

Port Authority of the Cayman Islands

Financial Report

For the 18 month period ended 31 December 2017



Financial Statements of the

**PORT AUTHORITY OF THE
CAYMAN ISLANDS**

31 December 2017

**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 Acting 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 Acting Port Director and Acting 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 extended financial period ended 31 December 2017.

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 18 month period ended 31 December 2017;
- (b) Fairly reflect the financial position as at 31 December 2017 and performance for the 18 month period ended 31 December 2017
- (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.



Joseph Woods
Acting Port Director

Date: 19/9/19



Don Hutchinson
Acting Deputy Port Director
Finance

Date: 19/9/19

AUDITOR GENERAL'S REPORT

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

Opinion

I have audited the financial statements of the Port Authority of the Cayman Islands (the "Authority"), which comprise the statement of financial position as at 31 December 2017 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the 18-month period from 1 July 2016 to 31 December 2017, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 8 to 46.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Authority as at 31 December 2017 and its financial performance and its cash flows for the 18-month period from 1 July 2016 to 31 December 2017 in accordance with International Financial Reporting Standards.

Basis for Opinion

I conducted my audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Authority in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)*, together with the ethical requirements that are relevant to my audit of the financial statements in the Cayman Islands, and I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

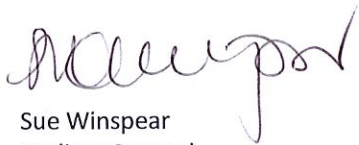
My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

AUDITOR GENERAL'S REPORT (continued)

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I have undertaken the audit in accordance with the provisions of Section 60(1)(a) of the *Public Management and Finance Law (2018 Revision)*. I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.



Sue Winspear
Auditor General

20 September 2019
Cayman Islands

PORT AUTHORITY OF THE CAYMAN ISLANDS
Statement of Financial Position

As at 31 December 2017
(Stated in Cayman Islands dollars)

	Note	December 2017 \$	June 2016 (Restated)\$	1 July 2015 \$
ASSETS				
Current Assets				
Cash and cash equivalents	4	6,821,326	6,233,447	3,793,047
Accounts receivable (Net)	4(a)	1,761,307	1,507,253	1,071,804
Inventory		964,200	997,466	738,414
Prepaid expenses	4(b)	134,777	825,357	575,915
Other receivables and deposits	4(c)	1,230,765	209,553	66,063
Total Current Assets		10,912,375	9,773,076	6,245,243
Non-Current Assets				
Fixed Assets				
Land- freehold	5	29,827,000	29,827,001	13,824,552
Docks and buildings	5	19,469,914	19,634,999	14,098,378
Other fixed assets	5	5,405,011	4,291,735	3,774,233
Work in progress	9	510,912	569,250	226,414
Total Fixed Assets	5	55,212,837	54,322,985	31,923,577
Investment Property	10	8,356,461	8,310,000	15,772,466
Total Non-Current Assets		63,569,298	62,632,985	47,696,043
TOTAL ASSETS		74,481,673	72,406,061	53,941,286
LIABILITIES and EQUITY				
Current Liabilities				
Accounts payable and accrued expenses	12	1,560,824	3,039,216	4,059,531
Current maturities on long term liabilities		-	1,430,000	1,400,000
Total Current Liabilities		1,560,824	4,469,216	5,459,531
Non – Current Liabilities				
Long term Loans		-	322,538	1,782,525
Defined benefit liability	13	34,694,000	30,189,000	24,662,000
Total Non- Current Liabilities		34,694,000	30,511,538	26,444,525
TOTAL LIABILITIES		36,254,824	34,980,754	31,904,056
GENERAL EQUITY				
ASSET REVALUATION RESERVE		22,021,975	21,220,433	22,037,230
		16,204,874	16,204,874	-
		38,226,849	37,425,307	22,037,230
TOTAL LIABILITIES and EQUITY		74,481,673	72,406,061	53,941,286

Approved:

Joseph Woods
Joseph Woods (Acting Port Director)

19/9/19

Date

Don Hutchinson
Don Hutchinson (Acting Deputy Port Director –Finance)

19/9/19

Date

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

PORT AUTHORITY OF THE CAYMAN ISLANDS
Statement of Comprehensive Income

For the 18 month period ended 31 December 2017
(Stated in Cayman Islands dollars)

	Note	December 2017 \$	June 2016 \$ (Restated)
OPERATING REVENUE			
Cargo handling	19	24,226,373	15,177,699
Cruise ship passenger fees	20	4,411,845	3,079,884
Port development fees	20	1,658,308	1,301,957
Maritime services	21	2,255,545	1,612,041
Rental income	27	1,562,256	1,236,208
Other income	22	217,957	282,560
Diesel sales	23	171,306	212,296
Total Operating Revenue		34,503,590	22,902,645
OPERATING EXPENSES			
Staff costs	24	19,265,896	12,305,053
Repairs and maintenance	26	2,947,386	1,670,248
Contracted services	25	2,097,854	1,290,328
Insurance		768,964	600,513
Utilities		749,686	531,839
Diesel		372,864	237,154
Finance charges	11	79,401	59,556
Miscellaneous		310,167	101,756
Rent		69,394	40,007
Stationery, supplies & computer supplies		134,037	75,449
Travel, conventions & training		199,149	98,265
Advertising and entertainment		402,563	88,112
Total Operating Expenses		27,397,361	17,098,280
GROSS OPERATING SURPLUS FOR THE YEAR		7,106,229	5,804,365
OTHER INCOME/ (EXPENSES)			
Interest income		1,899	1,737
Defined benefit expense – post employment health care	13	(4,010,000)	(2,435,000)
Disposal of fixed assets	6	(124,058)	(471,830)
Loss on revaluation of Equipment		-	(514,304)
Loss on revaluation of Investment Property		-	(6,384,586)
Depreciation	5	(1,663,828)	(1,694,484)
Total Other Income/(Expenses)		(5,795,987)	(11,498,467)
NET INCOME/ (LOSS) FOR YEAR		1,310,242	(5,694,102)
Other Comprehensive income for the year:			
Gain on revaluation of property		-	22,589,460
Gain on revaluation of equipment		-	1,395,505
Other Comprehensive expense:			
Remeasurements of defined benefit obligation:			
effect of changes in financial assumptions	13	(777,000)	(3,433,000)
Total Comprehensive Income for the year		533,242	14,857,863

PORT AUTHORITY OF THE CAYMAN ISLANDS
Statement of Cash Flows

For the 18 month period ended 31 December 2017
(Stated in Cayman Islands dollars)

		December 2017	June 2016
		\$	\$
			(Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income /(loss) for year		533,242	14,857,863
Adjustments to reconcile net income to net cash used in Operating activities:			
Depreciation	5	1,663,828	1,694,484
Defined benefit expense	13	4,787,000	5,868,000
Loss on disposal of fixed assets	6	124,058	471,830
Loss on revaluation of equipment	8	-	514,303
Loss on revaluation of investment property		-	6,384,586
Prior period adjustment		(5,938)	185,225
Defined benefit movement		282,000	341,000
Gain on revaluation of equipment	8	-	(1,395,505)
Gain on revaluation of investment property		-	(22,589,460)
Net change in working capital:			
Accounts receivable		(254,054)	(435,449)
Inventory		33,266	(259,052)
Prepaid expenses		690,580	(249,442)
Other receivables		(1,021,211)	(143,490)
Accounts payable and accrued expenses		(1,478,392)	363,685
Net Cash Provided by Operating Activities		5,354,379	5,608,578
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed Assets purchased	5	(1,992,057)	(1,011,584)
Long Term Investment purchased	10	(46,461)	(42,770)
Construction in progress (Net)	5	(693,444)	(342,837)
Net Cash Used by Investing Activities		(2,731,962)	(1,397,191)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of long term debt	11	(1,752,538)	(1,429,987)
Defined benefit payment for active enrolees	13	(282,000)	(341,000)
Contribution to Government		-	-
Net Cash Used by Financing Activities		(2,034,538)	(1,770,987)
Net Increase in cash and Cash Equivalents during the year		587,879	2,440,400
Cash and cash equivalents at the beginning of the year		6,233,447	3,793,047
Cash and cash equivalents at the end of year	4	6,821,326	6,233,447

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

PORT AUTHORITY OF THE CAYMAN ISLANDS
Statement of Changes in Equity

For the 18 month period ended 31 December 2017
(Stated in Cayman Islands dollars)

	\$
Beginning balance 1 July 2015	22,037,230
Correction for understatement of	
General reserves in prior period (Work in progress, Expenses, Accruals)	189,214
Defined benefit liability – employer direct benefit payments	341,000
Total comprehensive income (Restated)	14,857,863
Transactions with shareholder:	
Contributions to Cayman Islands Government	-
Total transactions with shareholder	-
Ending balance 30 June 2016 (Restated)	37,425,307
Beginning balance 1 July 2016	37,425,307
Correction for errors in prior year	(5,938)
Payments made on defined benefit obligation for current beneficiaries	282,000
Experience Adjustments – defined benefit liability	(7,763)
Comprehensive income:	
Total comprehensive (loss) for the year	533,243
Ending balance 31 December 2017	38,226,849

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

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the 18 month period ended 31 December 2017

(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 (2017 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 31 December 2017, the Port Authority had 154 employees (2016-148 employees). The Head Office of 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. Statement of Compliance and basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board.

