



**APPENDIX TO THE ANNUAL  
REPORT 2004-2005**

**AUDITED FINANCIAL  
STATEMENTS FOR THE YEAR  
ENDED 30 JUNE 2005**

# CAYMAN ISLANDS MONETARY AUTHORITY

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Cayman Islands

## The Cayman Islands Monetary Authority

### CERTIFICATE OF THE AUDITOR GENERAL

#### *To the Shareholder of the Cayman Islands Monetary Authority*

I have audited the accompanying balance sheet of the Cayman Islands Monetary Authority (“the Authority”) as of 30 June 2005 and the related statements of income and retained earnings, movement in reserves and cash flows for the year ended 30 June 2005 as set out on pages 3 to 14 and in accordance with the Section 51 (3) of the Public Management and Finance Law (2003 Revision).

#### **Respective Responsibilities of Management and the Auditor General**

These financial statements are the responsibility of the Authority’s management. My responsibility is to express an opinion on these financial statements based on my audit.

#### **Basis of Opinion**

My examination was made in accordance with International Standards on Auditing. Those Standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

#### **Past Service Pension Liability**

As disclosed in Note 9 of the financial statements, pension contributions for eligible employees of the Authority are paid to the Public Service Pensions Fund which is administered by the Public Service Pensions Board. Prior to 1 January 2000, the scheme underlying the Fund was a defined benefit scheme. With effect from 1 January 2000 the Fund has both a defined benefit and a defined contribution element. In March 2005, the Honourable Financial Secretary of the Cayman Islands, instructed the Authority to recognise its own portion of the past service pension liability as of the date of incorporation. The Authority however, is not able to quantify the liability as an actuarial valuation is currently being done as of 01 January 2005. As a result of insufficient relevant and reliable information acceptable to and agreed by the Authority and the Pensions Board, no past service liability has been recognised in these financial statements.

**Opinion**

In my opinion, except for the possible effects of the past service pension liability, these financial statements present fairly, in all material respects, the financial position of the Cayman Islands Monetary Authority as at 30 June 2005 and the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Monetary Authority Law (2004 Revision).

*Dan Duguay*

Dan Duguay MBA, CGA  
Auditor General

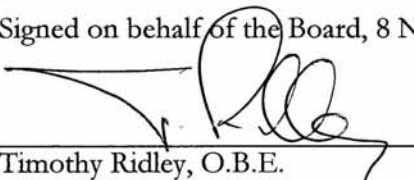
8 November 2005


**CAYMAN ISLANDS MONETARY AUTHORITY  
BALANCE SHEET**

As at 30 June 2005  
(Expressed in Cayman Islands Dollars)

	Note	30 June 2005 \$	30 June 2004 \$
<b>ASSETS</b>			
<i>Currency Reserve Assets</i>			
Call Deposits	3b	13,707,406	990,626
Fixed Deposits	3b	1,323,494	1,301,897
Interest Receivable, Deposits		93,649	134,397
Short-Term Investments	2b, 3a	52,233,439	37,908,462
Long-Term Investments	2b, 3a	21,990,409	28,758,120
Stocks	2f, 5	806,734	828,703
<i>Total Currency Reserve Assets</i>		<u>90,155,131</u>	<u>69,922,205</u>
<i>Operating Assets</i>			
Current and Call Deposits	3b	2,437,297	2,230,444
Accounts Receivable		29,669	148,736
Other Receivables and Prepayments		57,181	27,779
Fixed Assets	2e, 4	300,812	411,735
<i>Total Operating Assets</i>		<u>2,824,959</u>	<u>2,818,694</u>
<b>TOTAL ASSETS</b>		<b>92,980,090</b>	<b>72,740,899</b>
<b>LIABILITIES</b>			
Demand Liabilities, Currency in Circulation	6a	72,822,604	54,753,716
Due to the CI Government	8b	0	619,881
Other Liabilities and Payables	6b	736,346	414,207
<i>Total Liabilities</i>		<u>73,558,950</u>	<u>55,787,804</u>
<b>RESERVES and CAPITAL</b>			
General Reserve	8a	10,923,390	8,213,057
Currency Issue Reserve	8c	519,730	615,038
<i>Total Reserves</i>		<u>11,443,120</u>	<u>8,828,095</u>
Paid Up Capital	8d	7,978,020	8,125,000
<i>Total Reserves and Capital</i>		<u>19,421,140</u>	<u>16,953,095</u>
<b>TOTAL LIABILITIES, RESERVES and CAPITAL</b>		<b>92,980,090</b>	<b>72,740,899</b>

