



CAYMAN PORT



Comprehensive Annual Financial Report for the Year Ended December 31, 2018

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CAYMAN PORT

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PORT AUTHORITY OF THE CAYMAN ISLANDS

VISION

The elite Port of excellence in the Caribbean setting the standards on efficiency, safety, and customer focused operations.

MISSION

To foster a culture of excellence in service and care coupled with collaborative efforts that focus on sustainability through the provision of innovative, safe efficient solutions, which will stimulate and facilitate waterborne commerce, trade and leisure travel, thus resulting in the continued economic development of the Cayman Islands .



Sustainability

We will manage affairs with the financial viability of the Cayman Islands and the Port at the forefront.



CORE VALUES

Forward thinking

We will continuously strive to be proactive and innovative.



Accountability

We will take ownership of our decisions and actions.



Efficient

We will aim to work efficiently to minimize the impact on the Port and the community's resources.



Commitment

We will commit to the development of the Port to facilitate our community's growth.



Honor

We will honor the importance of family, and our Peoples' need to balance work and life.



Our people

We will value the contributions and support the growth of our greatest assets, our People.



Integrity

We will carry out our responsibilities morally and ethically in everything we do.



Collaboration

We will work together in unity to achieve our vision.



Embrace change

We will be prepared to continually drive change to stay ahead of competition.



Service excellence.

We will serve our customers and visitors courteously and proficiently to offer the most memorable Caribbean experience.

INTRODUCTORY SECTION



LETTER FROM THE ACTING PORT DIRECTOR

The year 2018 was a year of many changes for the Port Authority. Since our humble beginnings as a statutory authority in 1976, we have grown tremendously over the years in terms of the



volume of cargo handled on an annual basis, in our equipment and in our human capital. However, because infrastructure is always the most expensive capital item, it is usually the last to be enhanced. Accordingly, we turned to acquiring technology that allowed us to increase capacity and efficiency on the same footprint. This was necessary to keep pace with Cayman's expanding economy. Our operations span the three Islands of Grand Cayman, Cayman Brac and Little Cayman, with Grand Cayman being the recipient of the majority of the goods imported into the Islands, and nearly two million cruise passengers in 2018. Our standard of living as a country, and the continued success of these Islands depend heavily on our single operating port of George Town, Grand Cayman.

Our Cargo Distribution Centre now boasts a state of the art Yard Management system that allows us to know exactly where every container/cargo transport unit is located on the compound along with a modern fleet of RTG cranes that permit us greater efficiencies in container storage and handling. This is the first phase of our master development plan which when fully executed, will result in a revamped cargo center, with increased container storage and handling capacity, new and modern equipment and highly skilled and efficient staff to service the needs of our Islands for decades to come.

The thrust to retool our aging cargo handling infrastructure is but one aspect of our modernization. The waterside cargo facility is nearing the end of its useful life and is in need of replacement. Our Cruise terminals have long reached their capacity in handling the volume of cruise passengers visiting our shores annually. As such, the Port Authority in unison with Government through our portfolio ministry, has been working diligently to deliver enhanced cargo facilities and a new cruise berthing facility. The new cruise berthing facility will accommodate larger cruise passenger vessels with a capacity of around six thousand people, in a modern, aesthetically pleasing environment, while the enhanced cargo facility will facilitate increased commerce and position the Port Authority to receive larger cargo vessels that currently cannot berth here, but will be needed as the population and the economy continues to expand.

We could not have achieved this success without the tireless efforts of our loyal and dedicated staff, most of whom have spent the majority of their careers with us. Our staff cadre boasts talented and skilled employees in various specializations, who work efficiently and creatively to deliver service to the highest standards in the maritime industry. And while there were changes in management and the organizational structure, the Port Authority remained focused on its vision of modernization.

I thank all our stakeholders for their support, our Board of Directors who supported the growth and modernization of the Port and the Government for the opportunities ahead to create a better Port for the people of the Cayman Islands.

- Joseph Woods
Acting Port Director

LETTER FROM THE ACTING CHAIRMAN



The work of the Port Authority is of critical importance to the economic life of the Cayman Islands. The fact that as the sole operating Port, we have managed to respond to the growth in population and commercial development seemingly unphased, is a testament to the resilience, productivity and efficiency of our staff.

Our staff, of almost 160 men and women who do the heavy lifting, have weathered many challenges over the years and have responded to the call several times over, to exceed their best. Human capital is, by far, the most precious resource the Port Authority has, and the Board of Directors is cognizant of this, in advancing the cause for increased staff morale.

The Port Authority has formidable challenges ahead. Resources are scarce, needs are mounting, and the demands on the Port are increasing. To satisfy all the stakeholders, we will be creative in balancing the needs with the costs, and encourage buy in for the long term vision to address the needs of the next two generations. I firmly believe that the best is not beyond reach if we all work together for the common good.

I wish to thank the board and management, who shoulder their responsibilities without complaining. The success of the Port and the continued success of the Cayman Islands is firmly in their capable hands. Thank you for a job well done in 2018, and I look forward to working with you to have greater success in the years ahead.

To our wider stakeholders, I thank you for your patience and understanding whenever we seem to fall short, and we thank you for the compliments when we have met your expectations. We look forward to being of greater service to you and in supporting your efforts in the continued success of the Cayman Islands.

- Arek Josephs
Acting Chairman

BOARD OF DIRECTORS

The Board of Directors is appointed by the Cabinet of the Cayman Islands. The Ministry of District Administration, Tourism and Transport holds responsibility for the Port Authority. The following are the members of the Board of Directors:



Mrs. Jacqueline Scott



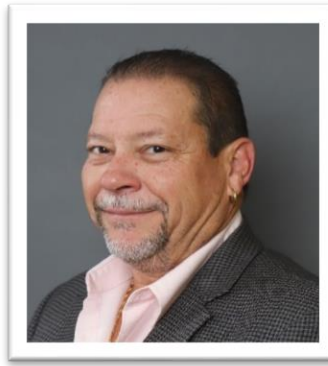
Mr. Robert Foster



Capt. Ashton Bodden



Mr. Charles Clifford



Mr. Ken Thompson



Mr. Richard Parchment



Mr. Stran Bodden



Mr. Michael Nixon

GOVERNANCE

The Port Authority is governed by the Port Authority Law (1999 revision) and the Port Regulations (2013 Revision). In addition, the Authority complies with the Public Management and Finance Law and the Regulations, the Labour Law, Pensions Law, The Public Authorities Law, the Procurement Law and Regulations, The Freedom of Information Law, and the Insurance Law.

The Board of Directors provides strategic leadership to the Authority, and reports to the Minister through the Ministry of District Administration, Tourism & Transport.

CARGO DISTRIBUTION CENTRE – PORTLAND ROAD



THE PORT AUTHORITY OF THE CAYMAN ISLANDS SUPPORTS CRUISE TOURISM BY PROVIDING INFRASTRUCTURE TO SHOWCASE THE WARMTH AND BEAUTY OF THE CAYMAN ISLANDS



Safehaven Marina

ABOUT US – WHAT WE DO

The Port Authority has a presence in all three Islands. On Grand Cayman, we operate at Harbour Drive, Portland Road and a Marina at Safe Haven. In Cayman Brac, the Admin Office and Distribution Center are located on the same premises on Creek Road and a distribution point in Little Cayman.

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.

Origins of the Port Authority of the Cayman Islands

This includes;

- General management and control of all ports;
- Establishment and control of lighthouses and day markers;
- 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;
- 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;
- 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

SCOPE OF ACTIVITIES

Providing and maintaining facilities for the offloading of cargo imports into all three Islands.

To contribute to the growth of cruise tourism (and thereby the economy), by providing and maintaining facilities to accommodate the cruise ship passengers.

Providing and maintaining navigational markers in Cayman Islands waters.

Providing a patrolling presence, using two fully equipped motor vessels, in the immediate harbour area of the Cayman Islands during cruise ship visits.

Providing a safe and enjoyable environment for the Port Authority's staff and customers.



**SAFEHAVEN
MARINA**

OUR PEOPLE – MANAGEMENT TEAM



JOSEPH WOODS
Acting Port Director



WILL JACOBS
Deputy Director and
Chief Logistics Officer



DON HUTCHINSON
Acting Deputy Director and
Chief Financial Officer



CHRIS KROHN
IT Services Manager



BRUCE REYNOLDS
Cargo Distribution Centre
Manager



KEISHA YATES
Finance Manager



LIZ SMITH
HR Manager



DALE CHRISTIAN
Manager, Cayman Brac



COURTNEY WISDOM
Facilities Manager



ROYLEE MOORE
Acting Manager, Cruise and
Security

OUR PEOPLE – WHO WE ARE

The Port Authority had 153 employees at the period end December 2018. The distribution and other demographics are highlighted in this section.

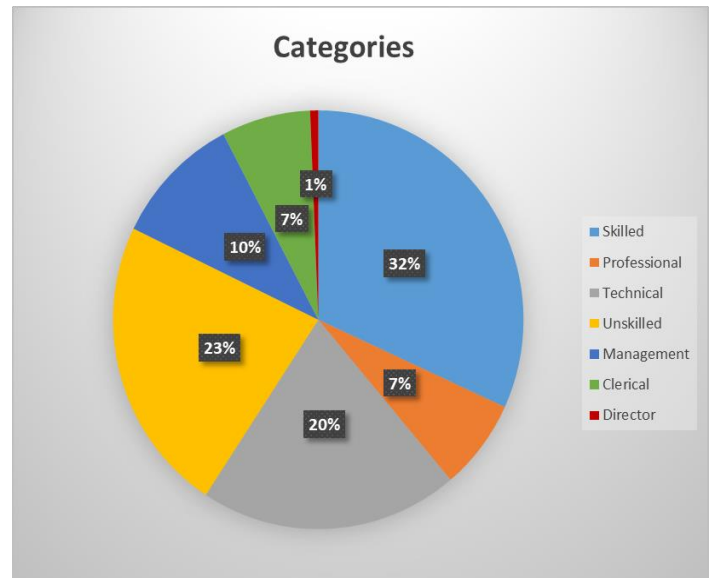
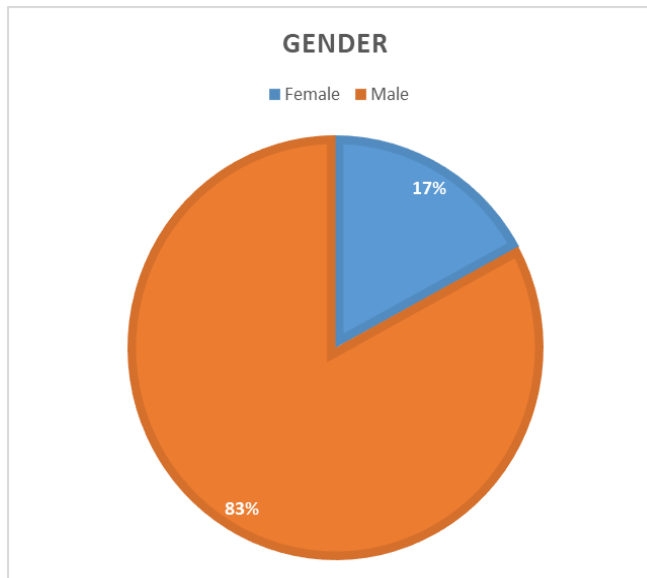
Description	2018	2017	2016	2015	2014
Salary and Wages	10,906,165	15,598,629	10,003,436	9,396,208	9,705,794
Medical Insurance	1,418,382	1,856,774	1,169,576	1,138,536	859,743
Pension	1,106,840	1,583,549	977,072	947,863	993,328
Other staff costs	122,198	226,944	154,969	91,174	112,055
Total Staff Costs	13,553,585	19,265,896	12,305,053	11,573,781	11,690,920



OUR PEOPLE – WHO WE ARE *(continued)*

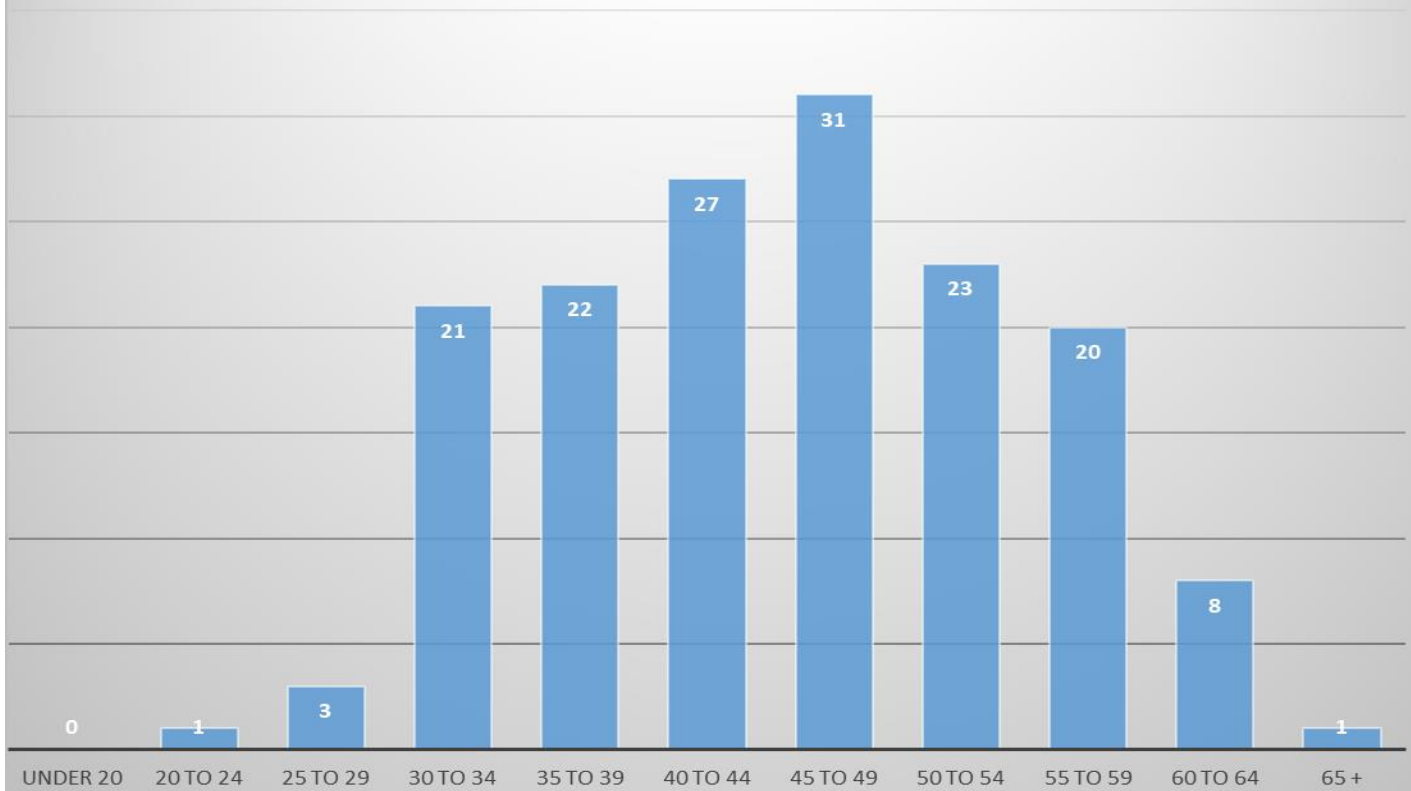
Employee demographics	2018	2017	2016	2015	2014
Staff complement***	157	158	148	151	154
Average income earned per staff	169,605	218,386	164,182	135,940	150,825
Average expense per staff	130,949	215,013	173,182	133,623	148,714
Average salary paid to staff	69,466	98,726	67,591	62,227	63,025
***Includes retirees on contract	4	4			

The Port Authority's staff is comprised of predominantly men. This has traditionally been the case. Initiatives are being pursued to attract and retain women. We have reaped success and look forward to a more gender balanced workforce in the future, where women are more represented at all levels in the organization.

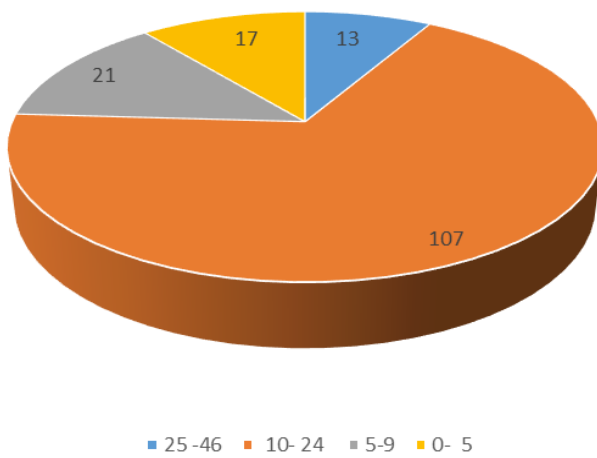


OUR PEOPLE – WHO WE ARE *(continued)*

Staff Age Distribution



STAFF YEARS OF SERVICE PROFILE



- The staff profile indicates an aging workforce, as 70% of the staff complement is over 40 years old.
- 19% of the staff will reach retirement age within 10 years.
- 76% of the staff have more than 10 years' experience at the port
- The staff statistics offers opportunities for maintaining stability and building for the future.

STRATEGIC OBJECTIVES

KEY STRATEGIC PRIORITIES IN FOCUS FOR THE 2018 FISCAL YEAR

- Improve the image of the Cayman Islands and the experience of the cruise tourist, by maintaining and upgrading the existing cruise ship arrival facilities in George Town and at Spotts.
- Fine tuning of the information system architecture to enhance customer experience and provide management information efficiently, effectively with better value for money
- Improving operational capacity to service current and future needs of the Islands' commerce and residents
- Improving the aesthetics and functional abilities of the two operating streams by building new facilities and separating the cargo and cruise operations

Cayman Port has maintained a growth trajectory, with cargo volumes averaging 7% annual growth over the last five years, and cruise passenger arrivals increasing by 20% between 2014 and 2018. This increase in activity has stretched the Port's physical capacity and human capital. In response, the Authority has developed a master plan to improve the ability of the port to manage the growing needs of the Islands.

The first phase of the CDC yard masterplan which involves the redesign of the container processing space and acquisition and deployment of Rubber Tyre Gantry (RTG) Cranes was completed in July 2018 at a cost of \$6.7M. This has resulted in a reduction of retrieval times of container boxes, better flow of cargo resulting in a much safer and efficient operations at our distribution facility. In addition, our vertical platform has greatly increased our storage capacity. The second phase of this project involves the continued improvement of the CDC operating space, and is projected to cost \$5.2M in the 2020 fiscal year.

The third phase will involve acquisition of more RTG equipment and other facilities upgrades and is targeted for 2021, depending on any changes in the strategic direction of the Port Authority and the operating surpluses generated. Planned financing for these projects is entirely from retained earnings.