The financial statements of the Port Authority have been prepared on an accrual basis under the historical cost convention. The reporting currency is Cayman Islands Dollars and figures presented have been rounded to the nearest dollar.

The financial year end of the Port Authority was changed from 30 June to 31 December in order to facilitate more efficient monitoring of revenues and expenditures by Government during a financial year. Accordingly, the current financial statements are prepared for 18 months from 1 July 2016 to 31 December 2017 and as a result, the comparative figures stated in the Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash flow and related notes are not directly comparable.

The accounting policies are consistent with those used in the previous year, except otherwise noted.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the 18 month period ended 31 December 2017

(Stated in Cayman Islands dollars)

3. Significant accounting policies

The principal accounting policies adopted by the Port Authority are as follows:

(a) Changes in accounting policies

The Port Authority recognizes the effects of changes in accounting policy retrospectively. When presentation or classification of items in the financial statements are amended or accounting policies are changed, comparative figures are restated to ensure consistency with the current period unless it is impractical to do so.

(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 deposits.

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 comprehensive income.

This is consistent with the Port Authority's risk management strategy to absorb and disclose adverse movement in financial assets and liabilities as soon as they occur.

(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.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the 18 month period ended 31 December 2017

(Stated in Cayman Islands dollars)

3. Significant accounting policies (continued)

c) Financial instruments (continued)

(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.

(v) Specific instruments

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents are current and savings account bank balances and 30 day revolving deposits.

Interest income and expense

Interest income and expense are recognised in the statements 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

Fixed assets are initially stated at cost less accumulated depreciation and impairment losses.

Where an asset is acquired for nil or nominal consideration, the asset is recognized initially at fair value, where fair value can be reliably determined, and as revenue in the Statement of Comprehensive Income in the year in which the asset is acquired.

Except for computer equipment, computer software, furniture and equipment, light & buoys and loose tools (which are reported as "other fixed assets" in the statement of financial position), the fixed assets reported in the statement of financial position as of the period end are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and impairment loss. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

Any revaluation increase arising from the revaluation of such asset is recognized in the statement of changes in equity, except to the extent that it reverses a revaluation decrease for the same class of asset previously in other income/expense in the statement of comprehensive income. In this case, the increase is credited to the other income or expense to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such assets is recognized in the other income/expense to the extent that it exceeds the balance, if any, held the revaluation reserve relating to previous revaluation gain of that class of asset.

Computer equipment, computer software, furniture and equipment, light & buoys and loose tools are stated at cost less accumulated depreciation and accumulated impairment losses.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the 18 month period ended 31 December 2017

(Stated in Cayman Islands dollars)

3. Significant accounting policies (continued)

(d) Fixed assets (continued)

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	50 – 73 Years
Investment Property	50 years
Marine Dock	50 years
Cranes and Heavy Equipment	10- 25 years
Lights and buoys	15 Years
Equipment and furniture	5 Years
Computer Equipment	5 Years

Residual values and useful lives are reviewed, and adjusted if necessary at the end of each reporting period.

(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 sales 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 18 month period ended 31 December 2017

(Stated in Cayman Islands dollars)

(iv) Revaluation gains and losses

The Port Authority has begun to revalue its assets to ensure that the carrying amount does not exceed the recoverable amount. This is intended to move the assets to being reported at fair value rather than at historical cost. For the year ended 30 June 2016, the plant and equipment was reported at fair value less subsequent depreciation where applicable. This value was determined by reference to the market (dealers, traders & online auctions) and adjusted for transportation and other direct costs normally associated with the relevant assets.

(e) Impairment

The carrying amount of the Port Authority's assets other than inventories (see note 3(h)) are reviewed at each statement of financial position 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) Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains or losses arising from changes in the fair value of investment property are included in the statement of comprehensive income from the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the period in which the property is derecognised.

(g) 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 statement of financial position dates. Foreign exchange differences arising on translation are recognised in the statements 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 fair values were determined.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the 18 month period ended 31 December 2017

(Stated in Cayman Islands dollars)

(h) 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 the amount that management believes will be adequate to cover any bad debts, based on an evaluation of collectability and prior bad debts experience.

(i) Construction in progress

This relates to cost incurred attributable to bringing the asset to condition necessary for it to be capable of operating in the manner intended for its use. They are then reclassified to the appropriate fixed asset category once completed. Construction in progress is measured at cost. No depreciation is calculated until it is completed and available for its intended use.

(j) 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 items. Any change in the allowance for obsolescence is reflected in the statements of comprehensive income in the year of change. There was no provision for obsolescence in the year ended 31 December 2017 or 30 June 2016.

(k) Revenue recognition

Fee charged for services provided is recognised as income in the statement of comprehensive income in the accounting period it is earned or the rendering of the service is completed or substantially completed, and the customer is invoiced.

(l) Expenses

Expenses are recognized in the accounting period in which they are incurred.

(m) Operating leases

Leases where the significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under these arrangements are recognized as an expense in the statement of comprehensive income.

(n) Borrowing costs

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

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the 18 month period ended 31 December 2017

(Stated in Cayman Islands dollars)

(o) 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 2017 were \$1,115,145 (2016-\$865,857). The Port Authority also participates in another pension plan with Sagicor. Employees are allowed to contribute to Sagicor pension amounts in excess of \$500 per month (which is given to the primary pension provider, Silver Thatch). Total contributions to Sagicor for the financial year were \$79,389 (2016 -\$50,710)

(p) New and revised accounting standards issued but not yet effective

Certain new accounting standards have been published that are not mandatory for the 31 December 2017 reporting period and have not been adopted early by the Port Authority. The Port Authority's assessments of the impact of these new standards are set out below:

IFRS 9, Financial instruments (Amendment)

In July 2014, the IASB issued the final version of IFRS 9, "Financial Instruments", which replaces IAS 39, "Financial Instruments: Recognition and Measurement" and all previous versions of IFRS 9. IFRS 9 provides guidance on the classification and measurement of financial assets and financial liabilities, establish an expected credit losses impairment model and a new hedge accounting model with corresponding risk management activity disclosures. The standard is effective for annual periods beginning on or after January 1, 2018. The Port Authority is currently assessing the impact of the new standard.

IFRS 15, Revenue from contracts with customers

In May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers". IFRS 15 replaces IAS 18, "Revenue", IAS 11, "Construction Contracts", and some revenue related interpretations. IFRS 15 establishes a new control-based revenue recognition model and provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standards on leases, insurance contracts and financial instruments. The new standard becomes effective January 1, 2018, with early adoption permitted. The Port Authority is currently assessing the impact of the new standard.

IFRS 16, Leases

In January 2016, the IASB issued IFRS 16, "Leases", which replaces IAS 17, "Leases". IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard establishes a single lessee accounting model while maintaining the classification of either an operating or financing lease for the lessor similar to IAS 17. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. The Port Authority is currently assessing the impact of the new standard.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the 18 month period ended 31 December 2017

(Stated in Cayman Islands dollars)

4. Cash and cash equivalents

	Dec 2017	June 2016
	\$	\$
Bank balances and short term deposits	6,821,326	6,233,447

This consists of operating bank balances and revolving 30 days deposits held by the Port Authority.

Restricted cash

Included in the bank balances above is restricted cash of \$89,569 (2016: \$113,060) representing deposits held on escrow for tenants of renting the Port Authority's investment properties.

4(a). Accounts receivable

	Dec 2017	June 2016
	\$	\$
Accounts receivable	1,832,392	1,578,338
Less: provision for impairment	(71,085)	(71,085)
	1,761,307	1,507,253

Fair value

The carrying value of receivables approximates their fair value.