Signed on behalf of the Board, 8 November 2005

  
Timothy Ridley, O.B.E.  
Chairman  
Cayman Islands Monetary Authority

  
Cindy Scotland  
Managing Director  
Cayman Islands Monetary Authority

The notes on pages 7 to 14 are an integral part of these financial statements

**CAYMAN ISLANDS MONETARY AUTHORITY**  
**INCOME STATEMENT**  
For the year ended 30 June 2005.  
(Expressed in Cayman Islands Dollars)

	Note	2005 \$	2004 \$
<b>INCOME</b>			
Government Grants	2d, 11	9,272,062	8,451,844
Investment Income	2b	2,555,311	1,875,075
Commission Income		610,993	543,718
Numismatic Income		74,927	103,935
Other Income		1,632	3,968
<i>Total Income</i>		<u>12,514,925</u>	<u>10,978,540</u>
<b>EXPENSES</b>			
Salaries and Other Benefits		5,898,036	5,084,265
General and Administrative		1,212,127	890,726
Pension Contributions	9	606,027	625,849
Depreciation	2e, 4	153,045	154,779
Lease Rental	7	312,113	309,425
Staff Training and Recruitment		200,285	210,702
Official Travel		332,226	258,380
Management and Custody Fees	3a	110,772	109,275
Professional Fees		347,633	153,606
Directors Fees		275,297	281,219
Realised Loss on Investments		512,019	816,836
Unrealised Loss on Investments		123,643	158,306
<i>Total Expenses</i>		<u>10,083,223</u>	<u>9,053,368</u>
<b><i>Net Income</i></b>		<b>2,431,702</b>	<b>1,925,172</b>

The notes on pages 7 to 14 are an integral part of these financial statements

**CAYMAN ISLANDS MONETARY AUTHORITY**  
**STATEMENT OF CHANGES IN RESERVES AND CAPITAL**

For the year ended 30 June 2005.  
(Expressed in Cayman Islands Dollars)

	2005			2004		
	General Reserve	Currency Issue Reserve	Paid-Up Capital	General Reserve	Currency Issue Reserve	Paid-Up Capital
Balance at 1 July :	\$8,213,057	\$615,038	\$8,125,000	\$7,432,766	\$650,382	\$7,600,000
Transfers in:						
From Government			131,650			
From Net Income	2,431,702			1,925,172		
From General Reserve						525,000
From Paid-up Capital	278,630					
Transfers out:						
To General Reserve			(278,630)			
To Paid-up Capital				(525,000)		
Contribution Payable to C I Govt				(619,881)		
To adjust the Inventory of Unissued Notes on hand as at 30 June		(95,308)			(35,344)	
<b>Balance at 30 June:</b>	<b>\$10,923,390</b>	<b>\$519,730</b>	<b>\$7,978,020</b>	<b>\$8,213,057</b>	<b>\$615,038</b>	<b>\$8,125,000</b>

The notes on pages 7 to 14 are an integral part of these financial statements

**CAYMAN ISLANDS MONETARY AUTHORITY**  
**STATEMENT OF CASH FLOWS**

For the year ended 30 June 2005.  
(Expressed in Cayman Islands Dollars)

	2005	2004
	\$	\$
<b>Cash flows from operating activities</b>		
Net Income	2,431,702	1,925,172
Adjustments for items not involving cash:		
Add: Depreciation	153,045	154,779
Less: Gain on fixed assets disposal	0	(750)
	<hr/>	<hr/>
Operating profit before working capital changes	2,584,747	2,079,201
Net Purchase of Investments	(7,557,265)	(6,495,343)
Interest Receivable	40,748	35,413
Accounts Receivable	119,067	(123,333)
Other Receivables and Prepayments	(29,401)	20,761
Other Liabilities and Payables	322,138	62,973
Stocks	21,969	39,629
	<hr/>	<hr/>
Cash generated from operations	(4,497,997)	(4,380,699)
Increase in Demand Liabilities	18,068,888	5,201,943
(Decrease) in Currency Issue Reserve	(95,308)	(35,344)
	<hr/>	<hr/>
<i>Net cash from operating activities</i>	13,475,583	785,900
<b>Investing Activities</b>		
Acquisition of fixed assets	(42,122)	(257,226)
Proceeds from fixed assets disposal	0	750
	<hr/>	<hr/>
<i>Net cash used by investing activities</i>	(42,122)	(256,476)
<b>Financing Activities</b>		
Contribution received from CI Government	131,650	0
Contribution Paid to CI Government	(619,881)	(811,802)
	<hr/>	<hr/>
<i>Net cash used in financing activities</i>	(488,231)	(811,802)
<hr/>		
Increase/(Decrease) in cash and cash equivalents	12,945,230	(282,378)
<b>Movement in cash and cash equivalents</b>		
Balance at 1 July	4,522,967	4,805,345
Increase/(Decrease)	12,945,230	(282,378)
	<hr/>	<hr/>
<b>Balance at 30 June (Note 3b)</b>	<b>17,468,197</b>	<b>4,522,967</b>