The financial planning process of the Port Authority integrates a biennial budget process with multiyear projections. Through the capital plan and budget process, management, in collaboration with the board, identifies strategic, financial, and operational risks and priorities that affect how resources are allocated; and outlines the spending plan for the year that seeks to deliver the strategic priorities of the board, in consultation with the portfolio ministry and Cabinet.

Each new budget allows space for reflection on short and long-term targets and amendments can be made to the pace of implementation of strategic initiatives and infrastructure plans. The approved budget becomes a blueprint for the implementation and continual review of expenditures to ensure that they align with statutory, contractual, and other commitments of the Authority and the policies and financial decisions of the Board and Cabinet through the portfolio ministry. Internally developed forecasting models are used to assess the Authority's projected medium-term financial condition; determine the financing needs and attendant feasibility of future capital investment; and perform financial tests to

STRATEGIC OBJECTIVES (continued)

measure fiscal risk. This comprehensive approach to planning, budgeting, and forecasting enables the Port Authority to identify, track, and take corrective action with respect to the funding

requirements needed to deliver the projects and services that the Port Authority provides, in line with the priorities and policy framework of Cabinet.

The Port Authority not only takes a long-term view of the infrastructure needs; we take a holistic approach to planning for the Port. In this vein, our human capital needs to deliver the services to the economy are equally important. Our human capital planning is multifaceted, focusing on training and development, health and safety, performance management and succession planning. These are geared to maximize the efficiency and improve the overall effectiveness of our human capital assets. We have engaged external consultants to help identify gaps in our current organizational structure and in unison with management and the Board, designed and developed an appropriate framework that can deliver on the long-term strategic priorities agreed in consultation with stakeholders.

PORT AUTHORITY DOCK IN LITTLE CAYMAN



STRATEGIC OBJECTIVES *(continued)*

It is this focus on long range planning for both our human capital and infrastructure requirements, and making strategic plans that are designed to meet the future challenges that underpin our continued emphasis on the four (4) long-term strategic priority areas outlined below:

Diversity of Revenue Streams	Technological Innovation	Operational Capabilities and Capacity	Human Capital
<ul style="list-style-type: none"> • Attract military and other vessels as business partners • Increase moorings for private yachts • Develop a commercial marina as a home port/ bunker • Fully utilize commercial space for office and retail rental income • Refocus on advertising space at the Port • Increase frequency of vessel inspections 	<ul style="list-style-type: none"> • Incorporate leading edge technology advancements • Assess business process in relation to loading/ unloading/storage of cargo for best practices • Incorporate technology to ensure total inventory control • Use technology to capture client experience 	<ul style="list-style-type: none"> • Assess current and future state technology enhancement opportunities • Re-development Cargo Distribution Centre for operational and safety enhancements • Equipment upgrades for efficient use of space • Develop a berthing facility to attract cruise operators • Assess Port operations and logistics of tour /taxi 	<ul style="list-style-type: none"> • Invest in training • Achieve stakeholder buy-in • Ensure a clear distinction of job roles and requirements for each position • Prioritize health and safety of staff • Develop performance management tools to track efficiency and productivity • Focus on resource and succession planning

Our achievements for the fiscal year 2018 with regard to these long-term strategic priority areas are highlighted below

Diversity of Revenue Streams	Technological Innovation	Operational Capabilities and Capacity	Human Capital
<ul style="list-style-type: none"> • Ongoing efforts to attract military vessels • Increase in lease of retail space 	<ul style="list-style-type: none"> • Implemented yard management system • Initiated change to accounting and HR systems • Ongoing plans to implement asset management software • Revised cargo distribution processes to enhance efficiency 	<ul style="list-style-type: none"> • Completed Phase 1 - Re-development of Cargo Distribution Centre • Acquisition and deployment of two (2) RTG cranes • Ongoing work with stakeholders to deliver a cruise berthing & enhanced cargo facility 	<ul style="list-style-type: none"> • Ongoing work to define job roles and update Job descriptions • Facilitated training programs for staff • Safety Manager recruited and scope expanded

MAJOR MILESTONES OF 2018

KEY TARGETS

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

ACHIEVEMENTS

- Continual work with Government and other key stakeholders on the Cruise Berthing Facility. Maintaining the cruise berthing facility at George Town and at Spotts
- Acquisition of new software package that has relevant cutting edge reporting systems expected to produce timely, complete and meaningful reports
- Development of Asset Replacement Plan to institute and maintain a fund for capital investments and general maintenance of existing and new assets
- This is being pursued

SUCCESSIONS	CHALLENGES
Implementation of new Organizational Structure that supports the vision and adheres to core values of the Port Authority	Continual review of Organizational Structure in response to growth and diversification. Resources needed to respond to organizational changes
Completion of CDC yard development project on time with zero cost overruns	Further capital outlay needed to complete the entire project
New yard management system went live efficiently and effectively	Limited staff resources



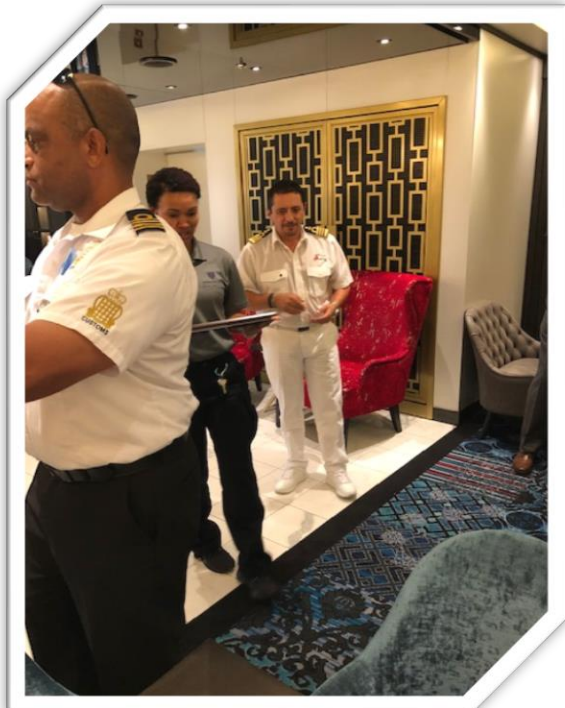
2018 AT A GLANCE



Acting Port Director, Mr. Joseph Woods, receiving a plaque for the inaugural voyage of Carnival Horizon on October 3, 2018



Entertainment hall of Carnival Horizon's inaugural voyage to the Cayman Islands on October 3, 2018



Customs and Immigration officials participating in the inaugural celebration October 3, 2018



Port authority staff supervising special operation

CUSTOMER APPRECIATION



FINANCIAL SECTION





DEPUTY DIRECTOR'S REPORT

The Financial Statements of The Port Authority of the Cayman Islands for the years ended December 31, 2018 and December 31, 2017 are enclosed. These include the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Cash Flows, and the Statement of Changes in Equity.

The Port Director and Deputy Port Director Finance are responsible for the accuracy of the data and the completeness and fairness of the presentation in the Financial Statements.

An analysis of the financial statements is provided in the Management Discussion section of this report, where the financial performance of the Authority is explained in detail. Selected statistical information is also presented at the end of this report to assist in understanding the overall performance of the Port Authority.

The Management of the Port Authority is also responsible for establishing and maintaining adequate internal controls over the financial systems that produce the numbers presented in this report.

DEPUTY DIRECTOR'S REPORT (continued)

Internal control over financial reporting is designed to provide reasonable assurance that the financial information presented in the reports are free of material misstatement, and the performance of the Authority and related context is properly reflected for the reporting period in accordance with International Financial Reporting Standards.

The Port Authority is required to, and has established a comprehensive framework of internal controls that includes maintaining records that accurately and fairly reflect the transactions of the Port Authority and that the necessary controls are in place and have been faithfully adhered to, which provides assurance that the financial statements are free of material errors and bias. Due to inherent limitations, our internal control system over financial transactions and reporting cannot provide absolute assurance that a misstatement of the financial statements would be prevented or detected.

However, the Port Director and I have certified that to the best of our knowledge and belief, the financial statements are free of material misstatement, which would change the opinion of an informed reader on the results as reported.

Our assertion that the financial statements are fairly stated is examined and validated by the auditor general, who is charged by the Public Management and Finance Law (PMFL) to express an opinion on our financial statements based on her audit.

The goal of the independent audit is to provide reasonable assurance that these financial statements are free of material misstatement. The audit includes an examination, on a test basis, of the evidence supporting the amounts and disclosures in the financial statements, an assessment of the accounting principles used as well as the overall presentation of the financial statements. The financial statements for 2018 were presented to the auditor general who expressed an *unqualified opinion* at the conclusion of her audit.

DEPUTY DIRECTOR'S REPORT *(continued)*

The Port Authority recorded net income of \$6.1M for the financial year ending December 31 2018. This was \$9.8M better than the budgeted loss of \$3.7M, and \$5.5M more than the \$533K profit recorded in 2017.

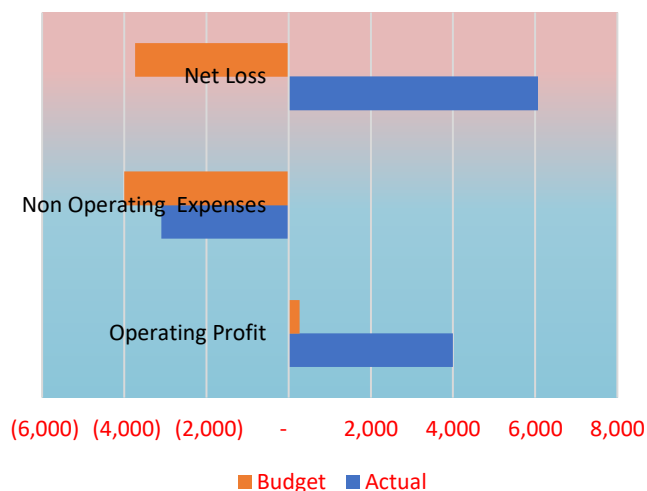
The reasons for the positive overall net income was \$1.6M or 7% better revenue performance than expected, a \$4.5M reduction in the revalued defined benefit liability, a decrease of \$1M or 23% in other expenditure and revaluation gains on investment property of \$689K.

The Port continues to post strong operating profits. However, the uncertain direction of the defined benefit liability results in wide variations in net results from year to year.

Net worth increased by \$6.3M or 16% over last year. This was reflected in higher asset balances and reduced liabilities. The Port Invested \$6.5M in infrastructure and other assets, utilizing the increased cash balances from the current and prior period's robust operating performance.

When compared to the budget, net worth for 2018 increased by 268%. This was mainly due to revaluation gains in the current and prior period, asset acquisitions and the reduction in the defined benefit liability. These contributed the majority of the \$32M positive equity variance against the approved budget.

2018 OPERATING PERFORMANCE

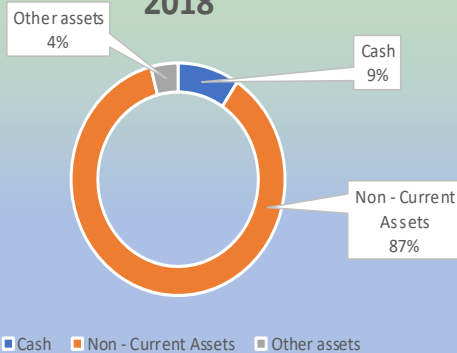


The Port purchased a RTG at a cost of \$2.3M in Phase 1 of the CDC improvement project

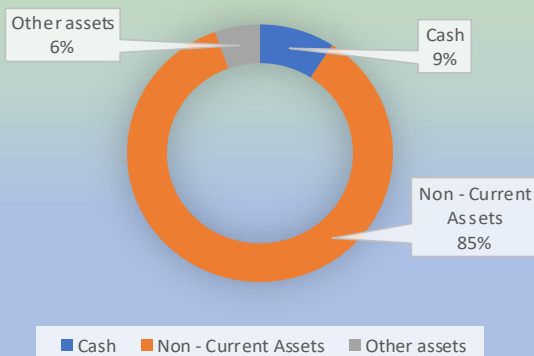
DEPUTY DIRECTOR'S REPORT *(continued)*

ASSET DISTRIBUTION

2018

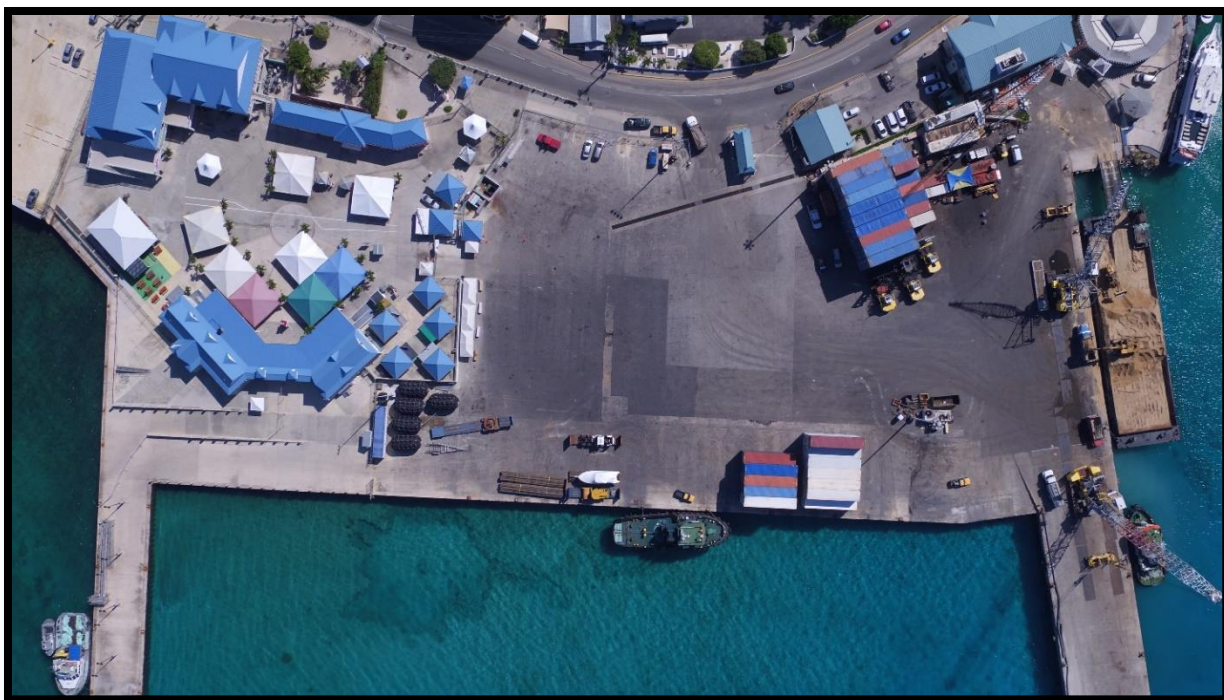


ASSET DISTRIBUTION 2017



Despite having solid annual performances over the last five years, the Authority's need for infrastructure development and investment to meet the growing needs of the Cayman Islands is on the increase. In addition, our strategic objective of attending to the needs of staff requires funding to close the gaps between the growth in business and the human capital that is required to support and service the expansion of activity in a sustainable fashion.

These require funding in excess of what is currently generated by PACI to fully satisfy the infrastructure needs and the human capital requirements. Without access to secondary sources of funding, PACI will be unable to undertake the levels of investment required to improve and maintain service levels.



**PORT
AUTHORITY
DOCK IN
GRAND
CAYMAN**

DEPUTY DIRECTOR'S REPORT (continued)

Cayman Port has continued the excellent operational and financial performance that has been registered for the last five years. The 27% cargo growth and the 20% increase in cruise passenger numbers contribute to the strong narrative of Cayman Port achieving record success over the five-year period with 2% increase in staff complement.

Our revenue diversification plans if realized, will improve the capacity of the Port to deliver on the medium and long-term strategic plans. Downside risks include increased outlook for natural disasters as weather patterns continue to get more severe, which can disrupt port operations resulting in infrastructure damage and missed revenue targets.

Other opportunities for growth in the medium-term will require significant investment in our water side infrastructure and equipment to take calls of larger cargo vessels in accordance with the master development plan, and the top tier cruise vessels. Opportunities are being explored to leverage our geographical advantage to enter aspects of the supply chain logistics



DEPUTY DIRECTOR'S REPORT *(continued)*



**CARGO
DISTRIBUTION
CENTRE IN
CAYMAN BRAC**

The Port Authority is building our capacity to respond to the growing needs of our stakeholders. We are committed to continuous improvement to meet and exceed customer expectations, while we work within established parameters, in a fiscally prudent, responsible and efficient manner, with due regard and care for the resources with which we have been entrusted by the people of the Cayman Islands.

We will continue to seek creative and cost effective solutions for the challenges ahead to the benefit of all who call these Islands home.

Don Hutchinson FCA FCCA
Acting Deputy Port Director – Finance & Chief Financial Officer

MANAGEMENT DISCUSSION AND ANALYSIS

The ensuing section is management's commentary on the financial statements for the 12 months period ending 31 December 2018. It sets the context of the results reported, and highlights important information that is useful to the readers of the financial report. This is meant to be read in conjunction with the full set of financial statements and note disclosures which follow. The period being reported is not comparative with the prior year as this is the first full calendar year's financial report; the previous year being an 18 months transitional fiscal year. However, the prior years will be referenced as the shifts in activity levels that drive the performance of the Port Authority are instructive in understanding the financial information.

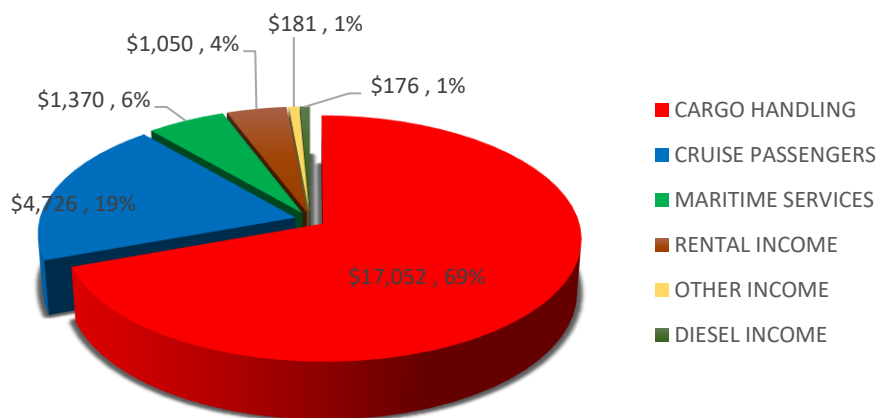
2018 Financial Performance

Equity grew at the end of the period by \$6.3M comprised of Income from operations of \$4M, non-operating net income of \$2M, and defined benefit liability adjustment of \$207K.