Impairment

The aging profile of receivables at year-end is detailed below:

	Dec 2017			June 2016		
	Gross	Impairment	Net	Gross	Impairment	Net
	\$000	\$000	\$000	\$000	\$000	\$000
Past due up to 45 days	1,523,546	(7,000)	1,516,546	1,143,593	(7,000)	1,136,593
Past due 46- 90 days	87,754	(13,085)	74,669	156,200	(13,085)	143,115
Past due over 90 days	221,092	(51,000)	170,092	278,545	(51,000)	227,545
Total	1,832,392	(71,085)	1,761,307	1,578,338	(71,085)	1,507,253

Management makes a judgmental provision for a portion of accounts overdue for each of the AR buckets as indicated above. In addition to this judgmental provision, receivables that have been proven uncollectible are written off directly to expenses as bad debts.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the 18 month period ended 31 December 2017

(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 was given to those with a higher degree of risk for default. There was no movement in the provision over the comparative period.

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

	Actual Dec 2017 \$000	Actual June 2016 \$000
Balance at 1 July	71,085	71,085
Increase in provisions during the year	-	-
Receivables written off during the year	-	-
Balance at 31 December / 30 June	71,085	71,085

4(b). Prepaid Expenses

These relate to expenses that have been paid in advance and accruals for staff benefits at year end.

The unamortized insurance benefit balance was higher in 2016 due to the insurance coverage extending for 21 months during the 2017 financial year instead of the usual 12 months to coincide with the amended financial year.

	Dec 2017	June 2016
	\$	\$
Unamortized Insurance Benefit	18,740	712,597
Deferred Leave	53,130	82,785
Rent prepaid	62,907	29,975
Total	134,777	825,357

4(c). Other Receivables and Deposits

This represents amounts paid in advance to secure services and as deposit on assets and equipment.

These are short term in nature and was finalized during the 2018 financial year. \$1,128,500 of the total for 2017 related to deposit on the RTG cranes, which the Port Authority subsequently received and commissioned in 2018.

	Dec 2017	June 2016
	\$	\$
Deposits for assets and expenses	1,230,765	209,533
Total	1,230,765	209,533

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the 18 month period ended 31 December 2017

(Stated in Cayman Islands dollars)

5. Fixed Assets

	Freehold Land	Docks and Buildings	Other Assets	Construction In Progress	Total
	\$	\$	\$	\$	\$
Cost					
At 30 June 2016 (restated)(note 8)	29,827,000	19,634,999	11,994,395	569,251	62,025,645
Additions	-	240,521	1,748,692	693,444	2,682,656
Disposals	-	-	(747,515)	-	(747,515)
Write offs	-	(4,918)	-	-	(4,918)
Transfers	-	751,783	-	(751,783)	-
At 31 Dec 2017	29,827,000	20,622,385	12,995,572	510,912	63,955,868
Accumulated Depreciation					
At 30 June 2016 (restated)(note 8)	-	-	7,702,660	-	7,702,660
Charge for Year	-	1,152,471	511,357	-	1,663,828
Disposals	-	-	(623,457)	-	(623,457)
At 31 Dec 2017	-	1,152,471	7,590,560	-	8,743,031
Net Book Value					
At 31 Dec 2017	29,827,000	19,469,914	5,405,011	510,912	55,212,837
At 30 June 2016 (restated)(note 8)	29,827,000	19,634,999	4,291,735	569,251	54,322,985

PORT AUTHORITY OF THE CAYMAN ISLANDS**Notes to the Financial Statements**

For the 18 month period ended 31 December 2017

*(Stated in Cayman Islands dollars)***5. Fixed Assets (Continued)****Analysis of Other Assets**

	Vehicles & Equipment	Computer Equipment	Computer Software	Equipment & Furniture	Lights & Buoys	Loose Tools	Total
	\$	\$	\$	\$	\$	\$	\$
Cost							
At 30 June 2016	9,051,285	534,514	681,675	978,943	598,533	149,445	11,994,395
Additions	1,054,955	151,874	134,246	343,086	40,800	23,731	1,748,692
Disposals	(343,792)	(186,450)	(89,569)	(127,704)	-	-	(747,515)
At 31 Dec 2017	9,762,448	499,938	726,352	1,194,325	639,333	173,176	12,995,572
Accumulated Depreciation							
At 30 June 2016	5,206,644	406,237	648,240	714,814	597,489	129,236	7,702,660
Charge for Year	215,858	77,498	39,306	157,462	7,164	14,069	511,357
Disposals	(222,471)	(185,731)	(87,551)	(127,704)	-	-	(623,457)
At 31 Dec 2017	5,200,031	298,004	599,995	744,572	604,653	143,305	7,590,560
Net Book Value							
At 31 Dec 2017	4,562,417	201,934	126,357	449,753	34,680	29,871	5,405,012
At 30 June 2016	3,844,641	128,277	33,435	264,129	1,044	20,209	4,291,735

PORT AUTHORITY OF THE CAYMAN ISLANDS**Notes to the Financial Statements**

For the 18 month period ended 31 December 2017

*(Stated in Cayman Islands dollars)***5. Fixed Assets (Continued)**

	Freehold Land	Docks and Buildings	Other Assets	Construction In Progress	Total
	\$	\$	\$	\$	\$
Cost					
At 30 June 2015	13,824,552	26,729,229	13,630,852	226,414	54,411,047
Additions	-	308,817	703,123	342,836	1,354,777
Disposals	(1,290,433)	(17,974)	(448,378)	-	(1,756,785)
Revaluations	-	-	72,262	-	72,262
Write offs	-	-	(2,072,999)	-	(2,072,999)
Transfers	-	-	109,535	-	109,535
At 30 June 2016	12,534,119	27,020,072	11,994,395	569,250	52,117,837
Accumulated Depreciation					
At 30 June 2015	-	12,630,851	9,856,619	-	22,487,470
Charge for Year	-	755,593	504,056	-	1,259,649
Disposals	-	(17,974)	(370,641)	-	(388,615)
Revaluations	-	-	(808,938)	-	(808,938)
Write offs	-	-	(1,585,338)	-	(1,585,338)
Transfers	-	(3,774)	106,902	-	103,128
At 30 June 2016	-	13,364,696	7,702,660	-	21,067,356
Net Book Value					
At 30 June 2016	12,534,119	13,655,376	4,291,735	569,250	31,050,481
At 30 June 2015	13,824,552	14,098,378	3,774,233	226,414	31,923,577

PORT AUTHORITY OF THE CAYMAN ISLANDS**Notes to the Financial Statements**

For the 18 month period ended 31 December 2017

*(Stated in Cayman Islands dollars)***5. Fixed Assets (Continued)****Analysis of Other Assets**

	Vehicles & Equipment	Computer Equipment	Computer Software	Equipment & Furniture	Lights & Buoys	Loose Tools	Total
	\$	\$	\$	\$	\$	\$	\$
Cost							
At 30 June 2015	10,941,075	464,616	681,675	809,770	598,533	135,183	13,630,852
Additions	449,790	69,898	-	169,173	-	14,262	703,123
Disposals	(448,378)	-	-	-	-	-	(448,378)
Revaluations	72,262	-	-	-	-	-	72,262
Write offs	(2,072,999)	-	-	-	-	-	(2,072,999)
Transfers	109,535	-	-	-	-	-	109,535
At 30 June 2016	9,051,285	534,514	681,675	978,943	598,533	149,445	11,994,395
Accumulated Depreciation							
At 30 June 2015	7,518,651	368,100	623,124	628,999	593,315	124,430	9,856,619
Charge for Year	346,008	38,137	25,116	85,815	4,174	4,806	504,056
Disposals	(370,641)	-	-	-	-	-	(370,641)
Revaluations	(808,938)	-	-	-	-	-	(808,938)
Write offs	(1,585,338)	-	-	-	-	-	(1,585,338)
Transfers	106,902	-	-	-	-	-	106,902
At 30 June 2016	5,206,644	406,237	648,240	714,814	597,489	129,236	7,702,660
Net Book Value							
At 30 June 2016	3,844,641	128,277	33,435	264,129	1,044	20,209	4,291,735
At 30 June 2015	3,422,424	96,516	58,551	180,771	5,218	10,753	3,774,233

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the 18 month period ended 31 December 2017

(Stated in Cayman Islands dollars)

6. Disposal of Fixed Assets

During the 2017 financial period the Port Authority disposed of assets with a cost of \$747,515 and depreciation of \$623,457, resulting in a loss on disposal of \$124,058 (2016: \$471,830). The reductions in asset values and accumulated depreciation are reflected in the Statement of Financial Position and the effects are shown in the asset schedules contained in the notes accompanying these financial statements.

The assets disposed of comprised of items retired during the current financial year, is summarized below:

LOSS ON DISPOSAL DETAILS

Description	Cost	Dep'n	Carrying Value	Proceeds	Loss
Plants and vehicles	343,792	222,471	121,321	-	121,321
Computers	186,450	185,731	719	-	719
Furniture and Equipment	127,704	127,704	-	-	-
Software	89,569	87,551	2,018	-	2,018
Totals	747,515	623,457	124,058	-	124,058

7. Debt swap with the Ministry of Finance

The Ministry of Finance and Economic Development and the Port Authority entered into an agreement during the previous financial year to exchange 1.99 acres of land that was being used by another public sector entity for a sum equivalent to the appraised value of the portions of land.