The notes on pages 7 to 14 are an integral part of these financial statements



# CAYMAN ISLANDS MONETARY AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2005.  
(Expressed in Cayman Islands Dollars)

### 1. Organization and Objectives

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The Cayman Islands Monetary Authority (the "Authority") was established under The Monetary Authority Law, 1996 (the "Law") on 1 January 1997. Prior to 1 January 1997, The Cayman Islands Currency Board (the "Board") was responsible for currency management and the Financial Services Supervision Department ("FSSD") was responsible for financial services' regulation in the Cayman Islands. Under the Law, the Board and FSSD were terminated and their assets, liabilities, reserves and responsibilities transferred and vested in the Authority on 1 January 1997. Under the Monetary Authority Law (2004 Revision) (the "Law (2004 revision)"), the primary objectives of the Authority were (a) to issue and redeem currency notes and coins and to manage the Currency Reserve, (b) to regulate and supervise the financial services business (c) to provide assistance to overseas regulatory authorities and (d) to advise the Cayman Islands Government on regulatory matters.

As at 30 June 2005, the Authority has 95 employees (30 June 2004: 92). The Authority is located in George Town, Grand Cayman, Cayman Islands.

### 2. Significant Accounting Policies

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a) Basis of preparation. The financial statements of the Authority are prepared on the accrual basis under historical cost convention and are in accordance with International Financial Reporting Standards. The reporting currency is Cayman Islands Dollars.

b) Investments. Short-term investments are valued, on a monthly basis at amortized cost and long term investments are valued at quoted market value. Unrealized gains or losses are recorded in the income statement.

c) Foreign Currency. Foreign currency transactions are recorded at the exchange rates prevailing on the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. Assets and liabilities are translated at the exchange rate in effect at the Balance Sheet date.

d) Government Grants. The Authority is dependent upon annual operating grants from the Cayman Islands Government to meet its obligations. The full amount of the grant is treated as income in the year of receipt.

e) Fixed Assets. Fixed Assets are stated at historical cost less accumulated depreciation. Depreciation is calculated on the straight-line method of 20% per annum for Furniture & Fixtures, Leasehold Improvements, Office Equipment (with the exception of Bank Note Sorting machine calculated at 15%) and Motor Vehicle; and 25% to 33 1/3% for Computer Hardware and Software, which is sufficient to write-off the cost of the assets over their estimated useful lives.

f) Stocks. Stocks consist of silver bullion arising from the melt-down of numismatic coins, the gold and silver bullion content of the following categories of numismatic coins: coins for resale, museum items and coins awaiting melt-down and unissued currency notes. Bullion stocks are stated at year-end market values for gold and silver bullion and unrealised gain/loss are recorded in the Income Statement.

# CAYMAN ISLANDS MONETARY AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2005.

(Expressed in Cayman Islands Dollars)

### *Significant Accounting Policies (continued)*

The stock of unissued currency notes is stated at cost. Only the cost of notes issued into circulation is expensed on a "first in first out" basis. (See also Note 5).

**g) *Numismatic Coins.*** The total nominal value of numismatic coins outstanding at 30 June 2005 is \$14,704,652 (30 June 2004: \$14,731,414). No liability for redeeming numismatic coins is recognized in the financial statements, since the amount of redemption cannot be reasonably estimated and the probability of material redemption is remote. Redemption costs and sales proceeds are recorded in the income statement as incurred.

**e) *Cash and cash equivalents.*** For the purposes of the cash flow statement, cash and cash equivalents consist of current and call deposits and fixed deposits maturing within 90 days from the date of acquisition. (See also Note 3).

**i) *Employee benefits.*** Obligations for contributions to defined contribution and defined benefits pension plans are recognized as an expense in the income statement as incurred. (See also Note 9).

