS	TRANSFERS	TOTAL COST	BEGINNING ACC DEP	ANNUAL DEPRECIATION	ENDING ACC DEP	BOOK VALUE
Vehicles & Equipment	11,410,126	100,518	156,348	11,666,992	7,170,242	525,944	7,696,186	3,970,806
Computer Equipment	565,921	47,036		612,957	476,393	29,106	505,499	107,458
Computer Software	652,081	2,300		654,381	572,851	25,687	598,538	55,843
Equipment & Furniture	903,214	4,911		908,125	785,515	53,337	838,852	69,272
Lights & Buoys	622,220	-		622,220	590,139	18,486	608,625	13,596
Loose Tools	125,806	5,918		131,724	120,544	2,703	123,247	8,477
<b>TOTAL</b>	<b>14,279,368</b>	<b>160,683</b>	<b>156,348</b>	<b>14,596,399</b>	<b>9,715,684</b>	<b>655,263</b>	<b>10,370,947</b>	<b>4,225,452</b>

### 5C. Donated Assets – Safe Haven

Based on an agreement made in January 2009 between Fujigmo Ltd, Cesar Hotelco (Cayman) Ltd. The Port Authority of the Cayman Islands and the Governor of the Cayman Islands, two parcels of land held by the Port Authority was reshaped and reconfigured by way of reparcellation to facilitate the development of a public Marina at the developer's (Fujigmo Ltd.) expense.

The reparcellation and reconfiguration of the land resulted in the Port Authority losing 2.73 acres on one parcel and the other parcel was leased to the developer for 99 years at peppercorn rate. The initial cost of the two parcels of land when they were acquired by the Port Authority in September 2003 was \$1.4M.

The Marina was completed by the developer and handed over to the Port Authority in April 2014. The construction cost of the facility based on a valuation by DDL Studio, was \$3,305,000.

Management engaged the services of BCQS to perform a fair value assessment of the property. BCQS assessed the property was assessed at \$2.5M, comprising of the land \$920,000 and the buildings and external works \$1,565,000. This indicates that the property was impaired i.e. the market value (exceeding land) of \$1.565M was less than the reported construction cost of \$3.305M, a difference of \$1.74M. This, together with the value of land given up in the land swap of \$515K, indicates an overall impairment of the property of \$2.255M.

Management understands that according to accounting standards two actions became necessary on account of these developments:

1. The reported cost of the construction of the Safe Haven marina of \$3.305M can to be capitalized as a donated asset and the amount recognized as other income in the Statement of Comprehensive Income.
2. The overall impairment (reduction in value) of the property totaling \$2.255M can be recognized as an expense in the Statement of Comprehensive Income and the donated asset reduced commensurately.

However, the construction cost of the marina cannot be determined with evidentiary support so management could not apply the above provisions. Management is continuing to review the matter with a view to incorporating the revalued amounts for the entire class of property and land in the financial statements in 2015.

The facility is being operated by the Port Authority as a public marina. The docking facilities are available to the boating public without charge.

**PORT AUTHORITY OF THE CAYMAN ISLANDS**

Notes to the Financial Statements

For the Year Ended June 30, 2014

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

	<b>2014</b>	<b>2013</b>
Forklift / Crane refurbishment	-	126,624
New Building (CB)	120,644	120,644
<b>Total</b>	<b>120,644</b>	<b>247,268</b>

**7. Investment Property**

<b>Cost</b>	<b>Buildings</b>
At 30 June 2013	\$ 19,892,975
Additions	10,304
At 30 June 2014	\$ 19,903,279
<b>Accumulated Depreciation</b>	
At 30 June 2013	\$ 3,263,048
Charge for Year	\$ 435,774
At 30 June 2014	\$ 3,698,822
<b>Net Book Value</b>	
At 30 June 2014	<b>\$ 16,204,457</b>
At 30 June 2013	<b>\$ 16,629,927</b>

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 received an independent professional appraisal of the Investment Property from BCQS as at June 30 2014. The fair value of the investment property was indicated at CI\$24,500,000. Despite this, Management decided to retain the historical cost basis of accounting for the Investment Property. This will be revisited in the 2015 financial year.