An appraisal conducted by the valuation office resulted in a market valuation of \$1,384,000. This amount was deducted from the sum of \$1,506,909 owed by the Port Authority to the Ministry of Finance and Economic Development for insurance premiums paid on the Port Authority's behalf.

The transaction was completed during the previous financial year and the land duly transferred to the new owners. There was no outstanding balance owed to the Ministry as at the end of the financial year.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the 18 month period ended 31 December 2017

(Stated in Cayman Islands dollars)

8. Revaluation of Vehicles and equipment

During the previous financial period, the Port Authority revalued its vehicles and equipment in the first phase of a programme to revalue all the assets and report them at their fair values. The valuation technique used was quoted market values for the vehicles and replacement cost values for the forklifts and cranes obtained from reputable dealers in the industry. The revaluation resulted in an increase in the carrying amounts of some of the assets totaling \$1,395,505. This revaluation gain was reflected in other comprehensive income in accordance with IAS 16 and accumulated in equity as revaluation reserve. Other assets had a revaluation loss totaling \$514,303, which was recognized in the profit and loss as required by IAS 16.

The gross carrying value of all fully depreciated PPE that was in use at 31 December 2017 was \$2,685,286.

IAS 16 requires the following additional disclosures due to assets being reported on the revaluation basis: Following is a description of the valuation methodologies used for assets measured at fair value.

Plant vehicles and specialized equipment: Online auction and dealers' websites were reviewed and the median values for similar assets taken as representative of the quoted values. In most instances, quotes on exact model and year were readily available.

Cranes and Forklifts: These were appraised by independent industry professionals (dealers) operating in the USA. For the cranes, the dealer of MANITOWOC operating in the USA was used to provide a valuation. This involved a site visit and an inspection of the condition of the cranes. These items are normally subject to material transportation and assembly costs when sourced from the USA.

As a result, judgement had to be exercised to apply transport and assembly cost. In most instances, the freight and assembly costs were readily available from the Port Authority's accounting records. For the Forklifts, another Taylor Dealer in the USA was used to appraise the equipment.

For both bases, the effective date of the revaluation was 31 March 2016.

Revaluation of Land, Buildings and Investment Property

As part of a programme to revalue all of the fixed assets and report them at their fair values, the Port Authority has restated the prior year values of land, buildings and investment property to reflect their fair values under the revaluation and fair value basis respectively. The valuation techniques used were the Depreciated Replacement Cost (DRC) and Income capitalization approaches. The revaluation resulted in a net increase in the carrying amounts of \$5,296,577 and \$17,292,882 for buildings and land respectively. The revaluation gains were reflected in other comprehensive income in accordance with IAS 16 and accumulated in equity as revaluation reserve. Investment Property had a loss on revaluation of \$6,384,586, which was recognized in the profit and loss as required by IAS 40.

An independent expert, with an effective revaluation date of 30 June 2016, performed the revaluation. See tables on pages 24 and 25 for the details of the valuation.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the 18 month period ended 31 December 2017

(Stated in Cayman Islands dollars)

Fair Value Measurements

International Financial Accounting Standards No. 13, Fair Value Measurements, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under IFRS 13 are described below:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Port Authority has the ability to access.
- Level 2 Inputs to the valuation methodology include:
- Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

There were no other significant valuations performed using unobservable inputs. Consequently, the fair value hierarchy for the inputs utilized by the Port Authority to obtain the market value is assessed at level 2. As such, no further disclosure in respect of effects on the Statement of Comprehensive Income for the revaluation is warranted, except as done below:

Assets and Fair Values as at December 31, 2017

	Level 1	Level 2	Level 3	Total
Vehicles and heavy equipment	-	2,162,787	-	2,162,787
Cranes	-	1,798,951	-	1,798,951
Land and buildings	-	49,296,914	-	49,296,914
Total Other assets	-	53,258,652	-	53,258,652

There were no transfers between level 1 and level 2 during the period.

PORT AUTHORITY OF THE CAYMAN ISLANDS**Notes to the Financial Statements**

For the 18 month period ended 31 December 2017

(Stated in Cayman Islands dollars)

BUILDINGS	NBV	FAIR VALUE	REVALUATION GAIN/ (LOSS)
Admin Building	1,113,223	1,710,000	596,777
Cargo & land improvements	4,348,743	5,720,000	1,371,257
Buildings – Billing Office + Mod Office	847,626	686,016	(161,610)
Warehouse/Maintenance and Guard Hut	2,006,437	4,313,983	2,307,546
Safe Haven Marina	3,009,160	3,415,000	405,840
Docks & Buildings (CYB)	3,004,128	3,075,000	70,872
Spotts Jetty / Landing	9,105	715,000	705,895
Total	14,338,422	19,634,999	5,296,577

LAND	NBV	FAIR VALUE	REVALUATION GAIN/ (LOSS)
HD Land estimated area of 5.04 acres	2,208,419	15,187,818	12,979,399
CDC Land(20B P445)	2,524,353	4,260,000	1,735,647
CDC Land(14C 353 & 428B)	4,022,718	3,700,000	(322,718)
West Bay Beach North / Safe Haven	823,475	3,170,000	2,346,525
Spotts	1,547,904	2,575,000	1,027,096
Land – West Bay South	715,800	75,000	(640,800)
Land - Little Cayman	381,300	280,000	(101,300)
Land – Hog sty Bay	172,500	152,183	(20,317)
Land- CYB	137,650	117,000	(20,650)
Land Cayman Brac East	0	310,000	310,000
TOTAL	12,534,119	29,827,001	17,292,882

PORT AUTHORITY OF THE CAYMAN ISLANDS
Notes to the Financial Statements

For the 18 month period ended 31 December 2017
(Stated in Cayman Islands dollars)

INVESTMENT PROPERTY	NBV	FAIR VALUE	REVALUATION GAIN/ (LOSS)
RWCT	14,694,586	8,310,000	(6,384,586)

9. Capital works in progress

	December 2017 \$	June 2016 \$
New Building (CYB)	120,644	120,644
Spotts Landing Facility	15,450	314,995
GT Dock Rehabilitation	-	113,772
Marine Services	19,840	19,840
CDC Improvement	348,938	-
North Terminal upgrades	6,040	-
Total	510,912	569,250

10. Investment Property

	Buildings \$
Cost	
At 30 June 2016 (restated)(note 8)	8,310,000
Additions	46,461
At 31 December 2017	8,356,461
Accumulated Depreciation	
At 30 June 2016 (restated)(note 8)	-
Charge for Year	-
At 31 December 2017	-
Net Book Value	
At 31 December 2017	8,356,461
At 30 June 2016 (restated)(note 8)	8,310,000

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the 18 month period ended 31 December 2017

(Stated in Cayman Islands dollars)

10. Investment Property (continued)

Investment Property is reported under IAS 40, using the fair value basis. Investment Property consist of retail shops which are leased. This is fair valued at the end of each reporting period and changes in the fair value is charged to "other income / expense" in the statement of comprehensive income.

11. Long Term Liabilities

	Current \$	1-2 yrs. \$	Dec 2017 \$	June 2016 \$
a) Royal Watler Terminal				
(i) Royal Bank of Canada	-	-	-	1,752,492
LIBOR plus 1.5% (1.68955%)				
Total	-	-	-	1,752,492

	Dec 2017 \$	June 2016 \$
Total Long Term Liabilities	-	1,752,492
Less Current Maturities	-	(1,430,000)
Total	-	322,492

Commercial bank loan is comprised of:

	Dec 2017 \$	June 2016 \$
\$14,350,000 (US\$17,500,000) issued 30 March 2004 for the Royal Watler Terminal and bearing interest of LIBOR (0.18955% as at 30 June 2015) 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:		
<ul style="list-style-type: none"> 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. 	-	1,752,492
Total Commercial Bank Loan	-	1,752,492

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the 18 month period ended 31 December 2017

(Stated in Cayman Islands dollars)

11. Long Term Liabilities (continued)

Included in operating expenses is finance charges of \$79,401 (2016: \$59,556), of which \$23,555 (2016: \$46,013), and \$55,846 (2016: 10,100) relate to interest expenses and bank fees respectively.