Description	2018
Gross operating revenues	24,554,924
Operating expenses	(20,558,811)
Income from operations	3,996,113
Defined benefit annual expense	(3,094,000)
Gain on revaluation of investment property	689,398
Interest income	2,418
Remeasurement of health care obligation	4,476,000
Non-operating income (net)	2,073,816
Defined benefit payments for current retirees	207,000
Increase in equity	6,276,929

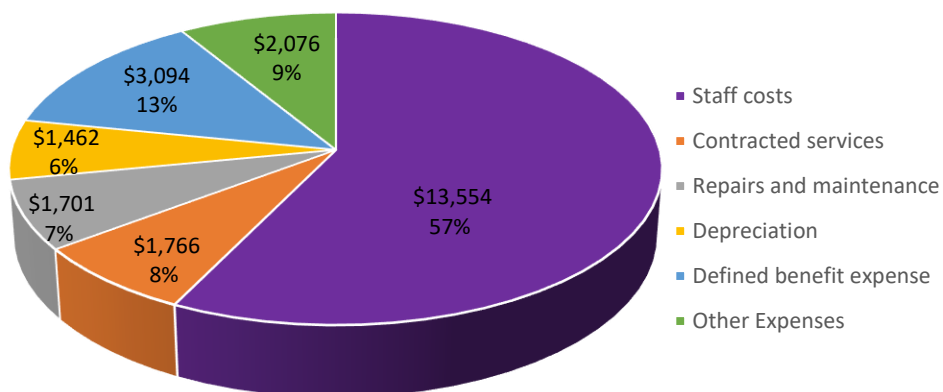
MANAGEMENT DISCUSSION AND ANALYSIS (continued)

2018 INCOME \$'000



The pie chart shows that the top three revenue sources were Cargo handling, Cruise passenger fees and Maritime services. These accounted for 94% of total revenue.

2018 EXPENSES \$'000



On the expense side, the top three items were staff costs, defined benefit annual expense, and other expenses. These contributed 79% of the total expenditure.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Statement of Financial Position

The Statement of Financial Position shows the assets, liabilities and equity of the Port Authority. The following is a summary of the relative positions at the end of the last five (5) fiscal years, bearing in mind the 18 months fiscal year for 2017.

	Dec 2018 \$	Dec 2017 \$	(Restated) Jun 2016 \$	Jun 2015 \$	(Restated) Jun 2014 \$
ASSETS					
Current assets	10,733,911	10,912,375	9,773,076	6,245,243	4,200,367
Non-current assets:					
Property plant and equipment	60,135,932	55,212,837	54,322,985	31,923,577	33,039,199
Investment property	9,055,000	8,356,461	8,310,000	15,772,466	16,204,457
Total assets	79,924,843	74,481,673	72,406,061	53,941,286	53,444,023
LIABILITIES					
Current liabilities	2,316,065	1,560,824	4,469,216	5,459,531	5,080,100
Non-current liabilities:					
Bank loan	-	-	322,538	1,782,525	3,330,159
Health care liability	33,105,000	34,694,000	30,189,000	24,662,000	23,682,000
Total liabilities	35,421,065	36,254,824	34,980,754	31,904,056	32,092,259
EQUITY	44,503,778	38,226,849	37,425,307	22,037,230	21,351,764

The financial position shows a steady improvement in our asset base over the five-year period. This is due to a combination of asset purchases and revaluation of the property and investment portfolio effective June 2016. We can also observe a reduction in current liabilities, resulting from an increase in cash reserves. Debts are paid within a short period, so amounts reflected as current liabilities in 2018 and 2017 represent in large part year end accruals. The liquidity position

has vastly improved to 5:1 from the 0.8:1 in 2014, which indicates that there are sufficient resources to meet our obligations. The Port has strong working capital owing to solid revenue performance and favorable gearing ratios due to the full repayment of the bank loan in 2017. The Port being debt free is not the norm in the capital-intensive Port industry, which requires continual significant investment in infrastructure and other operating assets.

Due to this, much of the cash resources held are earmarked for capital projects. The port needs to replace some critical aging assets that require resources beyond our ability to generate, based on our current business model. This suggests that other sources of financing will be needed to address these. Initiatives are being pursued by Government to address some of the priority infrastructure projects that are needed.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

The Port Purchased equipment and other assets as well as upgraded property for the five-year period costing \$14M, an average of \$2.8M per annum.

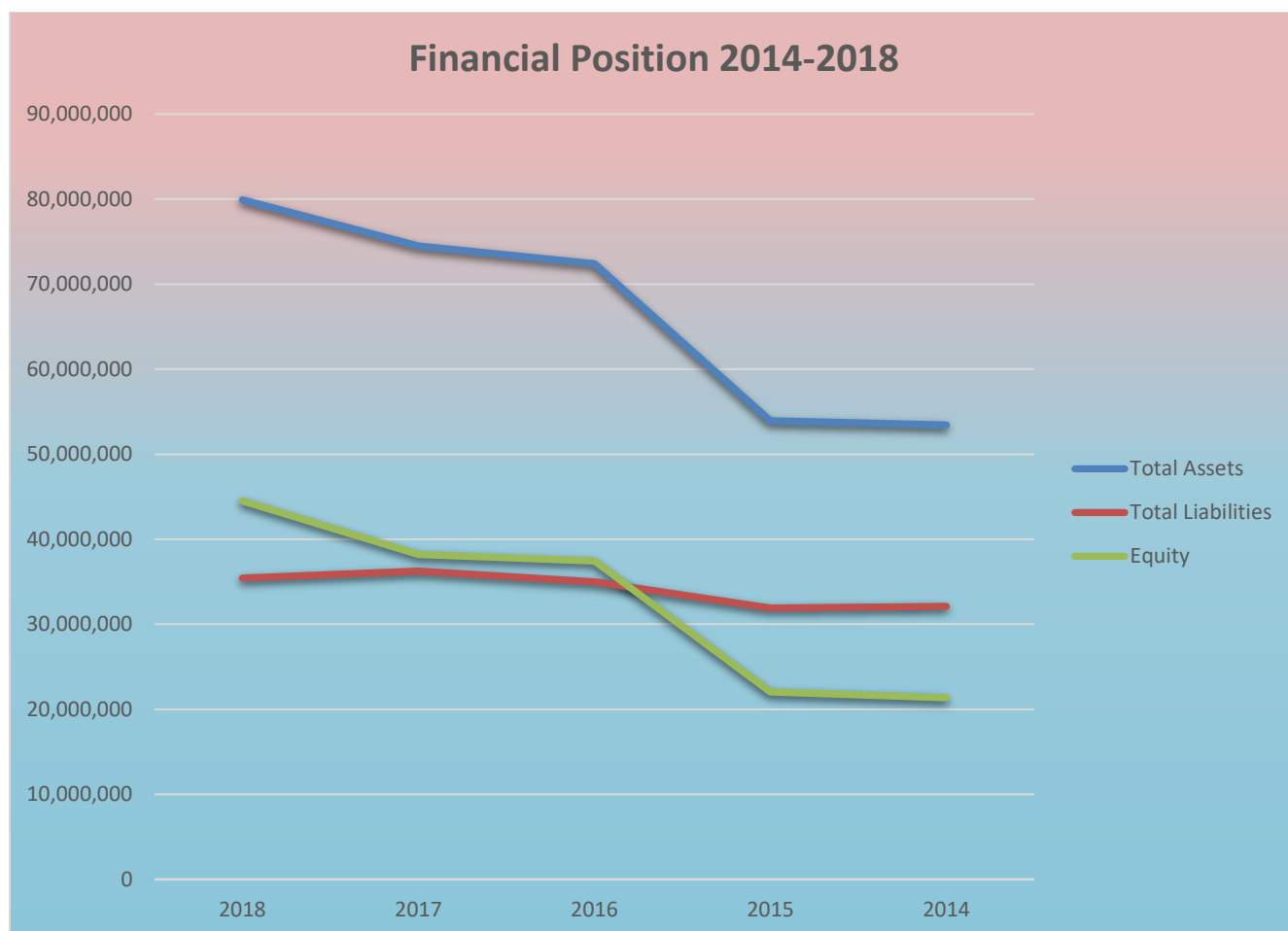
The Revaluation exercise effective June 2016 increased the assets by \$22.8M but the Investment property value declined by \$6.6M, resulting in a net \$16.2M increase on the overall book values.

Equity has improved over the five-year period by 108%, despite a 40% increase in the defined benefit liability.

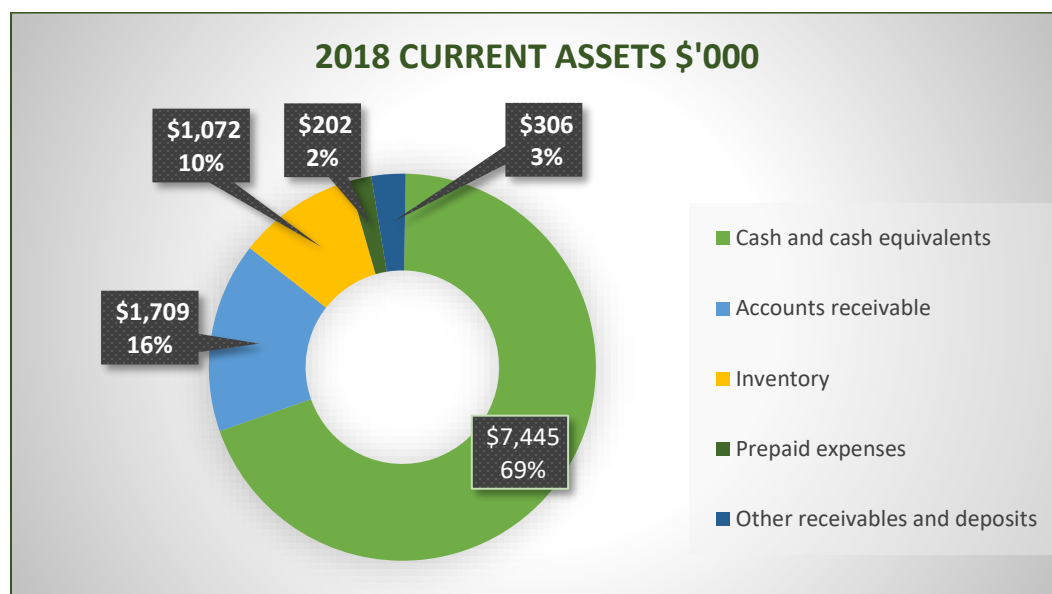
The revaluation aside, the movement in the health care liability over the last five years has eclipsed all our financial indices. It represents the greatest threat to the erosion of equity at the Port Authority.

The notion that this health care liability represents a potential expense that will be due in the future is formidable, given the massive increase over a five-year period which saw limited growth in staff numbers.

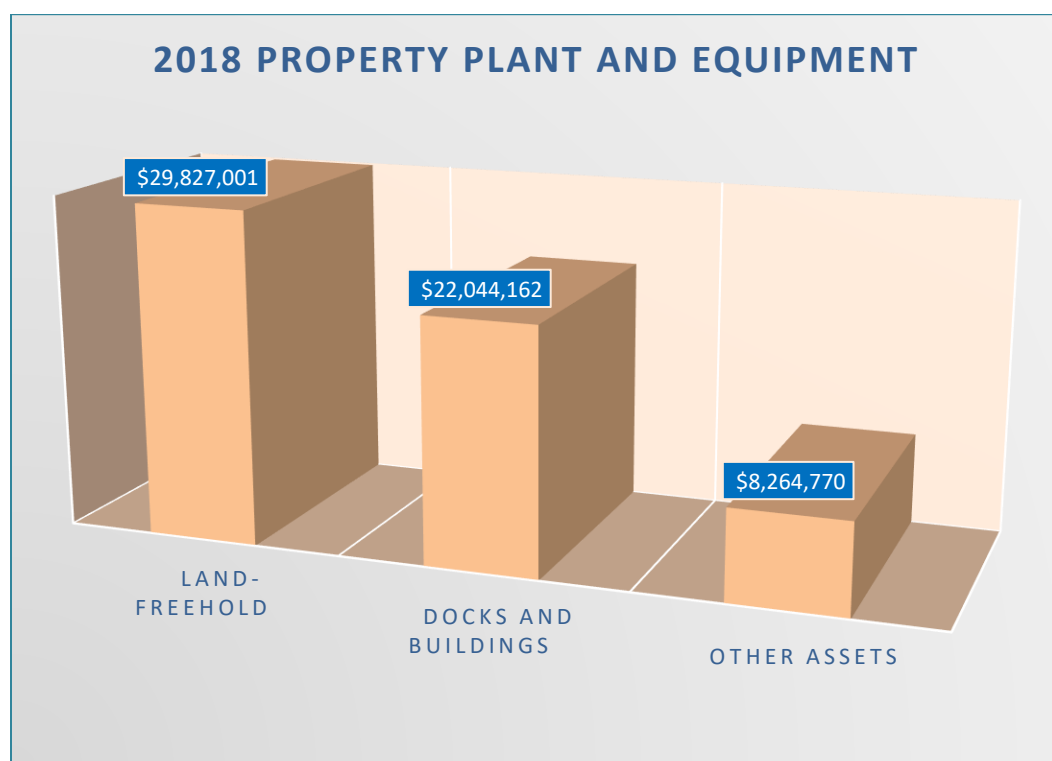
In recognizing that this is currently unfunded, the Board approved a savings plan to begin to address this.



MANAGEMENT DISCUSSION AND ANALYSIS (continued)



Cash dominated current assets covering 69% or \$7.4M. Receivables closed at \$1.7M and inventory at \$1.1M



The Port invested \$6.5M in asset replacement and improvement during the 2018 financial period. These include improvements to CDC facilities, vehicles and heavy equipment, furniture, office equipment and building upgrades.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

2018 Movement

Total assets at the Port Authority at December 31, 2018 was \$5.4M or 7% greater than the previous reporting period. This was due mainly to the following factors:

- Additions to fixed assets totaled \$6.9M which included purchase of two Rubber Tyre Gantry cranes (\$2.6M), cargo yard development (\$3.4M) the yard management system (\$.7M), and furniture and equipment \$.2M. The depreciation of \$1.5M offset this investment to a net movement of \$.4M.
- Changes in the fair value of RWCT charged to other income in the statement of comprehensive income was \$.7M for the period.

Total liabilities of the Port Authority was \$35M, which is a \$.8M decrease from the last reporting period. This was the net of the repayment of the loan for the Royal Watler Cruise Terminal and the reduction of \$1.6M in the defined benefit liability.

2018 Consolidated actual vs budget

Financial Position	2018 Actual \$	2018 Budget \$	2018 Variance \$	Change %
Assets	79,924,843	55,283,209	24,641,634	45
Liabilities	35,421,065	43,191,000	(7,769,935)	(18)
Net Worth	44,503,778	12,092,209	32,411,569	268

Actual assets performed 45% better than expected with a \$24.6M increase over target. This was the result of increase in cash and other current assets, and a net increase in property plant and equipment on account of additions and revaluation gains.

Liabilities closed lower than budgeted with a \$7.8M or 18% decrease vs. the target amount. The improved discount rate applied to long term health care benefits is the reason for the favorable movement in the health care liability, in addition to changes in employee demographics.

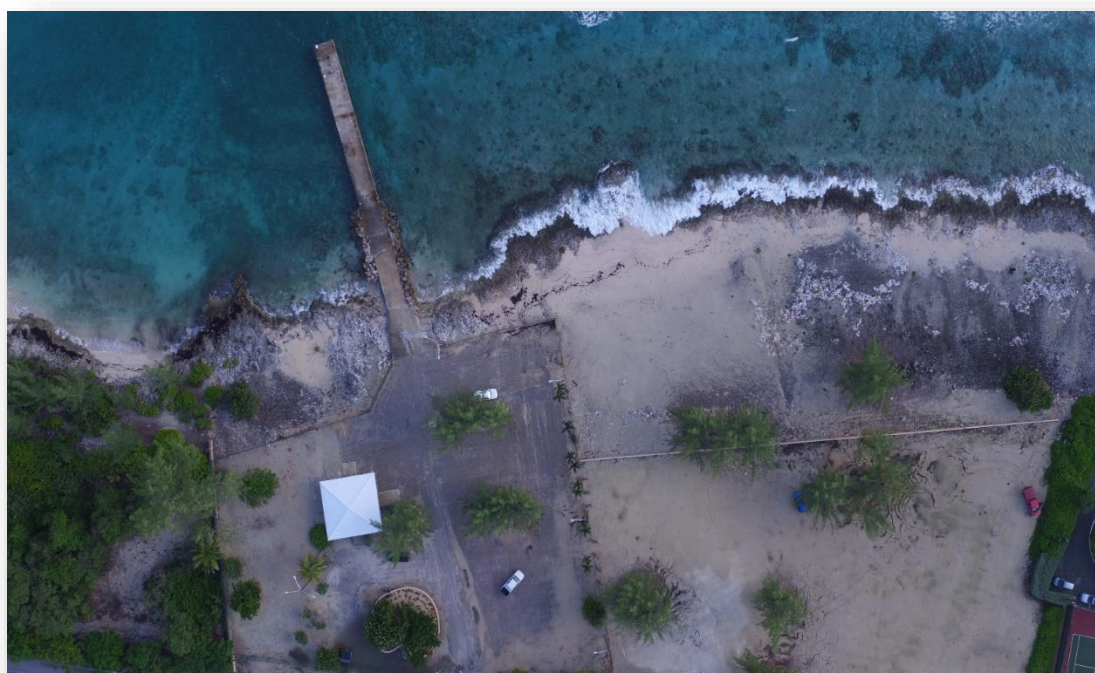


MANAGEMENT DISCUSSION AND ANALYSIS (continued)

The Summarized actual vs budget for the 2018 fiscal year is as follows:

	Actual Dec 2018 \$	Budget Dec 2018 \$	Variance Dec 2018 \$	Variance Dec 2018 %
ASSETS				
Current assets	10,733,910	4,883,579	5,850,331	120
Non-current assets:				
Property, plant and equipment, net	60,135,933	35,977,743	24,158,190	67
Investment property	9,055,000	14,421,887	(5,366,887)	(37)
Total assets	79,924,843	55,283,209	24,641,634	45
LIABILITIES				
Current liabilities	2,316,065	880,000	1,436,065	163
Non-current liabilities:				
Defined benefit liability	33,105,000	42,311,000	(9,206,000)	(22)
Total liabilities	35,421,065	43,191,000	(7,769,935)	(18)
EQUITY	44,503,778	12,092,209	32,411,569	268

The net assets for the 2018 fiscal year performed better than budget by \$32M or 268%, mainly because of the extensive movement of PPE to budget of \$24M or 67% and 22% decrease in the defined benefit liability on account of discount rate movements. Despite the decline in investment property by \$5.4M or 37%, total assets improved by \$24.6M or 45% over budget. Current liabilities were \$1.4M or 163% more than expected, combined with the \$9.2M positive health care variance, resulted in total liabilities being \$7.8M or 18% less than budget.