**PORT AUTHORITY OF THE CAYMAN ISLANDS**

Notes to the Financial Statements

For the Year Ended June 30, 2014

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

	<b>Current</b>	<b>1-2 yrs.</b>	<b>3-5 yrs.</b>	<b>2014</b>	<b>2013</b>
a) CIG - Cayman Brac (0%)	-	-	-	-	34,407
b) George Town Dock Rehabilitation	-	-	-	-	91,706
c) Royal Watler Terminal					
(i) Royal Bank of Canada	1,410,828	2,892,331	288,533	4,591,922	2,988,404
LIBOR plus 1.5% (1.68580%)					
(ii) Bank of Nova Scotia	-	-	-	-	2,988,404
d) West Bay Terminal					
(i) Royal Bank of Canada	69,730	142,954	6,057	218,796	143,627
LIBOR plus 1.5% (1.68580%)					
(ii) Bank of Nova Scotia	-	-	-	-	143,627
<b>Total</b>	<b>1,480,558</b>	<b>3,035,285</b>	<b>294,590</b>	<b>4,810,717</b>	<b>6,390,174</b>

	<b>2014</b>	<b>2013</b>
Total Long term Liabilities	4,810,717	6,390,174
Less Current Maturities	(1,480,558)	(1,551,721)
<b>Total</b>	<b>3,330,159</b>	<b>4,838,453</b>

*(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 fiscal year 2014. At 30 June 2013, the principal amount outstanding was \$34,407. The loan was fully repaid during the 2014 financial year.

## PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements  
For the Year Ended June 30, 2014  
(stated in Cayman Islands dollars)

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### 8. Long Term Liabilities - continued

(b) Commercial bank loans are comprised of:

	<u>2014</u>	<u>2013</u>
<p>\$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 2014) Plus 1.5%, and repayable in monthly instalments until March 2014. The securities pledged by the Port Authority for this loan are as follows:</p> <ul style="list-style-type: none"><li>Registered First Charge for US\$5,500,000 on GT OPY, Parcel #133, and collateral charge on OPY Parcels 25 and 127.</li></ul>	-	91,706
<p>\$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 2014) plus 1.5% and repayable in monthly instalments starting from May 1, 2005 until July 31, 2017. The securities pledged by the Port Authority for this loan are as follows:</p> <ul style="list-style-type: none"><li>Registered Second Demand Legal Charge stamped in the amount of US\$17,500,000 covering George Town Commercial Block OPY, Parcel 133.</li><li>Registered Second Demand Collateral Legal Charges in the amount of US\$17,500,000 over George Town Commercial Block OPY, Parcels 25 and 127</li><li>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.</li></ul>	4,591,921	5,976,807
<p>\$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 2014) plus 1.5% and repayable in monthly instalments starting from August 1, 2005 until July 31, 2017*</p> <p>The securities pledged by the Port Authority for this loan are as follows:</p> <ul style="list-style-type: none"><li>Registered Third Demand Legal Charge stamped in the amount US\$8,500,000 covering George Town Commercial, Block OPY Parcel 133</li><li>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</li><li>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.</li></ul>	218,796	287,203
<hr/> Total Commercial Bank Loans	<hr/> 4,810,717	<hr/> 6,355,716

Included in operating expenses for the year ended June 30, 2014 is interest expense of CI\$102,220 (2013 - CI\$138,439) relating to these loans.

## PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the Year Ended June 30, 2014

(stated in Cayman Islands dollars)

\*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.

### 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%
<b>Sensitivities as at June 30, 2014</b>	
Impact on Net income for the year	(76,500) 69,269
Impact on Shareholder's equity	(76,500) 69,269
Interest rates	
1%	-1%
<b>Sensitivities as at June 30, 2013</b>	
Impact on Net income for the year	(85,200) 87,295
Impact on Shareholder's equity	(85,200) 87,295

### 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 \$2.3M is due to the Cayman Islands Government for unpaid insurance premiums dating back several years. The remaining \$1.3M 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

For the Year Ended June 30, 2014

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### 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, 2014, the Port Authority did not make any payments (2013: \$0), to the Cayman Islands Government in the form of a dividend distribution.