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%

	Interest rates	
	1%	(1%)
Sensitivities as at 31 December 2017	\$	\$
Impact on Net income for the year	-	-
Impact on Shareholder's equity	-	-
	Interest rates	
	1%	-1%
Sensitivities as at June 30, 2016	\$	\$
Impact on Net income for the year	(22,914)	22,914
Impact on Shareholder's equity	(22,914)	22,914

1 - Related to loan expense

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the 18 month period ended 31 December 2017

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12. Accounts Payable and Accrued Expenses

This represents unpaid expenses incurred in the current and prior years, which are due within the next twelve months. Approximately \$854,912 of this amount comprises payables occurring in the normal course of business. The remaining \$705,912, relates to year- end accruals for employee entitlements (i.e. Wages and vacation leave), and amounts held in escrow for tenants of rental properties, as summarized below:

Details	Dec 2017	June 2016
	\$	\$
Amounts owed to Government	-	1,521,910
Other Creditors	854,912	839,756
Accruals -staff benefits	242,334	506,695
Provisions and other accruals	366,352	57,795
Escrow deposits	97,226	113,060
Totals	1,560,824	3,039,216

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

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13. Defined benefit liability: Post employment health care

The Port Authority provides health care benefits for its staff who have given ten (10) years' service and who attain at least 55 years old prior to retirement. The benefit is in the form of continuation of their health insurance coverage on the medical plan in force for active employees. The premiums for this health insurance coverage are paid for by the Port Authority for all eligible retirees until the end of their lives. This coverage falls within the definition of a defined benefit by the International Accounting Standards and as such represents a future liability of the Port Authority. The Port Authority is required to use the actuarial valuation method to determine the present value of its health insurance benefit obligations for its former workers as well as future retirees and the related current service costs. 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).

These actuarial 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.

The Port Authority commissioned Mercer Actuaries of Canada to provide this service and their assessment is included hereunder. The Port Authority has a present value net defined benefit obligation of \$34,694,000 at the end of the financial year 31 December 2017 (2016:\$30,189,000). The details of the expected valuation and the assumptions used are reproduced hereunder in accordance with IAS 19.

This post -employment benefit has been in existence from the implementation of a similar move by central government to allow its retirees to continue to benefit from the medical plans held prior to retirement from the civil service. This was formalised in the staff manual and made known to staff.

The Port Authority established a monthly savings programme to fund this liability. Consequently, while at the end of the period the entire \$34,694,000 is unfunded; the monthly savings will begin to offset the liability in the coming years. At December 31 2017, the savings totalled \$1,156,055 (2016:\$0).

The Port Authority also currently pays a monthly pension to a small number of retirees.

Management does not consider the pension paid to retired workers to be material as all four (4) retirees currently receive a combined \$34,360 per annum (2016:\$34,360). This benefit will not pass to their estate after their demise and they are all well into their seventies or eighties.

PORT AUTHORITY OF THE CAYMAN ISLANDS
Notes to the Financial Statements

For the 18 month period ended 31 December 2017
(Stated in Cayman Islands dollars)

13. Defined benefit liability: Post employment health care (continued)

Plan Name	Port Authority of the Cayman Islands	
	31 Dec 2017	30 June 2016
Financial year ending on		
Currency Information		
1. Local currency	KYD	KYD
2. Reporting currency	KYD	KYD
A. Change in defined benefit obligation		
1. Defined benefit obligation at end of prior year	30,189,000	24,662,000
2. Service cost		
a. Current service cost	2,252,000	1,259,000
b. Past service cost	-	-
c. (Gain) / loss on settlements	-	-
3. Interest expense	1,758,000	1,176,000
4. Cash flows		
d. Benefit payments from plan assets	-	-
e. Benefit payments from employer	(282,000)	(341,000)
f. Settlement payments from plan assets	-	-
g. Settlement payments from employer	-	-
h. Participant contributions	-	-
5. Other significant events		
a. Increase / (decrease) due to effect of any business combinations/ divestures /transfers	-	-
b. Increase / (decrease) due to plan combinations	-	-
6. Remeasurements		
a. Effect of changes in demographic assumptions	(1,507,000)	-
b. Effect of changes in financial assumptions	2,321,000	3,433,000
c. Effect of experience adjustments	(37,000)	-
7. Effect of changes in Foreign exchange rates	-	-
8. Defined benefit obligation at the end of year	34,694,000	30,189,000
B. Change in fair value of plan assets		
1. Fair value of plan assets at end of prior year	-	-
2. Interest income	-	-
3. Cash flows		
a. Total employer contributions	-	-
i. Employer contributions	-	-
ii. Employer direct benefit payments	282,000	341,000
iii. Employer direct settlement payments	-	-
b. Participant contributions	-	-
c. Benefit payments from plan assets	-	-
d. Benefit payments from employer	(282,000)	(341,000)
e. Settlement payments from plan assets	-	-
f. Settlement payments from employer	-	-
4. Other significant events		
a. Increase / (decrease) due to effect of any business combinations/ divestures or transfers	-	-
b. Increase / (decrease) due to plan combinations	-	-
5. Remeasurements		
a. Return on plan assets (excluding interest income)	-	-
6. Effect of changes in Foreign exchange rates	-	-
7. Fair value of plan assets at the end of year	-	-

PORT AUTHORITY OF THE CAYMAN ISLANDS
Notes to the Financial Statements

For the 18 month period ended 31 December 2017

(Stated in Cayman Islands dollars)

13. Defined benefit liability: Post employment health care (continued)

Plan Name	Port Authority of the Cayman Islands	
	31 Dec 2017	30 June 2016
Financial period ending on		
C. Amounts recognized in the statement of financial position		
1. Defined benefit obligation	34,694,000	30,189,000
2. Fair value of plan assets	-	-
3. Funded status	34,694,000	30,189,000
4. Effect of asset ceiling/onerous liability	-	-
5. Net defined benefit liability/(asset)	34,694,000	30,189,000
D. Components of defined benefit cost		
1. Service cost		
a. Current service cost	2,252,000	1,259,000
b. Reimbursement service cost	-	-
c. Past service cost	-	-
d. (Gain) / loss on settlements	-	-
e. Total service cost	2,252,000	1,259,000
2. Net interest cost		
a. Interest expense on Defined Benefit Obligation (DBO)	1,758,000	1,176,000
b. Interest /(income) on plan assets	-	-
c. Interest /(income) on reimbursement rights	-	-
d. Interest expense on effect of (asset ceiling)/onerous liability	-	-
e. Total net interest cost	1,758,000	1,176,000
3. Remeasurements of Other Long Term Benefits	-	-
4. Administrative expenses and/or taxes (not reserved within DBO)	-	-
5. Defined benefit cost included in Profit and Loss (P&L)	4,010,000	2,435,000
6. Remeasurements (recognized in the other comprehensive income)		
a. Effect of changes in demographic assumptions	(1,507,000)	-
b. Effect of changes in financial assumptions	2,321,000	3,433,000
c. Effect of experience adjustments	(37,000)	-
d. (Return) on plan assets (excluding interest income)	-	-
e. (Return) on reimbursement rights (excluding interest income)	-	-
f. Total remeasurement included in Other Comprehensive Income (OCI)	777,000	3,433,000
7. Total defined benefit cost recognized in P&L and OCI	4,787,000	5,868,000
E. Net defined benefit liability/(asset) reconciliation		
1. Net defined benefit liability/(asset)	30,189,000	24,662,000
2. Defined benefit cost included in P&L	4,010,000	2,435,000
3. Total remeasurement included in OCI	777,000	3,433,000
4. Other significant events		
a. Net transfer in/(out) (including the effect of any business combinations/divestitures)	-	-
b. Amounts recognized due to plan combinations	-	-
5. Other significant events		
a. Employer contributions	-	-
b. Employer direct benefit payments	(282,000)	(341,000)
c. Employer direct settlements payments	-	-
6. Credit to reimbursements	-	-
7. Effect of changes in Foreign exchange rates	-	-
8. Net defined benefit liability/(asset) as of end of year	34,694,000	30,189,000

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For the 18 month period ended 31 December 2017

(Stated in Cayman Islands dollars)