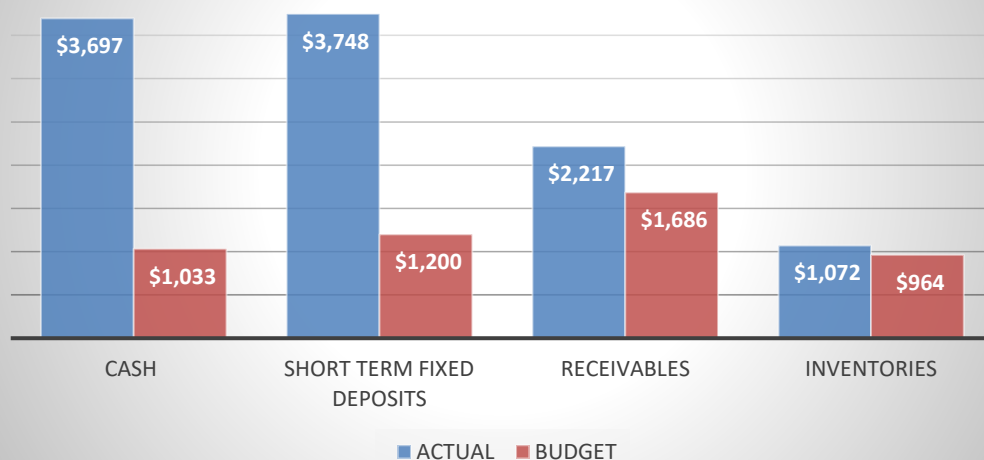


**Spotts loading
facility**

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

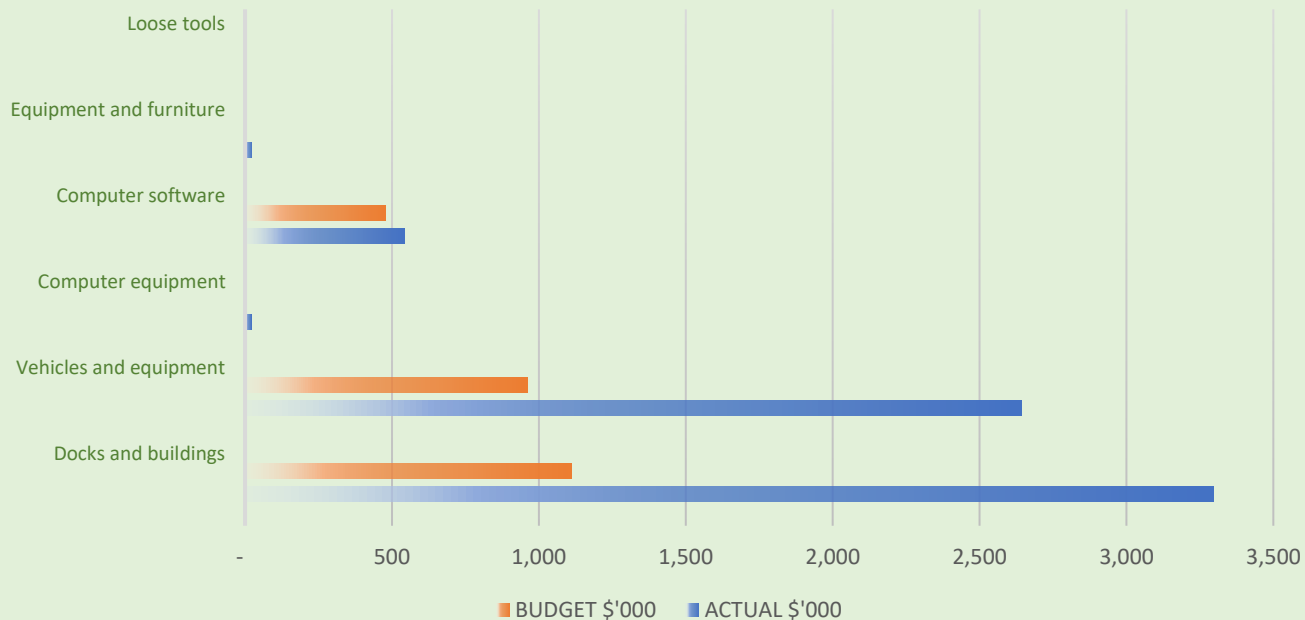
2018 CURRENT ASSETS PROFILE

IN \$'000



Current assets had a positive variance of \$5.8M. The profile shows cash variance of \$2.7M and fixed deposits variance of \$2.5M were crucial to the overall variance position. Receivables' adverse variance of \$0.5M was due to higher actual operating revenue.

CAPEX PROFILE 2018



New assets booked for 2018 was \$6.9M (includes \$400K transfer from 2017). This contrasts with the \$2.6M budget, a negative variance of \$4.3M.

The Board approved revised capital plans which resulted in the completion of projects which were earmarked for phased implementation.

Management Discussion and Analysis (continued)

Statement of Comprehensive Income

The statement of comprehensive income shows the income and expenses of the Port Authority for the period, and the net effect of the financial performance on equity.

Comprehensive Income	2018 Actual \$	2018 Budget \$	2018 Variance %
Revenue	24,554,924	22,963,669	7
Operating Expenses	20,558,811	22,697,742	(9)
Non-Operating Expenses	3,094,000	4,000,000	(23)
Other Comprehensive Income	5,167,816	-	
<i>Net Surplus/Deficit</i>	<i>6,069,929</i>	<i>(3,734,073)</i>	<i>(263)</i>

Profit Performance

The Port Authority earned income of \$24.5M or 7% above the \$23M budget for the 2018 fiscal year, and incurred total expenses of \$23.6M or 11% lower than the \$26.7M budget for 2018. The positive defined benefit adjustment of \$4.5M and the revaluation gains on investment property of \$689K resulted in a net surplus of \$6M for the 2018 fiscal year. This is \$9.8M or 263% more than the (\$3.7M) loss envisioned in the approved budget.

Future outlook

There is increased bullishness on the prospects of the Port's revenue for the 2019 and 2020 financial years. This is based on the high planning approvals, construction boom in hotels, condos and industrial developments and ongoing and planned infrastructure projects. In addition, cruise bookings are stable, the population and stayover visitors are increasing - all of which increase demand for goods and services. There is also the possibility of loss of significant rental income for the project duration should the cruise & cargo project go ahead, as most of the rental spaces would not be available. This should return to normal post construction.

The Port Authority has to position itself to meet the challenges that the ongoing growth in imports will present. This drives the demand for larger operating space at our cargo dock, increased and modernized distribution and storage facilities, and new equipment and roving fleet to deliver safe and efficient service to our stakeholders.

We need to improve our cruise facilities in order to facilitate a better experience for our cruising guests, who rate the Cayman Islands as a premier destination. To this end, the Government in collaboration with the Port Authority, is embarking on a plan to develop a new cruise terminal and enhanced cargo facilities.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

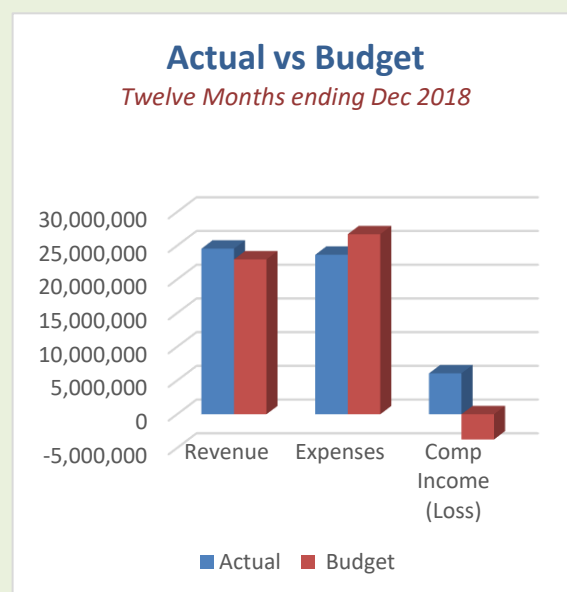
Twelve (12) Months ended 31 December	Actual \$	Budget \$	Variance \$	Variance %
REVENUE				
Cargo Handling	17,052,259	15,799,098	1,253,161	8
Cruise Ship Passenger Fees	3,401,737	2,843,435	558,302	20
Other Revenue	4,100,928	4,321,136	(220,208)	(5)
TOTAL REVENUE	24,554,924	22,963,669	1,591,255	7
EXPENSES				
Staff costs including defined benefit costs	16,647,585	18,586,238	(1,938,653)	(10)
Repairs and Maintenance	1,701,478	2,400,160	(698,682)	(29)
Contracted services	1,766,009	1,445,489	320,520	22
Insurance	558,661	561,708	(3,047)	(1)
Other operating expenses	1,517,018	1,673,827	(156,809)	(9)
Depreciation	1,462,059	2,030,320	(568,261)	(28)
TOTAL EXPENSES	23,652,810	26,697,742	(3,044,932)	(11)
Interest income	2,418	-	2,418	
Gain on revaluation of investment property	689,398	-	689,398	
Remeasurement of defined benefit obligation	4,476,000	-	4,476,000	
	5,167,816	-	5,167,816	
COMPREHENSIVE INCOME / (LOSS)	6,069,930	(3,734,073)	9,804,003	(263)

Key insights from the 2018 results:

- Revenue exceeded projections by 7% - this was due to 9% growth in cargo & 11% in cruise.
- Cruise passengers surpassed budget by 11%, with the highest record of passenger arrivals in the last six years, due to damaged cruise destinations in the region.
- The other revenue streams underperformed, ending at a combined 5% below budget. These were due to:
 - Vacant units at RWCT
 - Less services to vessels calling on the port
 - Less fuel sales to vessels

- Staff costs ended at 7% below budget. Planned recruitment was not carried out fully.
- There was a 29% underspend on budget for repairs and maintenance as these were delayed to ensure capex was funded.
- Other operating expenses was 9% lower than budget due to restricted spending in several operational areas.
- Estimated defined benefit expense was 23% less than budget due to changes in the discount rate.
- Contracted services exceeded budget by 22% as professional fees, security and other expenses increased in response to higher activity.

- Total comprehensive income was 263% better than expected due to the favorable outcome in the remeasurement of long-term health benefit obligation, 11% less expenses and 7% more revenue vs the budget amounts.



MANAGEMENT DISCUSSION AND ANALYSIS (continued)



- The income earned from cargo handling is just enough to cover the staff costs and benefits obligations for the period.
- Contracted services, repairs and maintenance as well as depreciation is covered by income earned from cruise passengers.
- The remaining revenue pays for the other operating expenses, with the excess amount to be allotted for investment in infrastructure, equipment and other development.
- The medium-term plan for replacement and improvement of the facilities to acceptable industry standards requires a funding requirement that is significantly higher than the annual excess amounts.
- The Port Authority is able to slowly build cash reserves by delaying capital spending and operating with minimal sinking fund for depreciation.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Historical Performance

The net results for the last six years reflect the trend of negligible profits. Results for 2018 and 2016 were outside the norm, and resulted from non-operating gains from positive movement in the discount rate resulting in a reduction of the defined benefit liability, and revaluation gains from the revaluation exercise done effective 2016 respectively. The defined benefit costs have had a detrimental impact on the results of the Authority since being brought on the books in 2014. This alone has reduced the combined operating surplus of \$18M for the last six fiscal years by \$15M.

The six-year operating income chart shows that PACI has been improving in revenue generation, as dictated by activities in the economy. Cargo volumes and cruise passengers, which accounts for about 90% of PACI's revenue, increased by 40% and 42% respectively over the six-year period. Movements in container boxes increased by 29%. These were chiefly responsible for generating 26% growth in operating revenue over the last six fiscal years, from \$19.5M in 2013 to \$24.5M in 2018.

Other positive movements already noted netted \$4M in non-operating gains over the period resulting in total combined profits of \$22.5M. Of the last six fiscal years, four (4) had net profits that averaged less than \$400K.

			Restated		Restated		
SIX (6) YEAR HISTORICAL PERFORMANCE	2018	2017	2016	2015	2014	2013	TOTALS
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cargo income	18,422	26,482	16,790	14,841	14,625	13,979	105,139
Cruise income	4,726	6,070	4,382	4,073	3,552	3,496	26,299
Rental income	1,050	1,562	1,236	1,159	1,188	1,224	7,419
Other income	359	391	496	454	557	793	3,050
Total Operating Income	24,557	34,505	22,904	20,527	19,922	19,492	141,908
Staff costs	(13,554)	(19,266)	(12,305)	(11,574)	(11,670)	(11,462)	(79,830)
Contracted services	(1,766)	(2,098)	(1,290)	(2,161)	(1,015)	(1,301)	(9,631)
Repairs and maintenance	(1,701)	(2,947)	(1,670)	(1,368)	(1,253)	(1,080)	(10,020)
Insurance	(559)	(769)	(601)	(654)	(945)	(993)	(4,521)
Other operating costs	(1,517)	(2,317)	(1,232)	(1,245)	(1,297)	(1,421)	(9,029)
Depreciation	(1,462)	(1,664)	(1,694)	(1,825)	(1,770)	(1,928)	(10,343)
Total Operating Expenses	(20,559)	(29,061)	(18,792)	(18,827)	(17,950)	(18,185)	(123,374)
Operating Surplus	3,999	5,445	4,112	1,700	1,972	1,307	18,534
Gain / (loss) on disposal of fixed assets	-	(124)	(472)	(45)	(612)	(929)	(2,182)
Defined benefit annual expense	(3,094)	(4,010)	(2,435)	(1,305)	(4,340)	-	(15,184)
Defined benefit liability remeasurement	4,476	(777)	(3,433)				266
Gain on revaluation of property	-	-	22,589	-	-	-	22,589
Other comprehensive income	-	-	1,395	-	3,305	-	4,700
Loss on revaluation of equipment	-	-	(514)	-	-	-	(514)
Gain on revaluation of investment property	689	-	(6,384)	-	-	-	(5,695)
Total Comprehensive Income	6,070	533	14,858	350	325	378	22,514

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

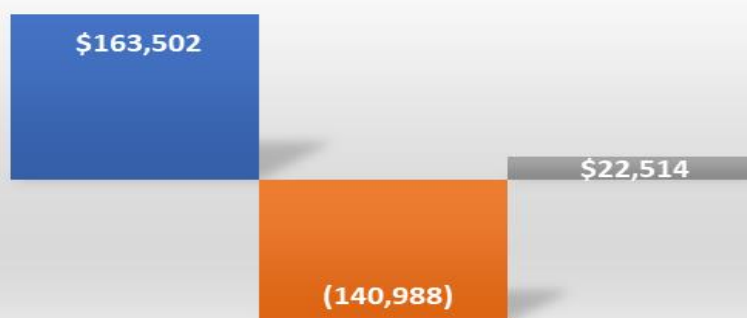
SIX-YEAR HISTORICAL INCOME VS EXPENSES



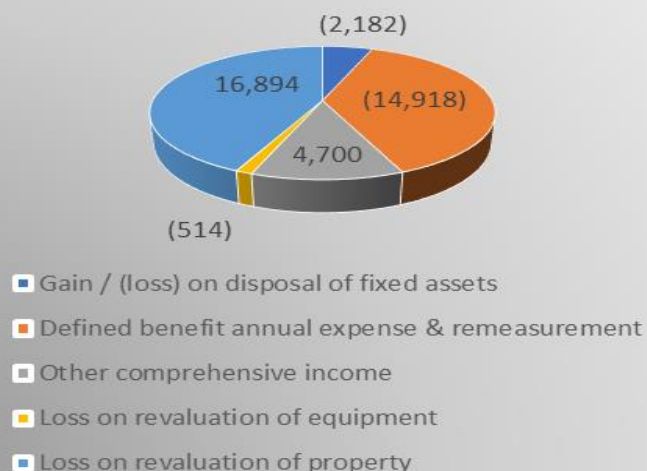
- Despite appreciable income growth, expenses are tracking in line with income, resulting in meagre profitability.
- This hinders investment in human resources, infrastructure and other capital assets.
- This indicates an imbalance in the cost recovery for the services provided by PACI, which need to be addressed.

- ✧ Growth in operating income 2-12%
- ✧ Income fell in last year by 0.5% (Prorated)
- ✧ Marginal growth in operating expenses
- ✧ High growth in DBE
- ✧ Total income for 6-year period was \$163M
- ✧ Total expense was \$140M
- ✧ Net profit for 6-year period was \$22.5M

Summary results 2013 -2018



Non Operating Expenses Summary 2013- 2018

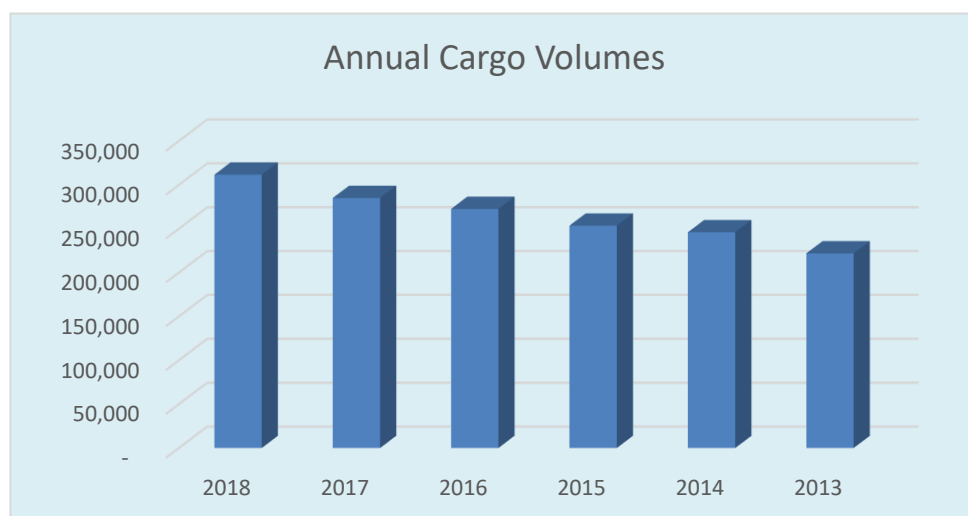


- \$15M Defined benefit net expense
- Non-recurrent gain of \$4.7M (revaluation gain and donated property)
- Loss on asset disposals of \$2.2M
- Revaluation (Equip.) loss \$514K
- Net revaluation gain on property \$16.7M

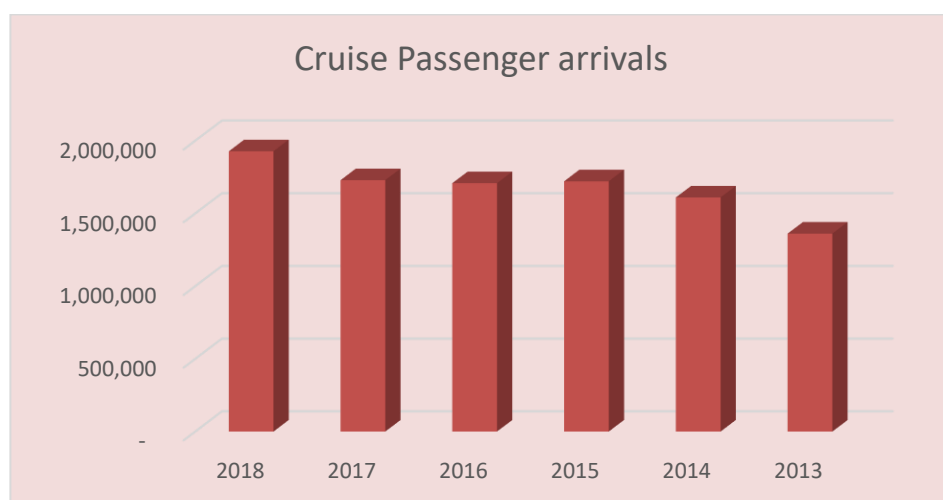
MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

The 5% average annual operating income growth is trending with the 7% average growth in cargo volumes and an equal 7% growth in cruise activities. Container movements had a 5% average annual growth as well between 2013 and 2018.