#### b) (i) *Operating Lease*

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

#### (ii) *Finance Lease*

The Port Authority has a finance lease as defined by International Accounting Standard 17 for the 3.829 acres of land formerly numbered as Block 12C Parcel 217, which was leased to Dragon bay Limited (formerly Fujigmo Limited) for 99 years effective 6 September 2011.

IAS 17 just referred to requires such long term leases to be treated in the statement of financial position of the Lessor (the Port Authority) as a receivable at an amount equal to the net investment in the lease.

Under a finance lease all the risks and rewards incidental to legal ownership are transferred to the lessee, and the lease payment receivable is treated by the lessor as repayment of principal and finance income to reimburse and reward the lessor for its investment and services.

In this case, there are no lease payments forthcoming due to the lease being granted at peppercorn. Consequently the Port Authority has no receivable to book in the statement of financial position as at June 30 2014.

#### 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. This marina was handed over to the Port Authority in May 2014.

## PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements  
For the Year Ended June 30, 2014  
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### 9. Contingencies and commitments (continued)

The management of the Port Authority expects some financial impact on the Port Authority for the operation of this marina, as no fees are charged to the users of the facility while upkeep and other operational expenses are paid for by the Port Authority.

#### *d) Legal Proceedings against the Authority*

1. On July 13, 2012, a claim amounting to CI\$ 280,178 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. Management is reviewing the Claim with its legal representatives with the aim of vigorously defending its position. At the end of the financial year no further action has been brought about by the plaintiff.
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 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. At the end of the financial year no further action has been brought about by the plaintiff.
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. Subsequent to the financial year end, our attorneys advised that they received a claim from the Plaintiff for medical costs and damages totalling \$846,873. This claim is being reviewed by the Port Authority's insurer, who is expected to settle the claims. The Port Authority has an annual coverage for third party risks of \$1M therefore management does not expect the Port Authority to be impacted financially by the eventual settlement of this claim.
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.

#### *e) Post-employment health insurance coverage and pension*

The Port Authority currently pays health insurance for some retired officers and monthly pension to a small number of retirees. International Accounting Standards No. 19 (IAS 19) directs that funded or unfunded post-employment benefits must be recognized in the statement of financial position (in the case of net defined liability or asset) and the statement of comprehensive income (for the annual expense). The Port Authority is obliged to use the actuarial valuation method to determine the present value of its health insurance benefit obligations for its former workers and the related current service cost. These actuarial



## PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements  
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valuations use several financial and demographic assumptions to determine the liability and current expense of the benefits which will be honoured on behalf of the retirees. Financial assumptions include, the discount rate, estimated future costs of the medical premiums, and the claims rate for the medical plans. Demographic assumptions include estimated mortality and benefits levels.

At 30 June 2014, the Port Authority had not established the potential liability relating to its Post-Employment Benefits. Based on the annual amounts expensed in the statement of comprehensive income for health insurance premium and pension for the retired workers, it is the considered opinion of management that it will not have a material effect on the financial statements.

### *f) 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, except for the request by the Ministry for the Port Authority to suspend the repayments for insurance paid by the ministry to facilitate contributions of \$1.8M towards the preliminary work for the cruise berthing facility. The suspension of the insurance payments was approved by an email from the Ministry of Finance. The schedule for the intended drawdown of this amount shows the full amount being contributed by the Port Authority within the first nine months of the 2014/15 financial year.

## 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 (2013: 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 \$2.3m to its sole shareholder, the Cayman Islands Government, in this regard.