13. Defined benefit liability: Post employment health care (continued)

Plan Name	Port Authority of the Cayman Islands	
	31 Dec 2017	30 June 2016
Financial period ending on		
F. Define benefit obligation		
1. Defined benefit obligation by participant status		
a. Actives	26,932,000	23,158,000
b. Vested deferreds	-	-
c. Retirees	7,762,000	7,031,000
d. Total	34,694,000	30,189,000
G. Significant actuarial assumptions		
<i>Weighted-average assumptions to determine defined benefit obligations</i>		
Discount rate	3.85%	4.20%
Health care cost trend rates		
Immediate trend rate	5.00%	5.00%
Ultimate trend rate	5.00%	5.00%
Year rate reaches ultimate trend rate	N/A	N/A
Mortality assumption	RP-2014	RP-2014
<i>Weighted-average assumptions to determine defined benefit cost</i>		
Discount rate	4.20%	4.80%
Effective rate for net interest	3.80%	4.80%
Effective discount rate for service cost	4.31%	4.80%
Effective rate for interest on service cost	4.17%	4.80%
Health care cost trend rates		
Immediate trend rate	5.00%	5.00%
Ultimate trend rate	5.00%	5.00%
Year rate reaches ultimate trend rate	N/A	N/A
Mortality assumption	RP-2014	RP-2014
H. Sensitivity analysis		
<i>Present value of defined benefit obligations</i>		
Discount rate - 25 basis points	36,483,000	31,785,000
Discount rate + 25 basis points	33,016,000	28,694,000
Health care cost trend rates - 100 basis points	30,783,000	26,907,000
Health care cost trend rates + 100 basis points	37,832,000	33,263,000
Mortality assumption + 10%	33,725,000	29,455,000
I. Expected cash flows for following year		
1. Expected employer contributions	422,000	364,000
2. Expected contributions to reimbursement rights	-	-
3. Expected total benefit payments		
Year 1	422,000	364,000
Year 2	482,000	398,000
Year 3	512,000	460,000
Year 4	568,000	502,000
Year 5	678,000	534,000
Next 5 years	4,612,000	4,037,000

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(Stated in Cayman Islands dollars)

13. Defined benefit liability: Post employment health care (continued)

The principal financial and demographic assumptions as at 31 December 2017 and 30 June 2016 and for IAS Reporting.

Economic Assumptions	Postretirement Healthcare	Basis of Development – Accounting Specific Assumptions
Discount rate (p.a.) - June 30, 2014 - June 30, 2015 - June 30, 2016 - Dec 31, 2017 -	4.60% per annum 4.80% per annum 4.20% per annum 3.85% per annum	Per IAS 19 para. 83 determined by reference to market yields on high quality corporate bonds (consistent with the term of the benefit obligations) at the fiscal year end date. Mercer US Above Mean Yield Curve (referencing US corporate bonds yields) used to determine discount rates due to strong economic and currency links between the US and Cayman Islands.
Inflation (p.a.)	N/A	
Salary increases (p.a.)	N/A	
Administrative expenses	Included in projected premiums	
Rate of Medical Inflation (p.a.)	5.00%	Based short –term and long –term medical inflation expectations for the Cayman Islands and overseas care.
Healthcare Lifetime Maximum	Only post-65 maximum applies to retirees; maximum not indexed	

Demographic Assumptions	Postretirement Healthcare	Basis of Development – Accounting Specific Assumptions
Current mortality rates - June 30, 2016 - 31 Dec 2017	RP-2014 RP-2014 Mortality Table scaled back to 2006 using MP-2014	Recent mortality studies in the U.S. and Canada shows that people are living longer. New mortality tables have been issued by U.S. and Canada. The mortality table reflects actual mortality improvement rates experienced in the US over the last 20 years.
Future mortality improvements - 30 June 2016 - 31 Dec 2017	Scale MP-2014 Scale MP -2016	Broad consensus amongst longevity experts that mortality improvement will continue in the future. Scale MP-2016 was released in 2016 and was adopted by the Cayman Islands Government in determining its pension and post-retirement healthcare plan obligations. Scale MP-2016 is a refinement of scale MP-2014 and should reduce the benefit obligation.
Turnover rates	Age & gender based rates – see page 32	Consistent with turnover rates for the other Statutory Authorities
Retirement Age	60	Mandatory retirement age in the Cayman Islands
Current healthcare claims cost assumption per participant	Medical \$10,100 Dental \$525 Vision \$100	Based on 2015/16 premium rates
Healthcare coverage – future pensioners	Male – 100% single Female – 100% single	The Port Authority pays for single coverage only
Healthcare utilization changes due to age	Mercer standard healthcare aging assumptions for medical and dental	Based on analysis of healthcare utilization for Mercer clients in Canada and US and by reference to Society of Actuaries studies.

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Notes to the Financial Statements

For the 18 month period ended 31 December 2017
(Stated in Cayman Islands dollars)

13. Defined benefit liability: Post employment health care (continued)

Turnover Rates

Turnover rates at sample ages

Age	Males	Females
20-24	7.5%	12.5%
25-29	5.0%	12.5%
30-34	3.5%	7.5%
35-39	2.5%	4.5%
40-44	1.5%	2.5%
45-49	0.5%	0.5%
50+	0.0%	0.0%

14. Contingencies and commitments

a) Liability to Cayman Islands Government

The Port Authority is required to comply with The Public Authorities Law, 2017, (the “PAL”). Amongst other matters, the PAL requires that where a public authority has surplus cash reserves for a period of more than ninety days, the surplus shall be paid to core government unless otherwise directed by Cabinet, after written consultation with the Board. The PAL also requires that a public authority pay dividends in accordance with the formulae established by the Minister of Finance and Economic Development (the “Ministry”) after written consultation with the Board, unless otherwise directed by Cabinet.

The Ministry has advised the Port Authority that it will not be required to pay a dividend out of its surplus as at 31 December 2017.

Consequently, no provision has been made in these financial statements for payment of surplus cash reserves and dividends. Going forward, the Port Authority will be required to pay a dividend in accordance with Government's policy for the payment of annual dividends by statutory authorities and Government companies unless the Port Authority agrees, in writing annually, with the Ministry that the Port Authority would be exempt from doing so under such policy.

b) Leases

(i) Operating Lease

The Port Authority leases a portion of land for its operations. The minimum lease payments are \$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	40,000
Lease Obligation after 1 year	200,000

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the 18 month period ended 31 December 2017

(Stated in Cayman Islands dollars)

14. Contingencies and commitments (continued)

b) Leases (continued)

(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.

The Accounting Standard 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, and the risks and rewards incidental to legal ownership is enjoyed by the lessor. Consequently, the Port Authority has no receivable to book in the statement of financial position as at 31 December 2017.

c) Legal Proceedings against the Authority

- (i) On 13 July 2012, a claim was made due to perceived negligence by the Port Authority, which resulted in the total loss of a third party's vessel while in Cayman Islands waters. The amount of the claim is \$280,178. Management is reviewing the claim with its legal representatives with the aim of vigorously defending its position. At the end of the financial year, the plaintiff has brought about no further action. The legal representatives do not believe there is a high probability that this action, if brought against the Port Authority, will be successful.
- (ii) On 4 September 2012, a statement of claim was served upon the Port Authority, as the second defendant, with regard to certain declaratory rights to a Marina under development on the Port Authority's Land. The Action is ongoing. The Authority has involved its lawyers who are vigorously defending its position. No provision has been made in the accounts for this and there was no indication as to the amount being pursued. However, the Port Authority's legal representatives advised that the probability of this action being successful is unlikely.
- (iii) On 19 March 2009, legal proceedings were commenced against the Port Authority regarding injury sustained by a third party after an accident involving the Port Authority's vehicle. Our attorneys advised that they received a claim from the Plaintiff for medical costs and damages totalling \$846,873. The Port Authority's insurer, who is expected to settle the claims, is reviewing this claim. 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. At the close of the financial year, no further communication was received from any connected party by the Port Authority on the matter
- (iv) In May 2012 an employee of the Port Authority was dismissed but later demanded reinstatement. There is no update on this matter, as it has not progressed.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the 18 month period ended 31 December 2017

(Stated in Cayman Islands dollars)

14. Contingencies and commitments (continued)

c) Legal Proceedings against the Authority (continued)

- (v) In January 2016, counsel for a former employee served notice contending that the non-renewal of a contract was not done properly, and the further entitlement of the former employee to medical benefits. There is no update on this matter, as it has not progressed.
- (vi) On April 4 2016, a letter was served on the Authority by counsel for a customer whose shipment was damaged at the dock. It claimed the Port Authority was negligent resulting in unspecified losses. There is no update on this matter, as it has not progressed.
- (vii) In November 2017, notice was served via a letter from counsel of a customer whose property was damaged at the Port Authority's premises while being moved. The Attorney General is handling the matter and the Port Authority expects a minimal payment to resolve this matter.
- (viii) The Port Authority was put on notice of a potential claim from a cruise ship passenger who sustained injuries while disembarking a tender on Port Authority property. No correspondence has been received from counsel with respect to this matter. Such a claim however, may be statute barred.
- (ix) In February 2017, Proceedings were commenced against the Authority for damages purportedly suffered by the Port Authority's alleged neglect resulting in the grounding of a vessel. A proposed stay was agreed by the Port Authority, which was approved by the Court by way of a Consent Order. The stay has since expired and no further communication has been received on this 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.

15. 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.