	Fiscal Year Totals					
Activity Statistics	2018	2017	2016	2015	2014	2,013
Annual Cargo Volumes	311,612	284,981	272,526	253,442	245,967	221,863
Cruise Passenger arrivals	1,927,185	1,728,444	1,708,066	1,720,793	1,609,557	1,361,192
TEUS (IN AND OUT)	61,427	58,579	54,385	48,439	49,144	47,487



PACI had expected a robust pace of growth of cargo activity & income of around 4% for the short term, consistent with the 5 - year average. This positive growth of cargo on all fronts is one of two welcome news about the income performance for the periods. As seen by the graphs, we have been having consistent yearly growth of both Cargo (7%) and TEU's (5%) for the last six years.

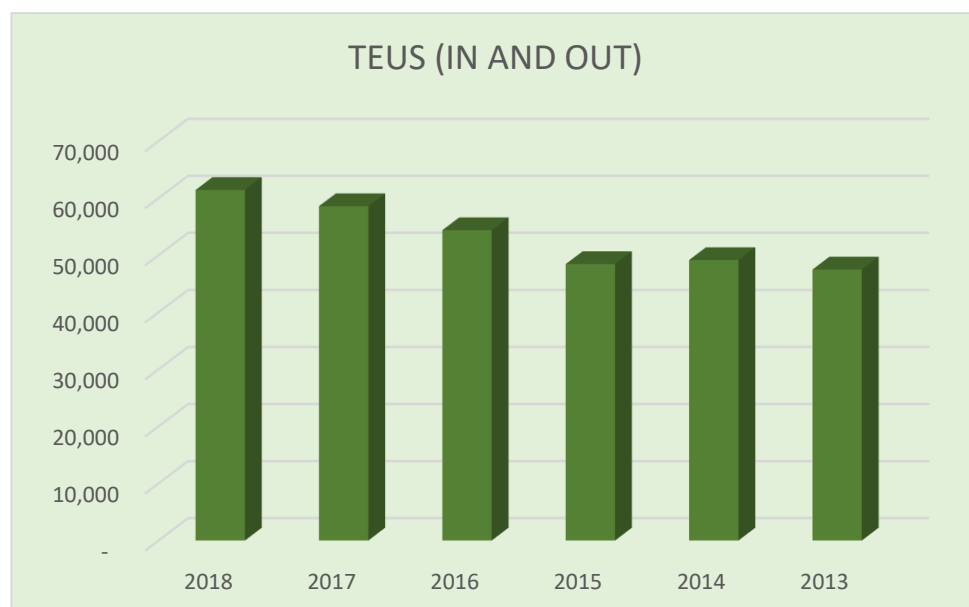


- Cruise arrivals has performed well over the last six years, contributing a combined \$26M to PACI at an average of \$4.4M per Year. Cruise income accounted for 19% of operating revenue for 2018. This is consistent with the average cruise income contribution for the past six years.
- The Cayman Islands still enjoy one of the highest rates of cruise visitors in this hemisphere. The pace of growth averaged 7% per annum for the last five calendar years, despite the 1% decline in 2016.

Cruise numbers are up 42% since 2013

- The cruise business is vital to the financial stability of the Cayman Port, evidenced by the size of its contribution to our operating revenue.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)



- Cargo volume is up 9% over 2017
- TEU movement is 5% above 2017
- TEU is up 28 % since 2013
- Cargo is up by 40% since 2013

Actual vs budget

Statement of Cash Flows	Actual 2018 \$	Budget 2018 \$	Variance %	Reason
Net cash flows from operating activities	7,371,857	1,652,955.0	346%	Positive revenue & expense performances
Net cash flows from investing activities	(6,392,556)	(2,551,100.0)	151%	Revised Capital plans
Net cash flows from financing activities	(207,000.0)	-		Payments for retirees

Cash Flow Six Year Trend Analysis

	2018	2017	2016	2015	2014	2013	TOTALS
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening Cash	6,821	6,233	3,793	1,384	1,259	1,640	1,640
Net cash earned from Operations	7,371	5,354	5,608	4,640	5,167	2,717	30,857
Purchase of fixed assets	(6,540)	(2,732)	(1,397)	(278)	(3,248)	(953)	(15,148)
Debt repayment	(207)	(2,034)	(1,771)	(1,953)	(1,794)	(2,145)	(9,904)
Closing Cash balance	7,445	6,821	6,233	3,793	1,384	1,259	7,445

The strong operating performance shown in the Statement of Comprehensive Income is reflected in the improved operating cash flow over the six- year period. Actual closing cash balances

improved by 491% over the six-year period. The Authority invested an average of \$2.5M per annum in its asset portfolio, and repaid its debt and reduced liabilities by \$9.9M or an annual average of \$1.6M for the last six years.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

FINANCIAL PERFORMANCE RATIO	2018	2018	Explanation
	Actual	Budget	
CURRENT ASSETS: CURRENT LIABILITIES	4.63:1	5.63:1	Cash used to buy assets
TOTAL ASSETS: TOTAL LIABILITIES	2.26:1	1.28:1	Acceleration of CAPEX plans and lower defined benefit liability upon valuation at year end

HUMAN CAPITAL MEASURES	2018 Actual	2018 Budget
TOTAL FULL TIME EQUIVALENT STAFF EMPLOYED	157	159
STAFF TURNOVER (%)		
SENIOR MANAGER	5	0
PROFESSIONAL AND TECHNICAL STAFF	Less than 1%	Less than 1%
ADMINISTRATIVE STAFF	0	0

PHYSICAL CAPITAL MEASURES	2018 Actual \$ 000'S	2018 Budget \$ 000'S	Explanation
ASSET REPLACEMENTS: TOTAL ASSETS	0.08:1	0.05:1	Accelerated Capex plans
BOOK VALUE OF ASSETS: COST OF THOSE ASSETS	0.85:1	0.62:1	Impact of revaluation
DEPRECIATION: CASH FLOW ON ASSET PURCHASES	0.22:1	0.80:1	Less depreciation due to IFRS rules on Investment property; More purchases than budget
CHANGES TO ASSET MANAGEMENT POLICES	None	None	None

CAPITAL EXPENDITURE	2018 ACTUAL \$	2018 TARGET \$	EXPLANATION
Other Fixed Asset Purchases	826,470	811,100	Within expectations
Crane, Vehicles and Specialized Equipment	2,278,848	740,000	Accelerated Capex
Paving of CDC Complex	3,412,476	1,000,000	Accelerated Capex

RISK MANAGEMENT

Key Risks	Mitigation strategies
<i>Strategic risks</i> <ul style="list-style-type: none"> • Lack of long-term planning 	<ul style="list-style-type: none"> • Master Plan developed
<i>Compliance risks</i> <ul style="list-style-type: none"> • Risk of breach of Port Laws & Regulations • Risk of breach of PMFL and Regulations • Risk of non- compliant financial reports • Risk of breach of security protocols 	<ul style="list-style-type: none"> • Professional staff keep updated • Continuing training and development of staff • Regular reporting to strategic levels • Continual training & regular reporting
<i>Operational risks</i> <ul style="list-style-type: none"> • Inability to efficiently discharge cargo • Industrial accidents • Terrorism • Breakdown of equipment • Lawsuits for negligence 	<ul style="list-style-type: none"> • Trained personnel; rotated staff • Safety officer; adequate insurance • Security protocols; trained security staff • Backup equipment; maintenance programs • Safety procedures; adequate insurance
<i>Reputational risks</i> <ul style="list-style-type: none"> • Damage to the Cayman Tourism Brand • Loss of confidence in Port's ability to deliver 	<ul style="list-style-type: none"> • Manage key relationships in cruise sector • Training; capacity maintenance; upskilling of technical staff

Cayman Brac Port

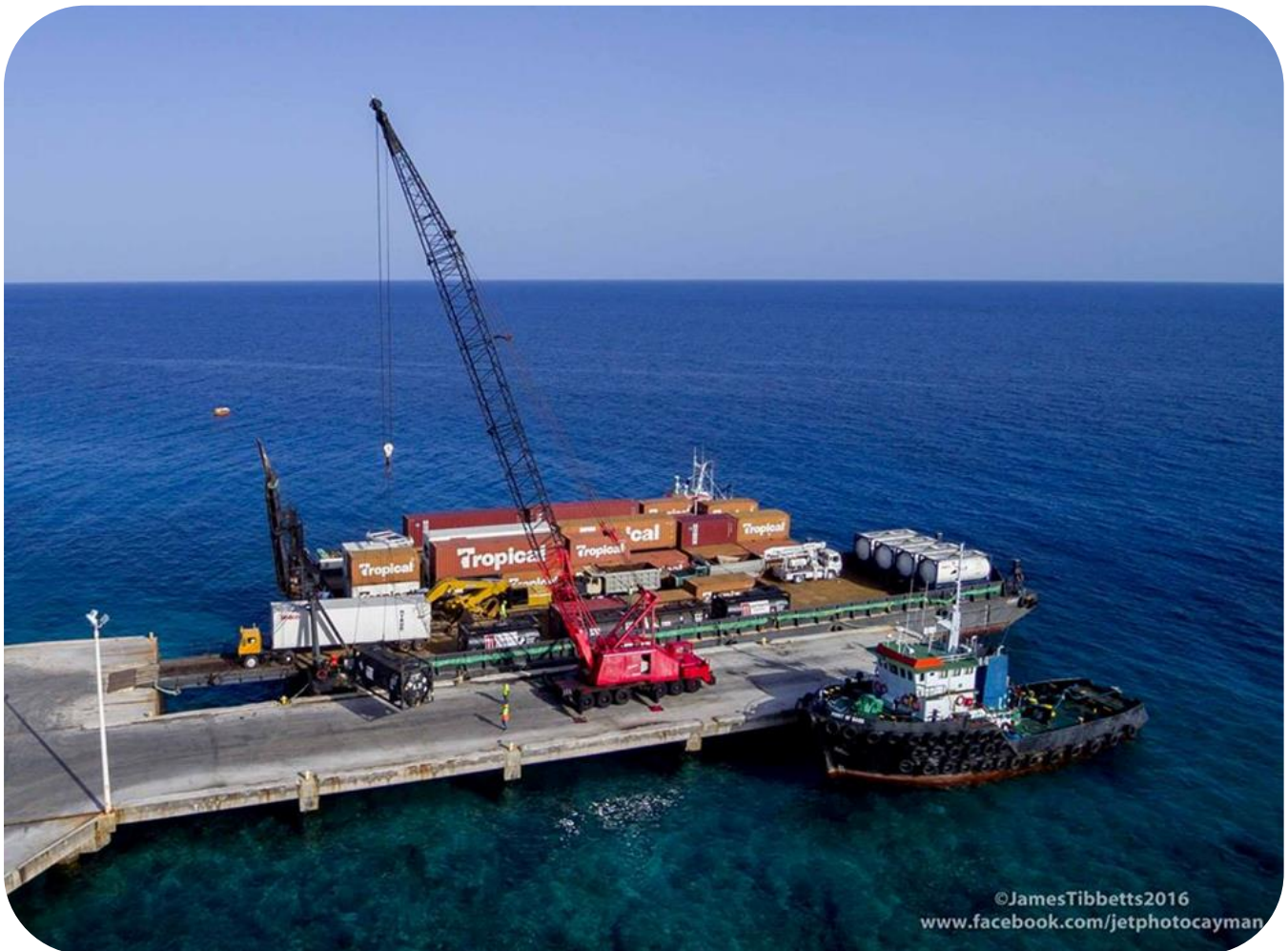


INTERNAL AND EXTERNAL AUDIT UPDATES

The 2018 Financial Statements were duly certified by the auditor general in September 2019. The Port Authority received an unqualified audit opinion on the financial statements.

The Internal Audit Unit completed a financial audit and issued its report in August 2017. The Port has addressed the concerns raised in their report.

Cayman Brac Port



SCRUTINY BY PARLIAMENT AND PUBLIC

The Port Authority's 2017 and 2018 audited accounts have not been reviewed by the PAC.

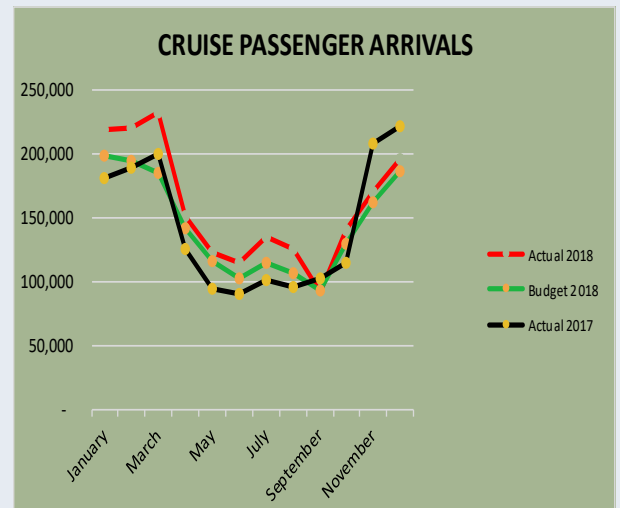
SELECTED STATISTICAL DATA

Port Authority of the Cayman Islands
Fiscal year 2018
Analytical Cruise Data

DATA FOR PERIOD ENDING DEC 2018

Cruise Passengers arrivals

Month	Actual 2018	Projected 2018	Variance-Actual to Budget	% Change	Actual 2017	Variance 2018 vs 2017	% Change
January	218,430	198,458	19,972	10.06	181,765	36,665	20
February	220,603	194,430	26,173	13.46	189,704	30,899	16
March	232,902	185,470	47,432	25.57	199,844	33,058	17
April	151,716	141,327	10,389	7.35	125,284	26,432	21
May	123,203	115,948	7,255	6.26	94,523	28,680	30
June	115,122	102,710	12,412	12.08	90,809	24,313	27
July	134,926	114,880	20,046	17.45	101,513	33,413	33
August	126,275	107,054	19,221	17.95	96,309	29,966	31
September	92,592	93,412	(820)	(0.88)	103,287	(10,695)	(10)
October	139,982	130,421	9,561	7.33	115,077	24,905	22
November	169,997	162,697	7,300	4.49	208,695	(38,698)	(19)
December	201,437	186,995	14,442	7.72	221,634	(20,197)	(9)
Totals JAN-DEC	1,927,185	1,733,802	193,383	11.15	1,728,444	198,741	11

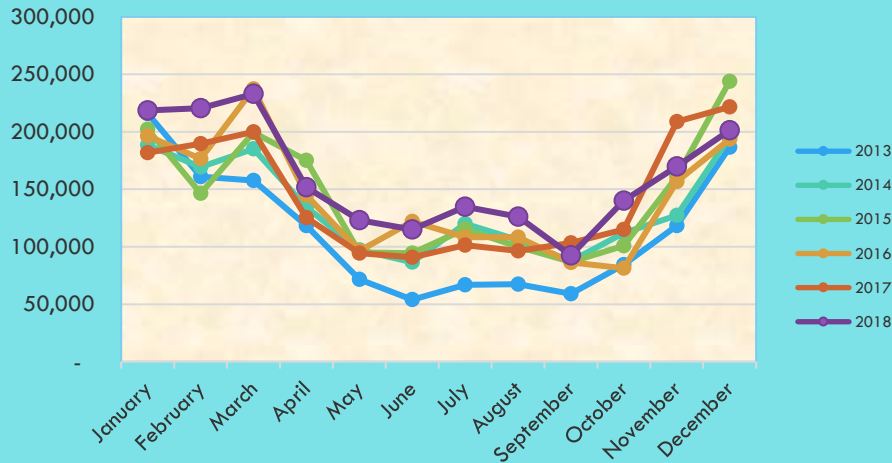


PACI has seen an *increase* of 11% in cruise passenger arrivals over last year and an 11% improvement when compared to the budget. Income from cruise passengers moved by the same percentage

2018 arrivals topped 1.9M passengers, outpacing the 1.7M passenger arrivals for 2017. This was the highest cruise passenger count for the last six years. The cruise performance for the 2018 financial year is trending in the upper levels historically. The additional bookings were due to hurricane damage in other cruise destinations on our normal itinerary. This boosted, albeit temporarily, our cruise income performance for 2018.

SELECTED STATISTICAL DATA

SIX (6) YEAR CRUISE PASSENGER ARRIVALS
(JAN -DEC)



The graph at left shows the calendar year cruise passenger arrivals for the last six years.

Except for a marginal reduction in 2016, the passenger numbers consistently increased, averaging 7% growth per annum.