The insurance expense of \$944k in the Statement of Comprehensive income represents the amortized premium for nine months of the 2013/14 insurance period and three months of the 2014/15 insurance period. Included in Prepaid expenses in the Statement of Financial Position is \$558,000 representing insurance prepaid, with the corresponding liability reflected in Accounts payable representing the amount outstanding for the 2015 insurance premium. The remaining \$66k 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; Kirk Freeport, Ltd. Kirk Freeport, 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. The Port Authority provided services to Kirk

## PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the Year Ended June 30, 2014

*(stated in Cayman Islands dollars)*

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Freeport Ltd totalling \$8,134 for 2014 (2013- \$9,540). Unsettled fees for the 2014 was \$247.35 (2013 - \$281.06)

Another related entity for this director is Kirk Office Ltd. Income earned from Kirk Office for the fiscal year ending 30 June 2014 was \$55,660 (\$52,101 – 2013) with unsettled amounts for 2014 of \$2,303 (\$0 -2013). The Authority engaged the services of Kirk Office Ltd totalling \$68,368 (2013 \$116,449). Amounts unpaid for services provided was \$10,138 (2014) and \$8,414 (2013).

Another related party for this director is Kirk Marine Ltd. The Authority earned income totalling \$1,586 (2014) and \$8,810 (2013), with no outstanding amounts.

Another company that this director has a related party relationship with is Progressive Distributors Ltd. Income earned for 2014 was \$451,670 (2013 -\$421,914) Unsettled amounts were \$32,394 (2014) and \$30,341 (2013).

A Director of the Port Authority is a trustee of the Silver Thatch Pension plan. Contributions by the Authority were \$1,310,754 (2014) and \$1,728,333 (2013), with unpaid balances of \$110,441 (2014) and \$179,578 (2013).

Another Director of the Port Authority is the managing Director of Cayman Freight & Shipping Services Ltd, from which the Port Authority earned \$1,310,754 in 2014 and \$1,728,333 in 2013, with unsettled balances of \$110,441 for 2014 and \$179,578 for 2013. The Port Authority also paid this entity \$543 for work done on its behalf in 2014 (2013 -\$1,464)

### Key Management Personnel

There are two full time senior management personnel on open ended employment agreements and one on a fixed term contract. 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 2014 for senior management was \$597,797 (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. One board member receives an additional \$344 per meeting attended for travel, car and accommodation allowance. The other three are civil servants. The total fees paid and expenses for the eligible members for the year ended June 30 2014 was \$22,531 (2013 \$7, 696).

## **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, 2014, 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, 2014 the outstanding balance was CI\$3,485 (2013 CI\$0).



## PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the Year Ended June 30, 2014

(stated in Cayman Islands dollars)

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### 12. Subsequent events

#### a) *Going Concern*

The increase in cargo volumes over the last two fiscal years has reversed the trajectory of declining performance at the Port Authority. The profit for 2014 at \$1.9M is a marked improvement over the modest \$378K recorded the previous year, and our budgeted performance for fiscal 2015 is conservatively set at \$1.5M. Despite the improved performance, the current liabilities exceeded the current assets at the year - end resulting in negative working capital of \$900K (2013 \$2.7M). With the continued improved performance of the Port Authority, this will likely be reversed in the next two fiscal years.

#### b) Revaluation of Fixed assets

Management engaged BCQS to provide a professional appraisal of the fair value of the assets owned by the Port Authority as at 30 June 2014. The valuations were received subsequent to year end and management is in the process of determining the way forward in how the revalued amounts are incorporated in the financial statements.

### 13. Fair value disclosure

At June 30, 2014 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 are 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.



## PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the Year Ended June 30, 2014

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### 14. 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.

#### *Concentration of credit risk*

Credit risk represents the 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:

	2014	2013
Cash and cash equivalents	1,384,195	1,258,963
Accounts receivables	1,378,413	1,131,532
Other receivables, prepaids and deposits	678,494	981,702
Total financial assets	\$3,441,102	\$3,372,197
Non-financial assets	-	-
Total assets per the statement of financial position	\$3,441,102	\$3,372,197

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

As at June 30, 2014:	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Cash and cash equivalents	1,384,195	-	-	1,384,195
Accounts receivables	-	1,307,328	71,085	1,378,413
Other receivables, prepaids and deposits	678,494	-	-	678,494
Total assets exposed to credit risks	\$ 2,062,689	\$ 1,307,328	\$ 71,085	\$ 3,441,102