### **3. Currency Reserve Assets**

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Sections 32(8) of the Law (2004 revision) mandates the preservation of Currency Reserve Assets, separately from all other assets of the Authority. These assets are to be used to fund the Authority's currency redemption obligations. (See also Note 6.) They shall not be chargeable with any liability arising from any other business. After all demand liabilities are extinguished, any surplus Currency Reserve Assets would form, in part, the assets of the General Reserve. (See also Note 8a.)

Under the Law (2004 revision), sections 32(2) and 32(6) respectively, the Currency Reserve Assets are to consist of external assets (not less in value than an amount equivalent to ninety percent of demand liabilities) and local assets (not to exceed ten percent of demand liabilities.).

At 30 June 2005, the value of Currency Reserve Assets was \$90,155,131 (30 June 2004: \$69,922,205) representing 123.80% (30 June 2004: 127.7%) of total demand liabilities. The value of external assets equated to 120.68% (30 June 2004: 123.7%) while the value of local assets equated to 3.12% (30 June 2004: 4%) of demand liabilities.

Currency Reserve Assets comprise the following:

**a) *Investments***

The principal investment objectives of the Authority are security, liquidity and income. The investment portfolio is managed by independent fund managers in accordance with investment guidelines established by the Board of Directors, in accordance with the Law (2004 Revision). Management fees are calculated based on the market value of the portfolio and are payable quarterly in arrears. Either party may terminate the agreement with thirty days notice.

**CAYMAN ISLANDS MONETARY AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2005.

(Expressed in Cayman Islands Dollars)

Long-term investments

Long-term investments are made up of Mortgage-backed Securities stated at market value, with interest rates ranging from 3.6% to 8.0%. Maturity dates range from 01/12/2005 to 25/07/2028. Although the stated maturity date on one security is over 10 years the expected duration is less than 10 years.

	<b>2005</b>	<b>2004</b>
	\$	\$
Range of maturities:		
1 – 5 Years	16,836,075	21,208,487
6 – 10 Years	1,145,640	7,234,155
Over 10 Years	4,008,694	315,478
	<u>\$21,990,409</u>	<u>\$28,758,120</u>

Short-term investments

Discount notes / Treasury Bills		
Maturing from 12/07/05 to 04/08/05	22,400,106	14,658,462
Repurchase Agreement		
Federal Reserve at 1.1% maturing 01/07/05	29,833,333	23,250,000
	<u>\$52,233,439</u>	<u>\$37,908,462</u>
Total short-term investments, at amortized cost		
	<u>\$52,232,776</u>	<u>\$38,059,684</u>

b) Bank Deposits

The Authority maintains current, call and fixed deposits with domestic and foreign banks. Under the Law (2004 revision), domestic deposits (as part of the Currency Reserve Assets) cannot exceed 10% of demand liabilities. At 30 June 2005, domestic deposits represent 3.12% (30 June 2004: 4%) of demand liabilities.

	<b>Holding</b>	<b>2005</b>	<b>2004</b>
	<b>Currency</b>	\$	\$
i) <u>Current and Call Deposits</u>			
Current account	KYD	(83,452)	(108,780)
Call deposits	KYD	2,520,449	2,338,924
Cash on hand	KYD	300	300
		<u>\$2,437,297</u>	<u>\$2,230,444</u>
ii) <u>Currency Reserve Assets</u>			
<i>Domestic Deposits</i>			
Call deposits	USD	943,287	878,815
Call deposits	GBP	6,741	6,733
<i>Foreign Deposits</i>			
U.S. Federal Reserve call account	USD	161,072	99,167
Investment portfolio, call account	USD	12,596,306	5,911
		<u>\$13,707,406</u>	<u>\$990,626</u>
Total Call Deposits			
		<u>\$1,323,494</u>	<u>\$1,301,897</u>
Domestic Fixed deposits	USD		
		<u>\$17,468,197</u>	<u>\$4,522,967</u>
Total Operating Cash and Currency Reserve Assets			

**CAYMAN ISLANDS MONETARY AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2005.

(Expressed in Cayman Islands Dollars)

*Currency Reserve Assets (continued)*

Interest is paid on domestic call and fixed deposits at rates ranging from 0.35% to 1.1% (30 June 2004: 0.25% to 0.91%) per annum.

Interest of 1.2% (30 June 2004: 1.1%) p.a. is paid on foreign call deposits. Deposits with the Federal Reserve are non-interest bearing; however, excess deposit balances are invested daily in repurchase agreements.