Six - year Passenger Arrivals

Month	2013	2014	2015	2016	2017	2018	2013-2018	6 yr % change
January	215,890	188,504	202,264	196,208	181,765	218,430	2,540	1
February	160,844	169,346	146,545	176,539	189,704	220,603	59,759	37
March	157,717	185,167	199,245	237,343	199,844	232,902	75,185	48
April	118,335	134,646	175,225	144,805	125,284	151,716	33,381	28
May	71,532	97,317	95,072	96,430	94,523	123,203	51,671	72
June	53,978	86,537	94,511	121,984	90,809	115,122	61,144	113
July	66,874	120,126	115,192	108,447	101,513	134,926	68,052	102
August	67,571	105,936	100,091	108,221	96,309	126,275	58,704	87
September	58,976	87,536	86,833	86,476	103,287	92,592	33,616	57
October	84,529	111,953	100,874	81,311	115,077	139,982	55,453	66
November	118,360	127,212	160,967	156,790	208,695	169,997	51,637	44
December	186,586	195,277	243,974	193,512	221,634	201,437	14,851	8
ANNUAL TOTALS	1,361,192	1,609,557	1,720,793	1,708,066	1,728,444	1,927,185	565,993	42
Annual growth rate		18.25	6.91	(0.74)	1.19	11.50		7.42
CRUISE INCOME	3,348,532	3,959,510	4,233,151	4,201,842	4,251,972	4,740,875	24,735,883	4,122,647

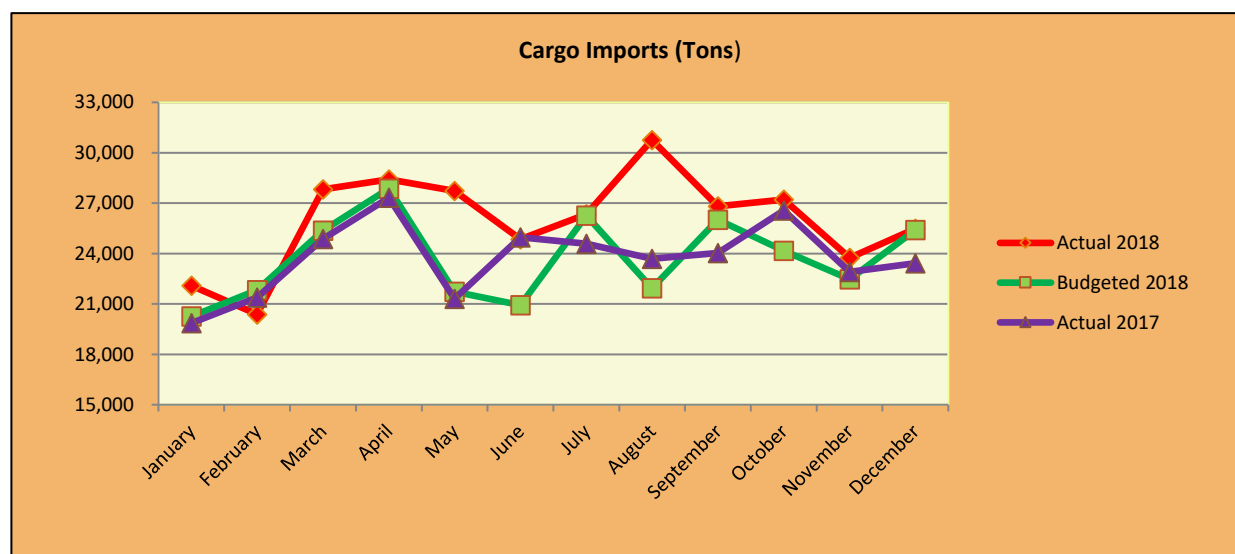
SELECTED STATISTICAL DATA *(continued)*

Port Authority of the Cayman Islands

For the twelve (12) months ended Dec 31 2018

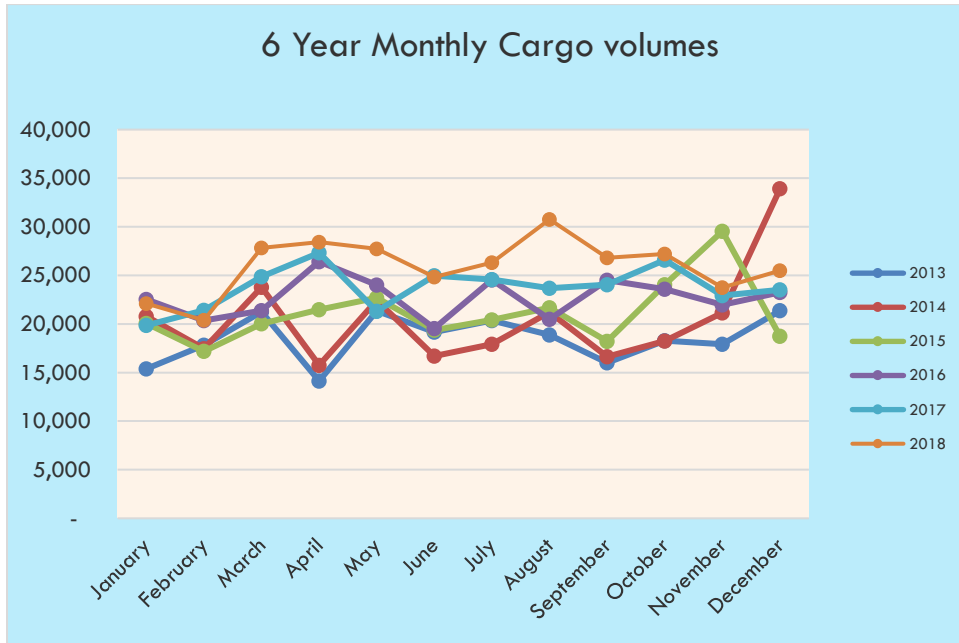
Cargo Data Performance

Cargo Imports (Tons)							
Month	Actual Fiscal 2018	Budget Fiscal 2018	Variance - Actual to Budget	% Change	Actual Fiscal 2017	Variance 2018 / 2017	% Change
January	22,085	20,255	1,830	9.03	19,858	2,227	11
February	20,382	21,820	(1,438)	(6.59)	21,392	(1,010)	(5)
March	27,832	25,364	2,468	9.73	24,867	2,965	12
April	28,406	27,867	539	1.93	27,321	1,085	4
May	27,722	21,729	5,993	27.58	21,303	6,419	30
June	24,843	20,932	3,911	18.68	24,958	(115)	(0)
July	26,328	26,263	65	0.25	24,577	1,751	7
August	30,761	21,936	8,825	40.23	23,689	7,072	30
September	26,810	26,007	803	3.09	24,031	2,779	12
October	27,214	24,165	3,049	12.62	26,569	645	2
November	23,747	22,464	1,283	5.71	22,916	831	4
December	25,482	25,395	87	0.34	23,500	1,982	8
Totals	311,612	284,197	27,415	9.65	284,981	26,631	9



The above shows that for the twelve months of the 2018 financial year, actual cargo volume was 10% above budget, and 9% better than 2017. Cargo activity is on a historic high, improving year on year. The boom in construction, real estate, and infrastructure development has fueled this continued strong performance.

SELECTED STATISTICAL DATA *(continued)*



The six-year cargo volume shows a fairly consistent trend line of increasing volumes between 3% and 11%.

In 2018 the Port processed 40% more cargo than five years ago in 2013.

Historical cargo Volume imports (SIX YEARS) January to December

Month	2013	2014	2015	2016	2017	2018	2018/ 2013
January	15,379	20,779	20,056	22,524	19,858	22,085	43.61
February	17,815	17,463	17,179	20,352	21,392	20,382	14.41
March	21,257	23,782	20,021	21,361	24,867	27,832	30.93
April	14,136	15,760	21,476	26,421	27,321	28,406	100.95
May	21,333	22,431	22,690	24,005	21,303	27,722	29.95
June	19,185	16,710	19,380	19,544	24,958	24,843	29.49
July	20,347	17,907	20,412	24,522	24,577	26,328	29.39
August	18,858	21,202	21,666	20,482	23,689	30,761	63.12
September	15,994	16,642	18,223	24,516	24,031	26,810	67.63
October	18,290	18,242	24,040	23,573	26,569	27,214	48.79
November	17,910	21,141	29,544	21,958	22,916	23,747	32.59
December	21,359	33,908	18,755	23,268	23,500	25,482	19.30
TOTALS	221,863	245,967	253,442	272,526	284,981	311,612	40.45
YTD Growth		10.86	3.04	7.53	4.57	9.34	

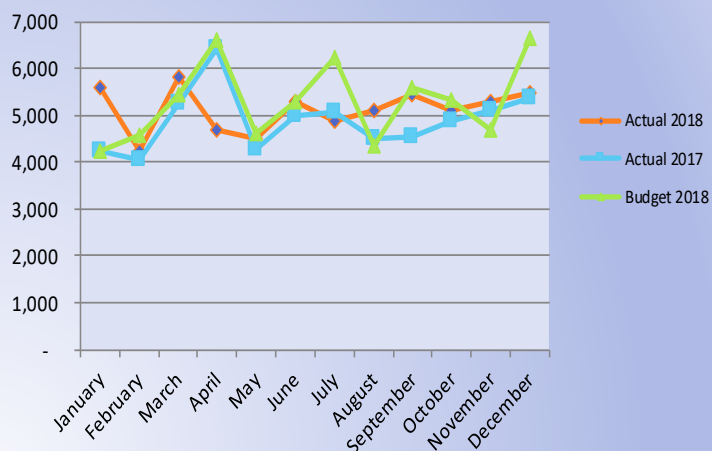
SELECTED STATISTICAL DATA (continued)

TWENTY-FOOT EQUIVALENT UNIT (TEU) MOVEMENTS

For the twelve (12) months ended Dec 31 2018

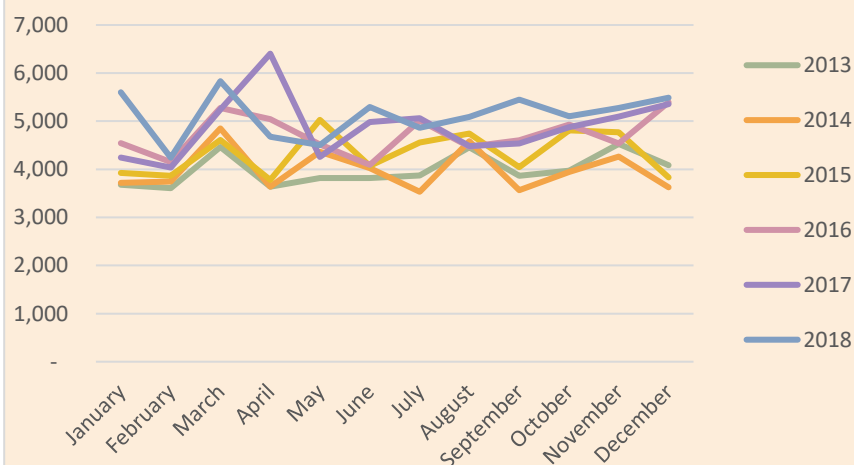
Month	Actual 2018	Actual 2017	Budget 2018	Variance - 2018 vs 2017	Variance - Actual vs Budget
January	5,603	4,243	4,236	32.05	32.27
February	4,242	4,037	4,592	5.08	(8)
March	5,832	5,240	5,430	11.30	7
April	4,679	6,404	6,622	(26.94)	(29)
May	4,505	4,257	4,606	5.83	(2)
June	5,298	4,986	5,279	6.26	0
July	4,866	5,062	6,248	(3.87)	(22)
August	5,090	4,482	4,346	13.57	17
September	5,447	4,540	5,596	19.98	(3)
October	5,101	4,878	5,324	5	(4)
November	5,278	5,093	4,680	3.63	12.78
December	5,486	5,357	6,642	2.41	(17)
12-Month Totals	61,427	58,579	63,601	4.86	(3)

TEU MOVEMENTS



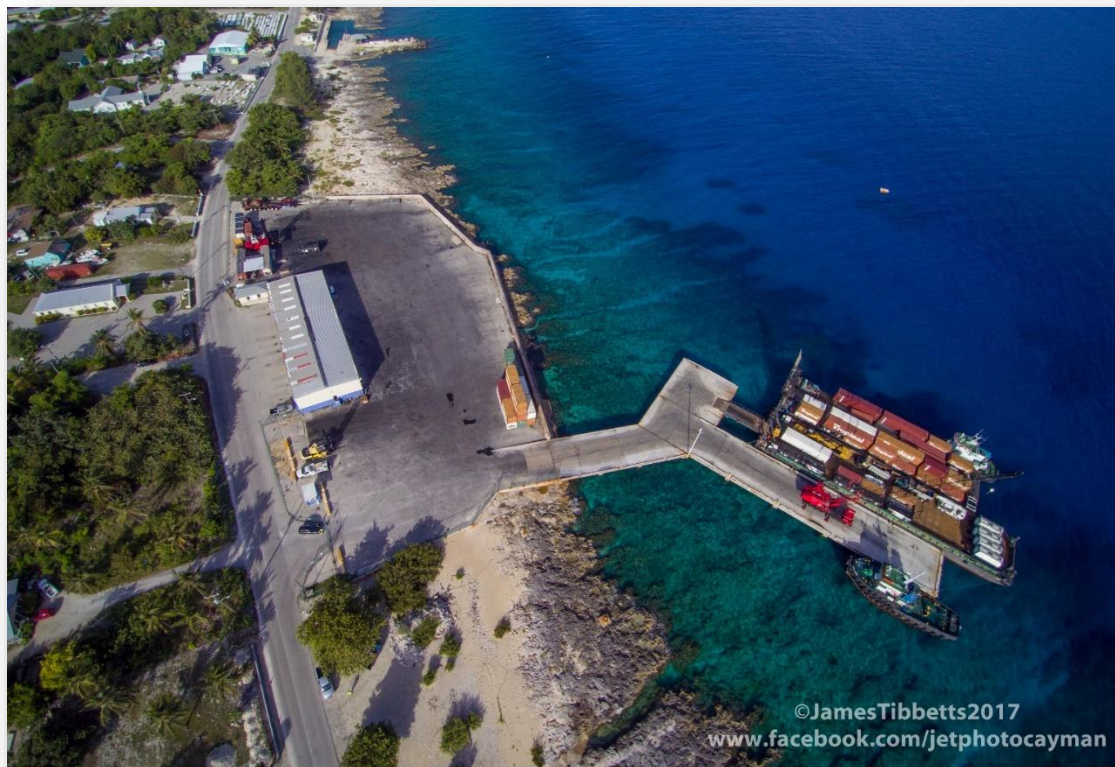
The Port processed 61,427 equivalent 20-foot containers for the 12-month period ended 31 Dec 2018, in comparison with 58,579 last year. This is a 4.86% increase and is trending in line with the cargo volume imports. The TEU graph shows opposite performance for the month of April and July of 2018 numbers over the prior year.

SIX-YEAR CONTAINER MOVEMENTS



The 2018 and 2017 container movements have not been consistent particularly for the months of April and July. However, the general trend line of cyclical movements is evident, with higher numbers than the previous three reporting periods. The year to December 2018 ended at 4.86% above 2017.

Cayman Brac Port



Port Authority of the Cayman Islands

FINANCIAL STATEMENTS

For the financial year ended 31 December 2018



FINANCIAL STATEMENTS OF THE PORT AUTHORITY OF THE CAYMAN ISLANDS

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PORT AUTHORITY OF



THE CAYMAN ISLANDS

PO Box 1358, Harbour Drive, Grand Cayman, KY1-1108, Cayman Islands
(345) 949 2055, Fax (345) 949 5820

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 financial year ended 31 December 2018.

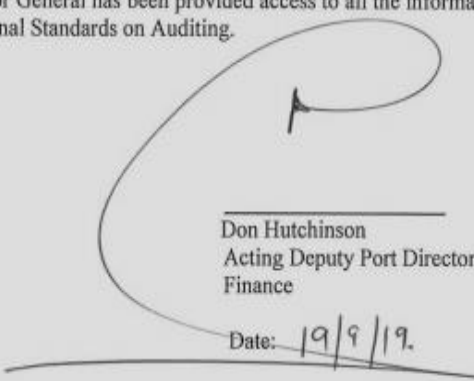
To the best of our knowledge, we represent that these financial statements:

- (a) Completely and reliably reflect the financial transactions of Port Authority of the Cayman Islands for the year ended 31 December 2018;
- (b) Fairly reflect the financial position as at 31 December 2018 and performance for the financial year ended 31 December 2018.
- (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 on 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 2018 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended December 2018, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 8 to 44.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Authority as at 31 December 2018 and its financial performance and its cash flows for the year ended 2018 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

For the financial year ended 31 December 2018


(Stated in Cayman Islands dollars)

	Note	December 2018 \$	December 2017 \$
ASSETS			
Current Assets			
Cash and cash equivalents	4	7,445,363	6,821,326
Accounts receivable (Net)	4(a)	1,708,532	1,761,307
Inventory		1,072,250	964,200
Prepaid expenses	4(b)	201,725	134,777
Other receivables and deposits	4(c)	306,040	1,230,765
Total Current Assets		10,733,911	10,912,375
Non-Current Assets			
Fixed Assets			
Land- freehold	5	29,827,001	29,827,000
Docks and buildings	5	22,044,162	19,469,914
Other fixed assets	5	8,264,770	5,405,011
Work in progress	7	-	510,912
Total Fixed Assets	5	60,135,932	55,212,837
Investment Property	8	9,055,000	8,356,461
Total Non-Current Assets		69,190,932	63,569,298
TOTAL ASSETS		79,924,843	74,481,673
LIABILITIES and EQUITY			
Current Liabilities			
Accounts payable and accrued expenses	9	2,316,065	1,560,824
Current maturities on long term liabilities		-	-
Total Current Liabilities		2,316,065	1,560,824
Non – Current Liabilities			
Long term Loans		-	-
Defined benefit liability	10	33,105,000	34,694,000
Total Non- Current Liabilities		33,105,000	34,694,000
TOTAL LIABILITIES		35,421,065	36,254,824
GENERAL EQUITY			
ASSET REVALUATION RESERVE		28,298,904	22,021,975
		16,204,874	16,204,874
		44,503,778	38,226,849
TOTAL LIABILITIES and EQUITY		79,924,843	74,481,673

Approved:


Joseph Woods (Acting Port Director)

19/9/19
Date


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 financial year ended 31 December 2018

(Stated in Cayman Islands dollars)

	Note	December 2018 \$	December 2017 \$
OPERATING REVENUE			
Cargo handling	19	17,052,259	24,226,373
Cruise ship passenger fees	20	3,401,737	4,411,845
Port development fees	20	1,324,334	1,658,308
Maritime services	21	1,370,156	2,255,545
Rental income	28	1,050,065	1,562,256
Other income	22	180,648	217,957
Diesel sales	23	175,725	171,306
Total Operating Revenue		24,554,924	34,503,590
OPERATING EXPENSES			
Staff costs	24	13,553,585	19,265,896
Repairs and maintenance	26	1,701,478	2,947,386
Contracted services	25	1,766,009	2,097,654
Insurance		558,661	768,964
Utilities		540,244	749,686
Diesel		337,162	372,864
Finance charges	3	20,704	79,401
Miscellaneous		367,600	310,167
Rent		68,672	69,394
Stationery, supplies & computer supplies		72,648	134,037
Travel, conventions & training		25,692	199,149
Advertising and entertainment		84,296	402,563
Total Operating Expenses		19,096,752	27,397,361
GROSS OPERATING SURPLUS FOR THE YEAR		5,458,172	7,106,229
OTHER INCOME/ (EXPENSES)			
Interest income		2,418	1,899
Defined benefit expense – post employment health care	13	(3,094,000)	(4,010,000)
Disposal of fixed assets	6	-	(124,058)
Gain/(Loss) on revaluation of investment property	8	689,398	-
Loss on revaluation of Investment Property		-	-
Depreciation	5	(1,462,059)	(1,663,828)
Total Other Income/(Expenses)		(3,864,243)	(5,795,987)
NET INCOME/ (LOSS) FOR YEAR		1,593,929	1,310,242
Other Comprehensive income for the year:			
Other Comprehensive expense:			
Remeasurements of defined benefit obligation:		-	-
effect of changes in financial assumptions	13	4,476,000	(777,000)
Total Comprehensive Income for the year		6,069,929	533,242