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	-	1,202,616	71,085	1,131,531
Other receivables, prepaids and deposits	981,702	-	-	981,702
Total assets exposed to credit risks	\$ 2,240,665	\$ 1,202,616	\$ 71,085	\$ 3,372,196

# PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the Year Ended June 30, 2014

(stated in Cayman Islands dollars)

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

As at June 30, 2014:	Up to 45 days	45 to 90 days	> 90	Total
Accounts receivables	1,024,503	97,500	185,325	1,307,328
Other receivables, prepaids and deposits	678,494	-	-	678,494
<b>Total</b>	<b>\$ 1,702,997</b>	<b>\$ 97,500</b>	<b>\$ 185,325</b>	<b>\$ 1,985,822</b>

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
<b>Total</b>	<b>\$ 1,871,718</b>	<b>\$ 67,309</b>	<b>\$ 174,207</b>	<b>\$ 2,113,234</b>

## 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, 2014 and June 30, 2013.

Contractual cash flows (undiscounted)					
	Carrying amount	No stated maturity	0-1 yr	1-2 yrs	> 2 yrs
<b>June 30, 2014</b>					
<b>Financial Assets</b>					
Cash and cash equivalents	1,384,195		1,384,195		
Accounts receivable	1,378,413		1,378,413		
Other receivables, prepaids and deposits	678,494		678,494		
<b>Total</b>	<b>\$ 3,441,102</b>	<b>\$ -</b>	<b>\$ 3,441,102</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Short term liabilities</b>					
Accounts Payables	3,599,542		3,599,542		
Loans repayable within 12 months	1,480,558		1,480,558		
<b>Total</b>	<b>\$ 5,080,100</b>	<b>\$ -</b>	<b>\$ 5,080,100</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Difference in contractual cash flows</b>	<b>\$ (1,638,998)</b>	<b>\$ -</b>	<b>\$ (1,638,998)</b>	<b>\$ -</b>	<b>\$ -</b>
Contractual cash flows (undiscounted)					
	Carrying amount - \$	No stated maturity	0-1 yr	1-2 yrs	> 2 yrs
<b>June 30, 2013</b>					
<b>Financial Assets</b>					
Cash and cash equivalents	1,258,963		1,258,963		
Accounts receivable	1,131,532		1,131,532		
Other receivables, prepaid and deposits	981,702		981,702		
<b>Total</b>	<b>\$ 3,372,197</b>	<b>\$ -</b>	<b>\$ 3,372,197</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Short term liabilities</b>					
Accounts Payables	5,181,504		5,181,504		
Loans repayable within 12 months	1,551,721		1,551,721		
<b>Total</b>	<b>\$ 6,733,225</b>	<b>\$ -</b>	<b>\$ 6,733,225</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Difference in contractual Flows</b>	<b>\$ (3,361,028)</b>	<b>\$ -</b>	<b>\$ (3,361,028)</b>	<b>\$ -</b>	<b>\$ -</b>

## PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the Year Ended June 30, 2014

(stated in Cayman Islands dollars)

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### Financial instruments and associated risks (Cont'd)

#### (a) 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 respectively.

#### (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 rate between CI\$ and US\$ is fixed, the Company is not exposed to foreign currency risk.

### 15. 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:

	2014	2013
Total diesel sales	527,826	1,752,035
Total diesel cost of sales	(407,528)	(1,401,213)
Net Income from Diesel sales	\$ 120,298	\$ 350,822

Commencing 2014, the Port Authority no longer supplies fuel to the United States Coast Guard as the service is now being done by a third party.

### 16. Staff costs

	2014	2013
Salary and Wages	\$9,485,829	9,317,679
Medical Insurance	1,089,745	1,082,740
Pension	982,125	950,874
Other staff costs – Uniforms, training etc.	113,221	110,412
Total Staff Costs	\$ 11,670,920	\$ 11,461,705

### 17. Contracted Services

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

### 18. Repairs and Maintenance

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

For the Year Ended June 30, 2014

(stated in Cayman Islands dollars)

### 19. 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 increase in fees conflicted with FCCA 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 \$519,988.