- a) Insurance coverage for property, motor, worker's compensation and other risks is provided through the Cayman Islands government for an annual premium of \$768,964 (2016: \$531,839). The Cayman Islands government for all its entities at market rates procures this insurance, and they apportion the related liability according to the value of the entities' assets.

The insurance expense of \$768,964 in the Statement of Comprehensive income represents the amortized premium for insurance period 1 July 2016 to 31 December 2017.

- b) A director of the Port Authority is the proprietor of a company that 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 Port Authority. The Port Authority provided services to Kirk Freeport Ltd totalling \$10,571 for 2017 (\$8,415 –2016). Unsettled fees for the 2017 was \$0 (\$0 -2016)

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the 18 month period ended 31 December 2017

(Stated in Cayman Islands dollars)

15. Related party transactions (continued)

- c) Another related entity for this director is Kirk Office Ltd. Income earned from Kirk Office for the fiscal year ending 31 December 2017 was \$101,763 (\$53,790 – 2016) with unsettled amounts at 31 December 2017 of \$383.81 (\$9,155 - 2016).
- d) Another related party for this director is Kirk Marine Ltd. The Authority earned income totalling \$1,868.94 for the year ended 31 December 2017 (\$1,473 - 2016), with no outstanding amount at 31 December 2017 (\$869.94 - 2016).
- e) Another company that this director has a related party relationship with is Progressive Distributors Ltd. Income earned for 2017 was \$722,169 (2016 - \$445,452) Unsettled amounts were \$35,853 (2017) and \$0 (2016)
- f) A director of the Port Authority is a trustee of the Silver Thatch Pension plan. Contributions by the Authority were \$1,115,146 (2017) and \$865,857 (2016), with unpaid balances of \$0 (2017) and \$0 (2016).
- g) Another director of the Port Authority is the managing director of Cayman Freight & Shipping Services Ltd, from which the Port Authority earned \$2,014,653 in 2017 and \$1,232,037 in 2016, with unsettled balances of \$117,230 for 2017 and \$0 for 2016.
- h) Key Management Personnel
There are five (5) full time senior management personnel on open-ended employment agreements (2016: 4), and one on a fixed term contract (2016: 1). The total remuneration includes regular salary, pension contribution, health insurance contribution, bonuses and post - employment health care. The pension and health insurance benefits provided to key management personnel are similar to that provided for all employees. Total remuneration in 2017 for senior management was \$887,926 (2016: \$370,237).
- i) Board members
There are 10 members that make up the Port Authority's board (2016:10); of those members, only six receive a stipend of \$150.00 per meeting held (2016:\$150). One board member receives an additional \$344 per meeting (2016:\$344) attended for travel, car and accommodation allowance, and one board member declined the stipend. The other three are civil servants. The total fees and expenses paid for the eligible members for the year ended 31 December 2017 was \$39,445 (2016:\$32,568).

16. Lines of credit

The Port Authority has a bank overdraft facility up to \$250,000 bearing interest at 1.5% (2016: 1.5%) above Prime. As at December 31, 2017, this overdraft facility has not been used. In addition, the Port Authority has three (2016: 3) corporate credit cards with a total credit limit of \$24,600 (2016: \$24,600). At 31 December 2017, the outstanding balance was \$0 (2016: \$0).

17. Fair value disclosure

At 31 December 2017, the following methods and assumptions were used by management to estimate the fair value of each class of financial instruments:

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Notes to the Financial Statements

For the 18 month period ended 31 December 2017

(Stated in Cayman Islands dollars)

17. Fair value disclosure (continued)

(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 financial instruments 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 non-interest bearing obligations for post-employment health care. The carrying amount of these obligations represents the discounted liability and is adjusted each year by actuarial valuation to account for changes in assumptions and inputs. All other loans were fully repaid during the financial period.

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 11. Changes in the discount rate assumptions could significantly affect the estimates, especially for the defined benefit liability, as seen in note 13.

18. 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 Port 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 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 one local bank. The Port Authority also holds receivables from clients. Counterparties to these financial instruments expose the Port Authority to credit-related losses in the event of non-performance. However, management does not expect the bank and the debtors to renege on their obligations, due to the soundness of the bank and the credit checks done by the Port Authority. Some provision is made for likely bad debts, and when they materialize, they are expensed.

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(Stated in Cayman Islands dollars)

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

	December 2017	June 2016
	\$	\$
Cash and cash equivalents	6,821,326	6,233,447
Accounts receivables	1,761,307	1,507,253
Other receivables, prepaids and deposits	1,365,542	1,034,910
Total financial assets	9,948,175	8,775,610
Non-financial assets	-	-
Total assets per the Statement of Financial Position	9,948,175	8,775,610

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

	Neither past due nor impaired	Past due but not impaired	Impaired	Total
	\$	\$	\$	\$
As at December 31, 2017:				
Cash and cash equivalents	6,821,326	-	-	6,821,326
Accounts receivables	1,516,546	315,846	(71,085)	1,761,307
Other receivables, prepaids and deposits	1,365,542	-	-	1,365,542
Total assets exposed to credit risks	9,703,414	315,846	(71,085)	9,948,175
	Neither past due nor impaired	Past due but not impaired	Impaired	Total
	\$	\$	\$	\$
As at June 30, 2016:				
Cash and cash equivalents	6,233,447	-	-	6,233,447
Accounts receivables	1,136,593	441,745	(71,085)	1,507,253
Other receivables, prepaids and deposits	1,034,910	-	-	1,034,910
Total assets exposed to credit risks	8,404,950	441,745	(71,085)	8,775,610

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

	Up to 45 days	46 to 90 days	> 90	Total
	\$	\$	\$	\$
As at December 31, 2017:				
Accounts receivables	1,516,546	74,669	170,092	1,761,307
Other receivables, prepaids and deposits	1,365,542	-	-	1,365,542
Total	\$2,882,088	\$74,669	\$170,092	\$3,126,849

	Up to 45 days	45 to 90 days	> 90	Total
	\$	\$	\$	\$
As at June 30, 2016:				
Accounts receivables	1,136,593	143,115	227,545	1,507,253
Other receivables, prepaids and deposits	1,034,910	-	-	1,034,910
Total	2,171,503	\$143,115	\$227,545	2,542,163

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Notes to the Financial Statements

For the 18 month period ended 31 December 2017

(Stated in Cayman Islands dollars)

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 December 31, 2017 and June 30, 2016.

	Contractual cash flows (undiscounted)				
	Carrying amount	No Stated Maturity	0 – 1 Yr	1 – 2 yrs	> 2 yrs
	\$	\$	\$	\$	\$
December 31, 2017					
Financial Assets					
Cash and cash equivalents	6,821,326	-	6,821,326	-	-
Accounts receivable	1,761,307	-	1,761,307	-	-
Other receivables, prepaids and deposits	1,365,542	-	1,365,542	-	-
Total	9,948,175	-	9,948,175	-	-
Short term liabilities					
Accounts Payables	1,560,824	-	1,560,824	-	-
Loans repayable within 12 months	-	-	-	-	-
Total	1,560,824	-	1,560,824	-	-
Difference in contractual cash flows	8,387,351	-	8,387,351	-	-
	Contractual cash flows (undiscounted)				
	Carrying amount	No Stated Maturity	0 – 1 Yr	1 – 2 yrs	> 2 yrs
	\$	\$	\$	\$	\$
June 30, 2016					
Financial Assets					
Cash and cash equivalents	6,233,447	-	6,233,447	-	-
Accounts receivable	1,507,253	-	1,507,253	-	-
Other receivables, prepaid and deposits	1,034,910	-	1,034,910	-	-
Total	8,775,610	-	8,775,610	-	-
Short term liabilities					
Accounts Payables	3,039,216	-	3,039,216	-	-
Loans repayable within 12 months	1,430,000	-	1,430,000	-	-
Total	4,469,216	-	4,469,216	-	-
Difference in contractual Flows	4,306,394	-	4,306,394	-	-

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the 18 month period ended 31 December 2017

(Stated in Cayman Islands dollars)

18. Financial instruments and associated risks (continued)

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 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 of cash and cash equivalents are presented in note 18.

Foreign currency risk

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

19. Cargo Handling income is comprised of the following:

	December 2017	June 2016
	\$	\$
Cargo dues	16,565,393	10,460,889
Cargo handling charges	279,521	218,688
Storage charges	1,270,613	283,911
Trucking Fees	1,256,535	789,348
Crane Fees	4,046,550	2,556,800
Empty Container Handling and storage	634,266	771,584
Other fees	173,495	96,479
Total cargo handling income	24,226,373	15,177,699

20. Income from cruise passengers

The Port Authority collects a passenger fee of US\$3 per manifested cruise passenger. The Authority allocates US\$1 per passenger from this amount to service the Royal Watler Cruise Terminal facility loan. This is called a Port development fee. The remainder is allocated as passenger fees. For the Fiscal period July 2016 to December 2017, the Cayman Islands recorded 2,466,988 cruise passenger arrivals (2016: 1,781,240) giving rise to passenger fees of \$4,411,845 (2016: \$3,079,884) and Port Development fees of \$1,658,308 (2016: \$1,301,957).