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

PORT AUTHORITY OF THE CAYMAN ISLANDS

Statement of Cash Flows

For the financial year ended 31 December 2018

(Stated in Cayman Islands dollars)

		December 2018 \$	December 2017 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income /(loss) for year		6,069,929	533,242
Adjustments to reconcile net income to net cash used in Operating activities:			
Depreciation	5	1,462,059	1,663,828
Defined benefit expense	13	(1,382,000)	4,787,000
Loss on disposal of fixed assets	6	146,525	124,058
Prior period adjustment		-	(5,938)
Defined benefit payments		207,000	282,000
Gain on revaluation of investment property		(689,398)	-
Net change in working capital:			
Accounts receivable		52,773	(254,054)
Inventory		(108,049)	33,266
Prepaid expenses		(66,949)	690,580
Other receivables		924,725	(1,021,211)
Accounts payable and accrued expenses		755,241	(1,478,392)
Net Cash Provided by Operating Activities		7,371,857	5,354,379
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed Assets purchased	5	(6,531,679)	(1,992,057)
Long Term Investment purchased	10	(9,141)	(46,461)
Construction in progress (Net)	5	-	(693,444)
Net Cash Used by Investing Activities		(6,540,820)	(2,731,962)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of long term debt	11	-	(1,752,538)
Defined benefit payment for active enrolees	13	(207,000)	(282,000)
Contribution to Government		-	-
Net Cash Used by Financing Activities		(207,000)	(2,034,538)
Net Increase in cash and Cash Equivalents during the year		624,037	587,879
Cash and cash equivalents at the beginning of the year	3	6,821,326	6,233,447
Cash and cash equivalents at the end of year	3	7,445,363	6,821,326

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

PORT AUTHORITY OF THE CAYMAN ISLANDS

Statement of Changes in Equity

For the financial year ended 31 December 2018

(Stated in Cayman Islands dollars)

	\$
Beginning balance 1 July 2016 (restated)	37,425,307
Correction for understatement of	
General reserves in prior period (Expenses, Accruals)	(5,938)
Defined benefit liability – employer direct benefit payments	282,000
Experience Adjustments – defined benefit liability	(7,763)
Total comprehensive income	533,243
Transactions with shareholder:	
Contributions to Cayman Islands Government	-
Total transactions with shareholder	-
Ending balance 31 December 2017	38,226,849
Beginning balance 1 January 2018	38,226,849
Payments made on defined benefit obligation for current beneficiaries	207,000
Comprehensive income:	
Total comprehensive (loss) for the year	6,069,929
Ending balance 31 December 2018	44,503,777

The accompanying notes form an integral part of these financial statements

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the financial year ended 31 December 2018

(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 2018, the Port Authority had 153 employees (2017-154 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 the period from 1 January 2018 to 31 December 2018 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 financial year ended 31 December 2018

(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 recognises 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*

The Port Authority adopted IFRS 9 effective January 1, 2018. IFRS 9 supersedes IAS 39, Financial Instruments-Recognition and Measurement (IAS 39). IFRS 9 establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of the financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. The Port Authority adopted IFRS 9 retrospectively with no restatements of comparatives. The adoption did not result in any material adjustment to the carrying amounts of financial assets, financial liabilities or opening general reserve balance.

(i) *Recognition and Derecognition*

The Port Authority recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when control over the contractual rights to receive cash flows and benefits related from the financial asset are transferred and/or substantially all the risk and rewards of ownership have been given to another party. Financial liabilities are derecognised when obligations under the contract expire and are discharged or cancelled.

(ii) *Classification and Measurement*

Under IFRS 9, financial assets and financial liabilities are initially measured at fair value, with subsequent measurement determined in line with their classification. Transactions costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss ("FVTPL") are recognised immediately in the profit or loss.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the financial year ended 31 December 2018

(Stated in Cayman Islands dollars)

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

From January 1, 2018, the Port Authority classifies its financial assets (subsequently) in the following specified categories:

- Amortized cost;
- Financial assets at fair value through other comprehensive income (FVTOCI)
- Financial assets at fair value through profit or loss (FVTPL)

Amortized cost: Financial assets are measured at amortized cost if the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. Financial assets at amortized cost include cash and cash equivalents and accounts receivable, other receivables and deposits.

Financial assets at fair value through other comprehensive income (FVTOCI): Financial assets are measured at FVTOCI if the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flow and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. The Port Authority does not currently have any financial assets measured subsequently at fair value.

Financial assets at fair value through profit or loss (FVTPL): Financial assets are measured at FVTPL unless they meet the criteria above to be measured at amortized cost or FVTOCI.

The following table presents the types of financial instruments held by the Port Authority within each financial instrument classification under IAS 39 and IFRS 9:

	IAS 39		IFRS 9
	Classification	Measurement basis	Classification & Measurement basis
Financial Assets:			
Cash and Cash Equivalents	Loans and Receivables	Amortized Cost	Amortized Cost
Accounts and other receivables	Loans and Receivables	Amortized Cost	Amortized Cost
Financial Liabilities			
Accounts payable and accrued expenses	Other liabilities	Amortized Cost	Amortized Cost

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the financial year ended 31 December 2018

(Stated in Cayman Islands dollars)

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

(iii) Impairment of financial assets

Under IFRS 9, financial assets under all categories are assessed for impairment based on the expected loss model. The expected loss model requires a loss allowance to be recorded at an amount equal to:

- expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date; or
 - expected credit losses that result from all possible default events over the life of the financial instrument.
- A loss allowance for lifetime expected credit losses is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. The Port Authority does not hold any financial instruments that exhibit such an increase in risk to warrant a loss allowance for lifetime expected credit losses.

Additionally, entities can elect an accounting policy of recognizing lifetime expected credit losses for all contract assets and/or trade receivables, including those that contain a significant financing component.

For all other financial instruments, expected credit losses are measured at an amount equal to the 12-month expected credit losses.

The Port Authority assesses on a forward-looking basis the expected credit losses associated with its financial assets carried at amortized cost. The only financial asset for which a loss allowance has been recorded equal to the 12-month expected credit losses as at the yearend is the account receivable and other receivable, through the allowance for doubtful accounts. The measurement of the expected credit losses reflects an unbiased amount that is determined by evaluating the range of possible outcomes. To measure the expected credit losses, account receivable and other receivable have been grouped on shared credit risk characteristics using reasonable and supportable information about past events, current conditions, reasonable supportable forecast of future economic conditions and days past due.

Financial liabilities are initially measured at fair value net of transactions cost. Subsequently, they are measure at amortized cost using the effective interest method. Financial liabilities at amortized cost include accounts payable and accrued expenses, current and long term loans.

(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 recognised 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 performance), 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.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the financial year ended 31 December 2018

(Stated in Cayman Islands dollars)

3. Significant accounting policies (continued)

Any revaluation increase arising from the revaluation of such asset is recognised 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 recognised 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.

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 recognised 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 recognised 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 capitalised 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 recognised in the Statement of Comprehensive Income as they are incurred.

(iv) Revaluation gains and losses

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the financial year ended 31 December 2018

(Stated in Cayman Islands dollars)

3. Significant accounting policies (continued)

The Port Authority revalued 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 31 December 2018, 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. Buildings and docks were reported at fair value less subsequent depreciation and Land was reported at fair value.

(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.

(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.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the financial year ended 31 December 2018

(Stated in Cayman Islands dollars)

3. Significant accounting policies (continued)

(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 2018 or 31 December 2017.

(k) Revenue recognition

The Port Authority adopted IFRS 15, Revenue from Contracts with Customers, effective 1 January 2018. IFRS 15 specifies how and when revenue should be recognised as well as requiring more informative and relevant disclosures. The standard supersedes IAS 18, Revenue, and a number of revenue-related interpretations. IFRS 15 applies to nearly all contracts with customers. The main exceptions are leases, financial instruments and insurance contracts. The Port Authority's material revenue streams subject to IFRS 15 are cargo, vessels and revenue from cruise passenger services. The adoption of IFRS 15 did not result in any material change to the pattern of revenue recognition by the Port Authority. The Port Authority adopted the standard using the modified retrospective approach with no restatement of comparatives and did not record any adjustment upon adoption.

Revenue is measured at the fair value of the consideration received or receivable, and is recognised when the amount of revenue can be reasonably measured, collection is probable, and when it is likely that the economic benefits associated with the transaction will flow to the Port Authority for each of the various revenue streams. Amounts recognised and classified as revenue arising in the ordinary course of activities of the Port Authority include the following:

(i) Revenue from Vessels, Cargo and Passengers

Revenue earned from vessels, cargo and passengers is recognised when services are substantially rendered.

Also included in port revenue is receipt of diesel sales to small boats recognised as revenue upon receipt. The expenses (cost of sales) incurred in the sales are reported on a net basis with the associated income.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the financial year ended 31 December 2018

(Stated in Cayman Islands dollars)

3. Significant accounting policies (continued)

(ii) Port development fees

In accordance with the Port Authority Regulation (Revision 2017), the Port Authority charges the owners or agent of every ship a wharfage fee of \$2.46 for every passenger appearing on the manifest as port development fees.

(iii) Rent Income

Rent income is recognised on a straight line basis over the term of the lease agreement. Rent deposits are classified as liability and included in accounts payable and accrued expense.

(iv) Other income

Other income includes items that are non-recurring and not directly related to the Port Authority's operations and activities in the ordinary course of business.

(l) Expenses

Expenses are recognised 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 recognised 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.

(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 2018 were \$1,007,665 - (2017-\$1,115,145). The Port Authority also participates in another pension plan with Sagicor. Employees are allowed to contribute to Sagicor pension amounts in excess of \$725 per month (which is given to the primary pension provider, Silver Thatch). Total contributions to Sagicor for the financial year were \$29,574 (2017 -\$79,389).

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the financial year ended 31 December 2018

(Stated in Cayman Islands dollars)

3. Significant Accounting Policies (continued)

(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 2018 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 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.

4. Cash and cash equivalents

	Dec 2018	Dec 2017
	\$	\$
Bank balances and short-term deposits	7,445,363	6,821,326

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 (2017: \$89,569) representing deposits held on escrow for tenants of renting the Port Authority's investment properties.

4(a). Accounts receivable

	Dec 2018	Dec 2017
	\$	\$
Accounts receivable	1,779,666	1,832,392
Less: provision for impairment	(71,134)	(71,085)
	1,708,532	1,761,307

Fair value

The carrying value of receivables approximates their fair value.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the financial year ended 31 December 2018

(Stated in Cayman Islands dollars)

4(a). Accounts receivable (continued)

Impairment

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

	December 2018			December 2017		
	Gross	Impairment	Net	Gross	Impairment	Net
	\$000	\$000	\$000	\$000	\$000	\$000
Past due up to 45 days	1,219,978	(7,000)	1,212,978	1,523,546	(7,000)	1,516,546
Past due 46- 90 days	346,362	(13,134)	333,228	87,754	(13,085)	74,669
Past due over 90 days	213,326	(51,000)	162,326	221,092	(51,000)	170,092
Total	1,779,666	(71,134)	1,708,532	1,832,392	(71,085)	1,761,307

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.

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. Here was no movement in the provision over the comparative period.

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

	Actual Dec 2018 \$000	Actual Dec 2017 \$000
Balance at 1 January/ 1 July	71,085	71,085
Increase in provisions during the year	49	-
Receivables written off during the year	-	-
Balance at 31 December	71,134	71,085

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the financial year ended 31 December 2018

(Stated in Cayman Islands dollars)

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 represents insurance premium prepaid by the Ministry of Finance and Economic Development, on behalf of the Port Authority for which the Port Authority enjoys the full benefit of the annual insurance coverage. This balance is offset by a corresponding liability to the Ministry, therefore has no impact on the financial statements.

The unamortized insurance benefit balance was higher in 2018 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 2018	Dec 2017
	\$	\$
Unamortized Insurance Benefit	123,413	18,740
Deferred Leave	52,120	53,130
Rent prepaid	26,192	62,907
Total	201,725	134,777

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 were finalised 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 2018	Dec 2017
	\$	\$
Deposits for assets and expenses	306,040	1,230,765
Total	306,040	1,230,765

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the financial year ended 31 December 2018

(Stated in Cayman Islands dollars)

5. Fixed Assets

	Freehold Land \$	Docks and Buildings \$	Other Assets \$	Construction In Progress \$	Total \$
Beginning balance at 31 Dec 2017	29,827,001	20,622,384	12,995,572	510,912	63,955,869
Additions	-	3,296,241	3,235,438	-	6,531,679
Disposals	-	-	-	-	-
Write offs	-	-	-	(146,524)	(146,524)
Transfers	-	161,352	203,036	(364,388)	-
Closing balance at 31 Dec 2018	29,827,001	24,079,977	16,434,046	-	70,341,024
Accumulated Depreciation					
Beginning balance at 31 Dec 2017	-	1,152,471	7,590,561	-	8,743,032
Charge for Year	-	883,344	578,715	-	1,462,059
Disposals	-	-	-	-	-
Closing balance at 31 Dec 2018	-	2,035,815	8,169,276	-	10,205,091
Net Book Value					
Closing balance at 31 Dec 2018	29,827,001	22,044,162	8,264,770	-	60,135,933
Closing balance at 31 Dec 2017	29,827,001	19,469,913	5,405,011	510,912	55,212,837

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the financial year ended 31 December 2018

(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
	\$	\$	\$	\$	\$	\$	\$
At 31 Dec 2017	9,762,448	499,938	726,352	1,194,325	639,333	173,176	12,995,572
Additions	2,643,236	21,409	543,754	23,542	-	3,497	3,235,438
Disposals	-	-	-	-	-	-	-
Revaluations	-	-	-	-	-	-	-
Transfers	-	-	203,035	-	-	-	203,035
At 31 Dec 2018	12,405,684	521,347	1,473,141	1,217,867	639,333	176,673	16,434,045
Accumulated Depreciation							
At 31 Dec 2017	5,200,031	298,004	599,995	744,572	604,653	143,305	7,590,560
Charge for Year	285,817	55,104	90,466	127,487	8,160	11,681	578,715
Disposals	-	-	-	-	-	-	-
Revaluations	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-
At 31 Dec 2018	5,485,848	353,108	690,461	872,059	612,813	154,986	8,169,275
Net Book Value							
At 31 Dec 2018	6,919,836	168,239	782,680	345,808	26,520	21,687	8,264,770
At 31 Dec 2017	4,562,417	201,934	126,357	449,753	34,680	29,871	5,405,012

Revaluation of Land, Buildings and Investment Property

Effective 30 June 2016, the Port Authority has reported the land, buildings and investment property at 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 related revaluation gains for the land and building were reflected in other comprehensive income in accordance with IAS 16 and accumulated in equity as revaluation reserve.

Investment Property was revalued by an independent expert, with an effective revaluation date of 31 December 2018, in accordance with IAS 40. This resulted in a revaluation gain of \$689,398, which was recognised in the profit and loss as required by IAS 40.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the financial year ended 31 December 2018

(Stated in Cayman Islands dollars)

Fair value of Investment Property at 31 December 2018

INVESTMENT PROPERTY	FAIR VALUE- DEC 2017	FAIR VALUE DEC 2018	REVALUATION GAIN/ (LOSS)
RWCT	8,356,461	9,055,000	(689,398)

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 maximise the use of observable inputs and minimise the use of unobservable inputs.

There were no other significant valuations performed using unobservable inputs. Consequently, the fair value hierarchy for the inputs utilised 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, 2018

	Level 1	Level 2	Level 3	Total
Vehicles and heavy equipment		5,128,632	-	5,128,632
Cranes	-	1,798,951	-	1,798,951
Land and buildings	-	51,880,077	-	51,880,077
Investment Property	-	9,055,000	-	9,055,000
Total assets	-	67,862,660	-	67,862,660

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 financial year ended 31 December 2018

(Stated in Cayman Islands dollars)

6. Write off of Fixed Assets

During the 2018 financial period, the Port Authority wrote off work in progress, which relates to capitalised professional fees for a capital project with a cost of \$146,524. The write off is due to the extensive time that had elapsed since work was performed on the related projects. The reductions in work in progress is reflected in the Statement of Financial Position and expensed to the professional fees account in the Statement of Comprehensive Income.

The work in progress written off is comprised of items as summarized below:

DETAILS OF WORK IN PROGRESS WRITTEN OFF

Description	Cost
Professional Fees - Cayman Brac warehouse project	120,644
Repairs to channel markers	19,840
North Terminal upgrade design fees	6,040
Totals	146,524

7. Capital works in progress

	December 2018	December 2017
	\$	\$
New Building (CYB)	-	120,644
Spotts Landing Facility	-	15,450
GT Dock Rehabilitation	-	0
Marine Services	-	19,840
CDC Improvement	-	348,938
North Terminal upgrades	-	6,040
Total	-	510,912

The capital work in progress as at 31 December 2018 is zero due to the transfer of \$364,388 to the respective fixed asset categories upon completion, and the write off of \$146,524 discussed in note 6 of the financial statements.

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Notes to the Financial Statements

For the financial year ended 31 December 2018

(Stated in Cayman Islands dollars)

8. Investment Property

	Buildings \$
Beginning balance at 31 December 2017	8,356,461
Additions	9,141
Changes in fair value at December 31 2018	689,398
Ending balance at 31 December 2018	9,055,000
Ending balance at 31 December 2017	8,356,461

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.

9. 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 \$681,809 (2017:\$854,912) of this amount comprises payables occurring in the normal course of business. The remaining \$1,634,256 (2017:\$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	2018	2017
	\$	\$
Creditors	681,809	854,912
Accruals -staff benefits	586,273	242,334
Provisions and other accruals	950,756	366,352
Escrow deposits	97,227	97,226
Totals	2,316,065	1,560,824

10. 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

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Notes to the Financial Statements

For the financial year ended 31 December 2018

(Stated in Cayman Islands dollars)

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

must be recognised 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 \$33,105,000 at the end of the financial year 31 December 2018 (2017:\$34,694,000). 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 2018, the savings totalled \$1,277,566 (2017:\$1,156,055).