### 20. 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

### 21. Branch Statements of Financial Position

	Grand Cayman	Cayman Brac	Total	2013
<b>Current assets</b>				
Cash and cash equivalents	1,366,612	17,584	1,384,196	1,258,963
Accounts receivable	1,324,944	54,348	1,379,292	1,131,532
Inventory	707,574	51,690	759,264	705,877
Prepaid expenses	620,381	4,100	624,481	805,040
Other receivables	45,528	8,486	54,014	176,662
	<b>\$4,065,039</b>	<b>\$136,208</b>	<b>\$4,201,247</b>	<b>\$4,078,073</b>
<b>Current liabilities</b>				
Accounts payable and accrued expenses	3,560,945	38,597	3,599,542	5,181,503
Current portion of long term debt	1,480,558	-	1,480,558	1,551,721
	<b>\$5,041,503</b>	<b>\$38,597</b>	<b>\$5,080,100</b>	<b>\$6,733,224</b>
<b>Working capital</b>	<b>(976,464)</b>	<b>97,611</b>	<b>(878,853)</b>	<b>(2,655,151)</b>
Plant, property and equipment	26,654,227	3,570,852	30,984,822	30,984,822
Capital work in progress	-	120,644	247,268	247,268
Long term Investment	16,204,457	-	16,629,927	16,629,927
Long term debt	(3,330,163)	-	(4,838,453)	(4,838,453)
<b>Net assets</b>	<b>\$38,552,057</b>	<b>\$3,789,107</b>	<b>\$42,341,164</b>	<b>\$40,368,413</b>
Represented by				
General reserve	49,048,120	(6,707,835)	42,340,285	40,368,413
Inter-branch account	(10,497,046)	10,497,046	0	
<b>Total</b>	<b>\$38,551,074</b>	<b>\$3,789,211</b>	<b>\$42,340,285</b>	<b>\$40,368,413</b>

**PORT AUTHORITY OF THE CAYMAN ISLANDS**

Notes to the Financial Statements

For the Year Ended June 30, 2014

*(stated in Cayman Islands dollars)***22. Branch Statements of Comprehensive Income**

	Grand Cayman	Cayman Brac	Total	2013
Operating income	19,211,825	710,389	19,922,214	19,491,638
Operating expenses	14,972,933	1,208,707	16,181,640	16,259,025
	<b>4,238,892</b>	<b>(498,318)</b>	<b>3,740,574</b>	<b>3,232,613</b>
Other income/ (expenses)				
Interest income	1,188	-	1,188	1,727
Other income/expense	-	-	-	-
Loss on disposal of fixed assets	0	0	-	(928,612)
Depreciation	(1,627,036)	(142,750)	(1,769,786)	-1,927,728
	<b>(1,625,848)</b>	<b>(142,750)</b>	<b>(1,768,598)</b>	<b>\$378,000</b>
Net income/(loss) for year	2,613,044	-641,068	1,971,976	378,000
General reserve/ (deficit) at beginning of year	46,435,181	-6,066,767	40,368,414	39,871,719
Prior Year Adjustments	(105)	-	(105)	118,695
General reserve at end of year	<b>\$49,048,120</b>	<b>(6,707,835)</b>	<b>\$42,340,285</b>	<b>\$40,368,414</b>



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## REPRESENTATION LETTER

10/31/2014

Auditor General  
Office of the Auditor General  
3<sup>rd</sup> Floor, Anderson Square,  
64 Shedden Road, George Town  
PO Box 2583, Grand Cayman  
KY1-1103, Cayman Islands

Dear Sir,

This representation letter is provided in connection with your audit of the financial statements of Ports Authority of Cayman Islands (the "Authority") as of 30 June 2014 and for the year ended for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material aspects, in accordance with International Financial Reporting Standards (IFRS).