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Notes to the Financial Statements

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(Stated in Cayman Islands dollars)

21. Maritime services consist of work performed directly to the vessels in port:

	December 2017	June 2016
	\$	\$
Dock Usage Surcharge	357,340	232,780
Lay-up Anchorage Fees	454	2,412
Navigation Aids	50,274	36,236
Line Handling	249,950	191,900
Berthing Fees	634,337	429,291
Hire of Equipment	14,875	20,125
Overtime Worked	845,714	621,424
Cruise Ship Tender Dues	102,601	77,873
Total Maritime services income	2,255,545	1,612,041

22. Other income is comprised of:

	December 2017	June 2016
	\$	\$
Container Trans-Shipments	8,000	47,400
Crane Heavy Lift	14,000	14,700
Garbage Fees	122,830	82,775
Billboard Ads	6,450	22,431
Water Sales (Net)	(36,015)	11,508
Finance Charges on overdue balances	13,535	10,265
ID's, vessel inspection, miscellaneous	89,157	93,482
Total other income	217,957	282,560

23. Diesel Sales

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

Diesel sales are shown net in the Statement of Comprehensive Income; due to the incidental nature of the transaction to the overall operations, and it is outside the main business that the Port Authority is engaged in.

	December 2017	June 2016
	\$	\$
Diesel Sales	536,718	553,527
Diesel Cost of Sales	(365,411)	(341,230)
Net Income from diesel sales	171,306	212,296

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For the 18 month period ended 31 December 2017

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24. Staff costs

	December 2017	June 2016
	\$	\$
Salary and Wages	15,598,629	10,003,436
Medical Insurance	1,856,774	1,169,576
Pension	1,583,549	977,072
Other staff costs – Uniforms, training etc.	226,944	154,969
Total Staff Costs	19,265,896	12,305,053

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

	December 2017	June 2016
	\$	\$
Security	1,286,444	815,108
Janitorial	360,554	205,410
Audit	132,505	54,995
Legal	111,261	46,676
Professional	207,090	168,139
Total contracted services	2,097,854	1,290,328

26. 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. For the 18 month period ended 31 December 2017, repairs and maintenance amounted to \$2,947,386 (2016: \$1,670,248)

27. Rental Properties

The Port Authority owns properties that it lets to tenants for a monthly rental. The annual rent receipts are estimated at \$1,150,000 per annum. For the period ended 31 December 2017, the actual rent earned was \$1,562,256 (2016- \$1,236,208)

	\$
Rental Income for 1 year	1,150,000
Rental Income for 2-5 years	4,600,000

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For the 18 month period ended 31 December 2017

(Stated in Cayman Islands dollars)

28. Branch Statements of Financial Position

	Grand Cayman \$	Cayman Brac \$	Total 2017 \$	(Restated) 2016 \$
Current assets				
Cash and cash equivalents	6,587,986	233,340	6,821,326	6,233,447
Accounts receivable	1,696,295	65,011	1,761,306	1,507,253
Inventory	928,344	35,856	964,200	997,466
Prepaid expenses	133,767	1,010	134,777	825,357
Other receivables	1,227,194	3,571	1,230,765	209,553
Total current Assets	10,573,586	338,788	10,912,375	9,773,076
Current liabilities				
Accounts payable and accrued expenses	1,524,713	36,111	1,560,824	3,039,215
Current portion of long term debt	-	-	-	1,430,000
Total current liabilities	1,524,713	36,111	1,560,824	4,469,215
Working capital	9,048,873	302,677	9,351,551	5,303,861
Plant, property and equipment	50,770,732	3,931,193	54,701,925	53,753,734
Capital work in progress	390,268	120,644	510,912	569,250
Investment Property	8,356,461	-	8,356,461	8,310,000
Long term debt	-	-	-	(322,538)
Defined benefit liability –health care	(34,694,000)	-	(34,694,000)	(30,189,000)
Net assets	33,872,334	4,354,514	38,226,849	37,425,307
Represented by:				
General reserve	30,286,937	(8,264,962)	22,021,975	21,220,433
Asset Revaluation Reserve	15,844,652	360,222	16,204,874	16,204,874
Inter-branch account	(12,259,254)	12,259,254	-	-
Equity	33,872,335	4,354,514	38,226,849	37,425,307

Financial performance of Cayman Brac Operations

Cayman Brac continues to post losses on an annual basis. Total accumulated losses for the 2017 period was (\$654,109) 2016 – (\$272,146) as seen in the table below. The total losses for Cayman Brac to date are reflected in the negative general reserve figure of (\$8,214,553) as at 31 December 2017 - 2016 (7,618,296).

In addition, the cost of Grand Cayman performing offloading and loading of cargo for Cayman Brac without a fee being levied has resulted in Grand Cayman providing additional subsidy to Cayman Brac.

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Notes to the Financial Statements

For the 18 month period ended 31 December 2017

(Stated in Cayman Islands dollars)

29. Branch Statements of Comprehensive Income

	Grand Cayman \$	Cayman Brac \$	Total \$	2016 \$
Operating income	33,120,382	1,383,209	34,503,591	22,902,645
	(25,583,248)	(1,814,113)	(27,397,361)	
Operating expenses				(17,098,280)
	7,537,134	(430,904)	7,106,230	5,804,365
<i>Other income/ (expenses)</i>				
Interest income	1,899		1,899	1,737
Other income/expense	-	-	-	-
Loss on Revaluation	-	-	-	(514,304)
Loss on revaluation of Investment Property	-	-	-	(6,384,586)
Loss on disposal of fixed assets	(124,058)	-	(124,058)	(471,830)
Depreciation	(1,440,623)	(223,205)	(1,663,828)	(1,694,484)
Defined benefit annual expense	(4,010,000)		(4,010,000)	(2,435,000)
Total expenses	(5,572,782)	(223,205)	(5,795,987)	(11,498,467)
Net income/(loss) for year	1,964,352	(654,109)	1,310,243	(5,694,102)
Other comprehensive income:				
Gain on revaluation of property	-	-	-	22,589,460
Remeasurements- defined benefit	(777,000)	-	(777,000)	(3,433,000)
Revaluation Gain	-	-	-	1,395,505
Total comprehensive income	1,187,352	(654,109)	533,243	14,857,863
General reserve/ (deficit) at beginning of year	29,409,398	(7,920,666)	21,488,732	22,037,230
Total comprehensive income	1,187,352	(654,109)	533,243	14,857,863
Revaluation Reserve	15,844,652	360,222	16,204,874	-
General reserve at end of year	46,441,402	(8,214,553)	38,226,849	37,425,307

30. Retrospective restatement of buildings and property due to change in accounting policy

Because of the changes in the Port Authority's accounting policy in relation to some classes of fixed asset from a cost basis, prior year financial statements have been restated. Below are the effects of the restatement to current and prior period for each financial statement line item that was affected.

Effect of Restatement

Statement of Financial Position (extract)	30 June 2016 \$	Increase/ (Decrease) \$	30 June 2016 Restated \$
Land freehold	12,534,119	17,292,882	29,827,001
Docks and buildings	13,655,376	6,009,623	19,664,999
Investment property	15,377,631	(7,346,951)	8,310,000

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Notes to the Financial Statements

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(Stated in Cayman Islands dollars)

30. Retrospective restatement of buildings and property due to change in accounting policy (continued)

Statement of Comprehensive Income (extract)	30 June 2016	Increase/ (Decrease)	30 June 2016 Restated
	\$	\$	\$
Gain on Revaluation of Property	-	22,589,460	22,589,460
Loss on Revaluation of Invest. Property	-	(6,384,586)	(6,384,586)
Net comprehensive income	(1,332,011)	16,189,874	14,857,863
Closing equity	19,839,928	1,380,505	21,220,433

31. 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 financial position and operations of the Port Authority.

b) Strategic Development of the Port Authority

The Port Authority has embarked on a multi-year strategic development plan, which incorporates the replacement of equipment that supports the provision of services to the public. The multifaceted plan involves the purchase of Rubber Tyre Gantry (RTG) cranes and the development of the Cargo Distribution Centre to facilitate the proper operation of this equipment. The total projected capital expenditure for the next three years is \$16.3M (\$6.8M - 2018, \$4.1M – 2019 and \$5.4M -2020). This could increase or decrease depending on the levels of surpluses that can be assigned to this project. At the reporting date, this project was underway and ahead of schedule.