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.

Plan Name	Port Authority of the Cayman Islands	
	31 Dec 2018	31 Dec 2017
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	34,694,000	30,189,000
2. Service cost		
a. Current service cost	1,835,000	2,252,000
b. Past service cost	-	-
c. (Gain) / loss on settlements	-	-
3. Interest expense	1,259,000	1,758,000
4. Cash flows		
d. Benefit payments from plan assets	-	-
e. Benefit payments from employer	(207,000)	(282,000)
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	(260,000)	(1,507,000)
b. Effect of changes in financial assumptions	(4,379,000)	2,321,000
c. Effect of experience adjustments	163,000	(37,000)

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the financial year ended 31 December 2018

(Stated in Cayman Islands dollars)

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

Plan Name Financial year ending on	Port Authority of the Cayman Islands	
	31 Dec 2018	31 Dec 2017
7. Effect of changes in Foreign exchange rates		
8. Defined benefit obligation at the end of year	33,105,000	34,694,000
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	207,000	282,000
iii. Employer direct settlement payments	-	-
b. Participant contributions	-	-
c. Benefit payments from plan assets	-	-
d. Benefit payments from employer	(207,000)	(282,000)
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	-	-
C. Amounts recognised in the statement of financial position		
1. Defined benefit obligation	33,105,000	34,694,000
2. Fair value of plan assets	-	-
3. Funded status	33,105,000	34,694,000
4. Effect of asset ceiling/onerous liability	-	-
5. Net defined benefit liability/(asset)	33,105,000	34,694,000
D. Components of defined benefit cost		
1. Service cost		
a. Current service cost	1,835,000	2,252,000
b. Reimbursement service cost	-	-
c. Past service cost	-	-
d. (Gain) / loss on settlements	-	-
e. Total service cost	1,835,000	2,252,000
2. Net interest cost		
a. Interest expense on Defined Benefit Obligation (DBO)	1,259,000	1,758,000
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	1,259,000	1,758,000
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)	3,094,000	4,010,000

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Notes to the Financial Statements

For the financial year ended 31 December 2018

(Stated in Cayman Islands dollars)

10 Defined benefit liability: Post employment health care (continued)

Plan Name Financial year ending on	Port Authority of the Cayman Islands	
	<u>31 Dec 2018</u>	<u>31 Dec 2017</u>
6. Remeasurements (recognised in the other comprehensive income)		
a. Effect of changes in demographic assumptions	(260,000)	(1,507,000)
b. Effect of changes in financial assumptions	(4,379,000)	2,321,000
c. Effect of experience adjustments	163,000	(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)	<u>(4,476,000)</u>	<u>777,000</u>
7. Total defined benefit cost recognised in P&L and OCI	(1,382,000)	4,787,000
E. Net defined benefit liability/(asset) reconciliation		
1. Net defined benefit liability/(asset)	34,694,000	30,189,000
2. Defined benefit cost included in P&L	3,094,000	4,010,000
3. Total remeasurement included in OCI	(4,476,000)	777,000
4. Other significant events		
a. Net transfer in/(out) (including the effect of any business combinations/divestitures)	-	-
b. Amounts recognised due to plan combinations	-	-
5. Other significant events		
a. Employer contributions	-	-
b. Employer direct benefit payments	(207,000)	(282,000)
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	<u>33,105,000</u>	<u>34,694,000</u>
F. Define benefit obligation		
1. Defined benefit obligation by participant status		
a. Actives	26,693,000	26,932,000
b. Vested deferreds	-	-
c. Retirees	<u>6,412,000</u>	<u>7,762,000</u>
d. Total	<u>33,105,000</u>	<u>34,694,000</u>
G. Significant actuarial assumptions		
<i>Weighted-average assumptions to determine defined benefit obligations</i>		
Discount rate	4.55%	3.85%
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/MP18	RP-2014/MP16

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the financial year ended 31 December 2018

(Stated in Cayman Islands dollars)

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

G. Significant actuarial assumptions (continued)

Weighted-average assumptions to determine defined benefit cost

Discount rate	3.85%	4.20%
Effective rate for net interest	3.65%	3.80%
Effective discount rate for service cost	3.90%	4.31%
Effective rate for interest on service cost	3.85%	4.17%

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/MP16	RP-2014/MP14

H. Sensitivity analysis

Present value of defined benefit obligations

Effective discount rate - 25 basis points	1,590,000	1,789,000
Effective discount rate + 25 basis points	(1,497,000)	(1,678,000)
Health care cost trend rates – 100 basis points	(3,177,000)	(3,911,000)
Health care cost trend rates + 100 basis points	2,971,000	3,138,000
Mortality assumption + 10%	(844,000)	(969,000)

I. Expected Cash Flow

1. Expected employer contributions	514,000	422,000
2. Expected contributions to reimbursement rights	-	-
3. Expected total benefit payments		
Year 1	514,000	422,000
Year 2	534,000	482,000
Year 3	589,000	512,000
Year 4	699,000	568,000
Year 5	799,000	678,000
Next 5 years	5,338,000	4,612,000

The principal financial and demographic assumptions as at 31 December 2018 and 31 December 2017 and for IAS Reporting.

Economic Assumptions	Postretirement Healthcare	Basis of Development – Accounting Specific Assumptions
Discount rate (p.a.)		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.
- Dec 31, 2017	3.85% per annum	
- Dec 31, 2018	4.55% per annum	
Discount rate for following year's current service cost (p.a.)	N/A	
- Dec 31, 2017	3.90%	
- Dec 31, 2018	4.60%	
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	

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the financial year ended 31 December 2018

(Stated in Cayman Islands dollars)

10 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%

Demographic Assumptions	Postretirement Healthcare	Basis of Development – Accounting Specific Assumptions
Current mortality rates	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 has been updated to reflect actual mortality improvement rates experienced in the US over the last 20 years.
Mortality improvements - 31 Dec 2017 - 31 Dec 2018	Scale MP- 2016 Scale MP -2018	Broad consensus amongst longevity experts that mortality improvement will continue in the future. Scale MP-2014 was released in October 2014. In the U.S., the latest future mortality improvement scale updated issued by the Society of Actuaries is scale MP- 2018. The prior valuation used scale MP-2016.
Turnover rates	Age & gender based rates – see page 31	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		
31 December 2017	Health \$10,000 Dental \$525 Vision \$100	Based on 2015/16 premium rates
31 December 2018	Health \$11,980 Dental \$555 Vision \$100	Based on 2019 premium rates from BritCay
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.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the financial year ended 31 December 2018

(Stated in Cayman Islands dollars)

11. 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 resources 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 2018.

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

(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 2018.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the financial year ended 31 December 2018

(Stated in Cayman Islands dollars)

11. Contingencies and commitments (continued)

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.
- (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 4 April 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.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the financial year ended 31 December 2018

(Stated in Cayman Islands dollars)

11. Contingencies and commitments (continued)

- (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.

12. 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 \$558,661 (2017: \$768,964). The Cayman Islands government procures insurance for all its entities at favourable market rates, and they apportion the related liability according to the value of the entities' assets.

The insurance expense of \$558,661 in the Statement of Comprehensive Income represents the amortized insurance premium for period 1 January- 31 December 2018.

- 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 \$8,439.10 for 2018 (\$10,571 -2017). Unsettled fees for 2018 was \$0 (\$0 -2017).
- c) Another related entity for this director is Kirk Office Ltd. Income earned from Kirk Office for the fiscal year ending 31 December 2018 was \$56,060.68 (\$101,763 - 2017) with unsettled amounts at 31 December 2018 of \$0 (\$383.81 -2017).
- d) Another related party for this director is Kirk Marine Ltd. The Authority earned income totalling \$5,111.91 for the year ended 31 December 2018 (\$1,868.94 - 2017), with no outstanding amount at 31 December 2018 (\$0 - 2017).
- e) Another company that this director has a related party relationship with is Progressive Distributors Ltd. Income earned for 2018 was \$533,877.38 (2017 -\$722,169) Unsettled amounts were \$0 (2018) and \$35,853 (2017)
- f) A director of the Port Authority is a trustee of the Silver Thatch Pension plan. Contributions by the Authority were \$1,034,460.13 (2018) and \$1,115,146 (2017), with unpaid balances of \$77,062.96 (2018) and \$0 (2017).
- g) Another director of the Port Authority is the managing director of Cayman Freight & Shipping Services Ltd, from which the Port Authority earned \$1,371,718.39 in 2018 and \$2,014,653 in 2017, with unsettled balances of \$129,824 for 2018 and \$117,230 for 2017.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the financial year ended 31 December 2018

(Stated in Cayman Islands dollars)

12. Related party transactions (continued)

h) Key Management Personnel

There are three (3) full time senior management personnel on recurring employment agreements (2017: 5), and none on a fixed term contract (2017:1). The total remuneration includes regular salary, pension contribution, health insurance contribution 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 2018 for senior management was \$589,809 (2017:\$887,926).

i) Board members

There are 10 members that make up the Port Authority's board (2017:10); of those members, only six receive a stipend of \$150.00 per meeting held (2017:\$150). One board member receives an additional \$344 per meeting (2017:\$344) attended for travel, car and accommodation allowance. The other three are civil servants. The total fees and expenses paid for the eligible members for the year ended 31 December 2018 was \$62,543 (2017:\$39,445).

13. Lines of credit

The Port Authority has a bank overdraft facility up to \$250,000 bearing interest at 1.5% (2017:1.5%) above Prime. As at December 31, 2018, this overdraft facility has not been used. In addition, the Port Authority has three (2017:3) corporate credit cards with a total credit limit of \$24,600 (2017:\$24,600). At 31 December 2018, the outstanding balance was \$0 (2017:\$0).

14. 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:

(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, 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.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the financial year ended 31 December 2018

(Stated in Cayman Islands dollars)

15. 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.

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

	Dec 2018	Dec 2017
	\$	\$
Cash and cash equivalents	7,445,363	6,821,326
Accounts receivables	1,708,532	1,761,307
Other receivables, prepaids and deposits	507,765	1,365,542
Total financial assets	9,661,659	9,948,175
Non-financial assets	-	-
Total assets per the Statement of Financial Position	9,661,659	9,948,175

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, 2018:	\$	\$	\$	\$
Cash and cash equivalents	7,445,363	-	-	7,445,363
Accounts receivables	-	1,779,666	(71,134)	1,708,532
Other receivables, prepaids and deposits	507,765	-	-	507,765
Total assets exposed to credit risks	7,953,128	1,779,666	(71,134)	9,661,660

	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	-	1,832,392	(71,085)	1,761,307
Other receivables, prepaids and deposits	1,365,542	-	-	1,365,542
Total assets exposed to credit risks	8,186,868	1,832,392	(71,085)	9,948,175

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the financial year ended 31 December 2018

(Stated in Cayman Islands dollars)

15. Financial instruments and associated risks (continued)

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, 2018:	\$	\$	\$	\$
Accounts receivables	1,212,978	333,228	162,326	1,708,532
Other receivables, prepaids and deposits	507,765	-	-	507,765
Total	\$1,720,743	\$333,228	\$162,326	\$2,216,297

	Up to 45 days	45 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

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, 2018 and December 31 2017.

	Contractual cash flows (undiscounted)				
	Carrying amount	No Stated Maturity	0 – 1 Yr	1 – 2 yrs	> 2 yrs
	\$	\$	\$	\$	\$
December 31, 2018					
Financial Assets					
Cash and cash equivalents	7,445,363	-	7,445,363	-	-
Accounts receivable	1,708,532	-	1,708,532	-	-
Other receivables, prepaids and deposits	507,765	-	507,765	-	-
Total	9,661,659	-	9,661,659	-	-
Short term liabilities					
Accounts Payables	2,316,065	-	2,316,065	-	-
Loans repayable within 12 months	-	-	-	-	-
Total	2,316,065	-	2,316,065	-	-
Difference in contractual cash flows	7,345,594	-	7,345,594	-	-

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the financial year ended 31 December 2018

(Stated in Cayman Islands dollars)

15. Financial instruments and associated risks (continued)

	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, prepaid 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 Flows	8,387,351	-	8,387,351	-	-

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.

16. Cargo Handling income is comprised of the following:

	December 2018 \$	December 2017 \$
Cargo dues	11,723,389	16,565,393
Cargo handling charges	139,472	279,521
Storage charges	1,109,226	1,270,613
Trucking Fees	886,709	1,256,535
Crane Fees	2,731,400	4,046,550
Empty Container Handling and storage	328,195	634,266
Other fees	133,867	173,495
Total cargo handling income	17,052,259	24,226,373

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the financial year ended 31 December 2018

(Stated in Cayman Islands dollars)

17. 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 January to December 2018, the Cayman Islands recorded 1,921,167 cruise passenger arrivals (2017: 2,466,988) giving rise to passenger fees of \$3,401,737 (2017: \$4,411,845) and Port Development fees of \$1,324,334 (2017: \$1,658,308).

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

	December 2018	December 2017
	\$	\$
Dock Usage Surcharge	280,080	357,340
Lay-up Anchorage Fees	935	454
Navigation Aids	37,154	50,274
Line Handling	171,250	249,950
Berthing Fees	443,802	634,337
Hire of Equipment	10,050	14,875
Overtime Worked	348,298	845,714
Cruise Ship Tender Dues	78,587	102,601
Total Maritime services income	1,370,156	2,255,545

19. Other income is comprised of:

	December 2018	December 2017
	\$	\$
Container Trans-Shipments	3,200	8,000
Crane Heavy Lift	0	14,000
Garbage Fees	81,900	122,830
Billboard Ads	0	6,450
Water Sales (Net)	7,017	(36,015)
Finance Charges on overdue balances	7,982	13,535
ID's, vessel inspection, miscellaneous	80,549	89,157
Total other income	180,648	217,957

20. 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.

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Notes to the Financial Statements

For the financial year ended 31 December 2018

(Stated in Cayman Islands dollars)

20. Diesel Sales (continued)

	December 2018	December 2017
	\$	\$
Diesel Sales	524,777	536,718
Diesel Cost of Sales	(349,052)	(365,411)
Net Income from diesel sales	175,725	171,307

21. Staff costs

	December 2018	December 2017
	\$	\$
Salary and Wages	10,906,165	15,598,629
Medical Insurance	1,418,382	1,856,774
Pension	1,106,840	1,583,549
Other staff costs – Uniforms, training etc.	122,198	226,944
Total Staff Costs	13,553,585	19,265,896

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

	December 2018	December 2017
	\$	\$
Security	903,547	1,286,444
Janitorial	298,156	360,554
Audit	77,917	132,505
Legal	271,777	111,261
Professional	214,612	207,090
Total contracted services	1,766,009	2,097,854

23. 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 fiscal year ended 31 December 2018, repairs and maintenance amounted to \$1,701,478 (2017: \$2,947,386).

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Notes to the Financial Statements

For the financial year ended 31 December 2018

(Stated in Cayman Islands dollars)

24. 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 2018, the actual rent earned was \$1,050,065 (2017- \$1,562,256).

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

25. Branch Statements of Financial Position

	Grand Cayman \$	Cayman Brac \$	Total 2018 \$	2017 \$
Current assets				
Cash and cash equivalents	7,159,054	286,309	7,445,363	6,821,326
Accounts receivable	1,634,657	73,875	1,708,532	1,761,307
Inventory	1,012,745	59,506	1,072,251	964,200
Prepaid expenses	201,725	0	201,725	134,777
Other receivables	289,119	16,921	306,040	1,230,765
Total current Assets	10,297,300	436,611	10,733,911	10,912,375
Current liabilities				
Accounts payable and accrued expenses	2,273,982	42,083	2,316,065	1,560,824
Current portion of long term debt	-	-	-	-
Total current liabilities	2,273,982	42,083	2,316,065	1,560,824
Working capital	8,023,318	394,528	8,417,846	9,351,551
Plant, property and equipment	56,345,425	3,790,508	60,135,933	54,701,925
Capital work in progress	0	0	0	510,912
Investment Property	9,055,000	-	9,055,000	8,356,461
Long term debt	-	-	0	-
Defined benefit liability –health care	(33,105,000)	-	(33,105,000)	(34,694,000)
Net assets	40,318,743	4,185,036	44,503,779	38,226,849
Represented by:				
General reserve	37,179,040	(8,880,136)	28,298,904	22,021,975
Asset Revaluation Reserve	15,844,653	360,222	16,204,875	16,204,874
Inter-branch account	(12,704,950)	12,704,950	-	-
Equity	40,318,743	4,185,036	44,503,779	38,226,849

Financial performance of Cayman Brac Operations

Cayman Brac continues to post losses on an annual basis. Total accumulated losses for the 2018 period was (\$615,176) 2017 – (\$654,109) as seen in the table below. The total losses for Cayman Brac to date are reflected in the negative general reserve figure of (\$8,880,136) as at 31 December 2018 - 2017 (8,264,962)

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.

PORT AUTHORITY OF THE CAYMAN ISLANDS

Notes to the Financial Statements

For the financial year ended 31 December 2018

(Stated in Cayman Islands dollars)

26. Branch Statements of Comprehensive Income

	Grand Cayman \$	Cayman Brac \$	Total \$	2017 \$
Operating income	23,739,388	815,536	24,554,924	34,503,591
Operating expenses	(17,816,940)	(1,279,812)	(19,096,752)	(27,397,361)
	5,922,448	(464,276)	5,458,172	7,106,230
<i>Other income/ (expenses)</i>				
Interest income	2,418		2,418	1,899
Other income/expense	-	-	0	-
Loss on Revaluation	-	-	0	-
Loss on revaluation of Investment Property	-	-	0	-
Loss on disposal of fixed assets	-	-	0	(124,058)
Depreciation	(1,311,159)	(150,900)	(1,462,059)	(1,663,828)
Defined benefit annual expense	(3,094,000)	-	(3,094,000)	(4,010,000)
Total expenses	(4,402,741)	(150,900)	(4,553,641)	(5,795,987)
Net income/(loss) for year	1,519,707	(615,176)	904,531	1,310,243
Other comprehensive income:				
Gain on revaluation of property	689,398	-	689,398	-
Remeasurements- defined benefit	4,476,000	-	4,476,000	(777,000)
Revaluation Gain	-	-	-	-
Total comprehensive income	6,685,105	(615,176)	6,069,929	533,243
General reserve/ (deficit) at beginning of year	30,493,937	(8,264,962)	22,228,975	21,488,732
Revaluation Reserve	15,844,653	360,222	16,204,875	16,204,874
General reserve at end of year	53,023,695	(8,519,916)	44,503,779	38,226,849

27. 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 support 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 \$9.4M (\$4.6M - 2019, \$3.7M – 2020 and

\$1.2M -2021). 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.