We confirm that we are responsible for the fair presentation in the financial statements of the statement of financial position, statement of financial performance, changes in net assets/equity and cash flow statement in conformity with IFRS, including the appropriate selection and application of accounting policies and other explanatory notes.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material regardless of size if they involve an omission or misstatement of accounting information that in light of surrounding circumstances makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of the date of this letter, which we understand will be the date of your audit report, the following representations made to you during your audit:

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated *1 September 2014*, for the preparation of the financial statements in accordance with International Financial Reporting Standards; in particular the financial statements are fairly presented in accordance therewith.
2. The Financial Statements have been prepared on a basis which is consistent with the prior year's Financial Statements. We have prepared the financial statements on the basis that





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the entity is able to continue as a going concern, including to meet its obligations in the ordinary course of business, and we are not aware of any significant information to the contrary.

3. We are responsible for all significant estimates and judgments affecting the financial statements. Significant estimates and judgments and their underlying assumptions, methods, procedures and the source and reliability of supporting data including those measured at fair value are reasonable and based on applicable guidance, and are appropriately disclosed in the financial statements. The procedures and methods utilized in developing assumptions, estimates and judgments are appropriate and have been consistently applied in the periods presented.
4. There are no material transactions, agreements or accounts that have not been properly recorded in the accounting records underlying the financial statements.
5. We have provided you with:
  - a. Access to all information of which we are aware that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
  - b. Additional information that you have requested from us for the purpose of the audit; and
  - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
6. We believe that the effects of uncorrected misstatements detected in the current year that relate to the current and prior year, are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to the representation letter.
7. The entity has appropriately reconciled its books and records (e.g., general ledger accounts) underlying the financial statements to their related supporting information (e.g., sub ledger or third-party data). All related reconciling items considered to be material were identified and included on the reconciliations and were appropriately adjusted in the financial statements, as necessary. There were no material un-reconciled differences or material general ledger suspense account items that should have been adjusted or reclassified to another account balance. There were no material general ledger suspense account items written off to a statement of financial position account, which should have been written off to a statement of financial performance account and vice versa.



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#### **Legal and regulatory compliance**

8. There have been no instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency except as disclosed in these financial statements.
9. There have been no communication from regulatory agencies or government representatives concerning investigations or allegations of non-compliance with laws or regulations in any jurisdiction or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements in the event of noncompliance. The entity has not consulted any legal advisers concerning litigation, claims or assessments.
10. We consider that the entity's policies and procedures are, and have been, adequate to ensure compliance with the Proceeds of Crime Law (2008) and the related Money Laundering Regulations and the Guidance Notes on the Prevention and Detection of Money Laundering in the Cayman Islands. We are not aware of any events during the reporting period or through the date of this letter which indicate that management's responsibility in this respect has not been carried out effectively. We confirm that no matters have come to our attention with respect to the entity's compliance or possible noncompliance with anti-money laundering laws and regulations in any jurisdiction, the effects of which should be considered for disclosure in the Financial Statements

#### **Minutes and contracts**

11. We have made available to you all significant contracts and agreements and all minutes of the meetings of directors and any committees or summaries of actions of recent meetings for which minutes have not yet been prepared.
12. The board meetings held during the financial year and up to the date of this letter were made available to you namely:

Minute	Date
347	August 15, 2013
348	September 5, 2013
349	September 6, 2013
350	September 11, 2013
351	October 9, 2013





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352	November 27, 2013
353	December 18, 2013
354	January 29, 2014
355	February 6, 2014
356	February 28, 2014
357	March 10, 2014
358	March 12, 2014
359	March 18, 2014
360	April 30, 2014
361	April 30, 2014
362	May 29, 2014
363	June 25, 2014
364	July 23, 2014

13. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of non-compliance.

#### **Fraud**

14. We understand that the term “fraud” includes misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Misstatements resulting from fraudulent financial reporting involve intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users. Misstatements resulting from misappropriation of assets involve the theft of an entity’s assets, often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.
15. We acknowledge our responsibility for the design, implementation and maintenance of programs and controls to provide reasonable assurance that fraud or error is prevented and detected, and have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
16. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
- Management;
  - Employees who have significant roles in internal control over financial reporting; or
  - Others where the fraud could have a material effect on the financial statements.





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17. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

#### **Assets**

18. All cash and bank accounts and all other properties and assets of the entity of which we are aware are included in the Financial Statements at the statement of position date. The entity has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral, except as disclosed in the financial statements.
19. The entity is responsible for determining and maintaining the adequacy of the allowance for bad debt provision as well as estimates used to determine such amounts. All receivables have been appropriately reduced to their estimated net realizable value.
20. We have identified each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item and depreciated each item separately in accordance with related IAS 16.
21. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

#### **Liabilities**

22. All liabilities of the entity of which we are aware are included in the financial statements at the yearend date.
23. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and accounted for and disclosed in accordance with International Financial Reporting Standards.
24. We confirm that the financial statements are appropriately stated with respect to the liability for pension obligations and the expenses for pension obligations. We further confirm that the disclosures made in the financial statements for employee benefits are accurate and sufficient.



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- C. Arrangements with financial institutions involving compensating balances, arrangements involving restrictions on cash balances and lines of credit, or similar arrangements, except as already disclosed in the financial statements.
- d. Commitments to purchase or sell securities under forward contracts, futures contracts, repurchase or reverse-repurchase agreements, underwriting agreements, and other agreements to repurchase assets previously sold.
- e. Other agreements not in the ordinary course of business.
- f. Exposures to off-balance sheet financial instrument risks.

#### Others

32. We are not aware of any significant deficiencies in the design or operation of internal controls over financial reporting. We recognize that we are responsible for establishing and maintaining an internal control structure, the objectives of which are to provide us with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed as authorized and recorded properly to permit preparation of the financial statements.

#### 33. Property & Equipment

Included in the Financial Statements is land held by PACI at Safe Haven. The Land is carried at original cost even though a significant portion of the land was lost as a result of the development of a Marina. Further, disclosed as part of the property owned by PACI is a Marina which was commissioned on May 1, 2014. PACI has not been able to reliably measure the cost of the asset to be able to incorporate it into the books.

#### 34. Post-Employment Benefits – Medical and Pension Liabilities

PACI currently pays some amounts as pension to some former employees who worked in the ports sometime back. PACI also pays for their medical insurance. PACI has not estimated the potential liability that would be recognized in the books as required under IAS 19. Management believes that this amount is not material to the financial statements as a whole.

#### 35. Property & Equipment – CDC Land

The Customs Department currently uses part of the PACI land for some of its activities. PACI has no agreement with Customs and does not receive any income from such usage. Further, Customs has been given the go ahead to put up some developments on the land. PACI does not believe the usage by Customs significantly curtails its operations. PACI retains title to the said land.





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### 36. Labour Cost in Renovated Assets

As a normal activity in renovation of its assets, PACI utilizes internal labour. PACI has not included the cost of this labour in the capitalized cost of the assets as required by IAS 16. Management believes that the uncapitalized amount is not material to the financial statements as a whole.

### 37. Inventory Valuation

As a normal activity, PACI acquires inventory from various suppliers. PACI incurs handling and other costs involved in inventory. PACI has not included these costs in its inventory valuation as required under IAS 2. Management believes that the amount not included is not material to the financial statements as a whole.

### 38. Loan Covenants

PACI holds a loan with a local bank. Among the requirements, is that PACI meet certain debt to equity ratios and also provide unqualified financial statements by certain required dates. PACI does not always meet the requirements of these covenants. Management does not believe any material breach of the covenants has occurred.

### 39. Going Concern

PACI current assets currently exceed its current liabilities by over 800k. Further PACI has committed to pay off some significant costs with regard to the Cruise Berthing Facility which might further impact the profitability and balance sheet position of PACI. Due to future prospects and the extinguishment of the loan in the near future, management believes PACI will be able to continue operating as a going concern into the foreseeable future.

We understand that your audit was conducted in accordance with International Standards on Auditing as defined and described by the International Federation of Accountants and was, therefore, designed primarily for the purpose of expressing an opinion on the financial statements of the entity and that your tests of the accounting records and other auditing procedures were limited to those that you considered necessary for that purpose.

Yours faithfully,

Port Director

Port Deputy Director - Finance