**4. Fixed Assets**

	Furniture & Fixtures	Leasehold Improvement	Computer Equipment	Office Equipment	Motor Vehicle	Total
<b>Original Cost</b>						
Balance at 01/07/04:	\$ 428,790	\$ 422,915	\$ 761,639	\$ 410,345	\$ 24,600	\$ 2,048,289
Additions:	16,035	-	24,587	1,500	-	42,122
Balance at 30/06/05:	444,825	422,915	786,226	411,845	24,600	2,090,411
<b>Accumulated Depreciation</b>						
Balance at 01/07/04:	371,161	422,915	624,784	193,094	24,600	1,636,554
Depreciation expense:	33,443	-	80,051	39,551	-	153,045
Balance at 30/06/05:	404,604	422,915	704,835	232,645	24,600	1,789,599
<b>Net Book Value at 30/06/05:</b>	<b>\$ 40,221</b>	<b>\$ -</b>	<b>\$ 81,391</b>	<b>\$ 179,200</b>	<b>\$ -</b>	<b>\$ 300,812</b>
Net Book Value at 30/06/04:	\$ 57,629	\$ -	\$ 136,855	\$ 217,251	\$ -	\$ 411,735

**5. Stocks**

	2005	2004
Bullion from the melt-down of coins	\$202,142	\$169,491
Coins awaiting melt-down	134,503	100,668
Coins for resale	78,903	73,398
Museum items	24,585	22,131
Inventory of unissued currency notes and coins	366,601	463,015
Total stocks	<u>\$806,734</u>	<u>\$828,703</u>

**CAYMAN ISLANDS MONETARY AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2005  
(Expressed in Cayman Islands Dollars)

**6. Liabilities**

a) *Demand Liabilities.* Demand Liabilities represents the value of notes and coins in circulation. These liabilities are fully funded by the Currency Reserve Assets

Total demand liabilities comprise:

	<b>2005</b>	<b>2004</b>
i) Currency notes in circulation	\$65,396,325	\$47,943,797
ii) Currency coins in circulation	7,426,279	6,809,919
Total	\$72,822,604	\$54,753,716

b) *Other liabilities.* At 30 June 2005, other liabilities included unsettled investment management and custody fees of \$51,527 (30 June 2004: \$27,237).

**7. Lease Obligation**

The Authority leases the premises used under a lease agreement dated 1 January 2004 for the total office space of 11,229 sq. ft at \$26 per sq. ft. The lease is for 2-year period expiring 1 January 2006. Effective 1 June 2005 the Authority leased an additional 1,857 sq. ft. at \$30 per sq. ft. for the period of one year to be renewed annually. The Authority also leased 800 sq. ft. at \$20 per sq. ft. effective 1 April 2005 for one year. Rental payments under operating leases are charged to the income statement in equal installments over the period of the lease.

**8. Reserves and Capital**

a) *General Reserve.* The Authority maintains a General Reserve in accordance with Section 8 of the Law (2004 revision). The Authority may maintain the General Reserve at 15% of demand liabilities to provide additional funding, if necessary, for demand liabilities and obligations arising from other business of the Authority. Reserve assets are held predominantly in United States dollars, with minimal holdings in Cayman Islands dollars and British Pound Sterling.

b) *Reserve Allocation.* Under Section 10 of the Law (2004 revision), the net profits of the Authority, after provision for all expenditure and reserves, shall be allocated such that the Currency Reserve Assets represent at least 100% of demand liabilities and the General Reserve does not exceed 15% of demand liabilities. Any surplus, after complying with these requirements, must be transferred to the General Revenue of the Cayman Islands Government.

c) *Currency Issue Reserve.* Prior to 1 January 2003 the cost of printing of notes or minting of coins (unissued and issued) was recorded against the Currency Issue Reserve (\$250,501 in 2002). The Currency Issue Reserve was set at a level deemed necessary to meet an estimated future printing or minting cost. This effectively expensed the cost of printing or minting in that period. After 1 January 2003 the cost of printing and minting is set up as a Stock of unissued currency and only the cost of currency issued into a circulation is expensed. As a result of this change the Currency Issue Reserve had to be adjusted as of 1 January 2003 by \$314,959 (the cost of currency notes printed prior to 1 January 2003 but on hand as of 1 January 2003). The Currency Issue Reserve will be adjusted as these notes are issued until the stock is exhausted. The Currency Issue Reserve will then remain at \$375,000.

# CAYMAN ISLANDS MONETARY AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2005.

(Expressed in Cayman Islands Dollars)

d) *Capital.* The authorised capital of the Authority is \$100,000,000. The Cayman Islands Government is the sole subscriber and has contributed Paid-Up Capital of \$7,978,020 as at 30 June 2005 (30 June 2004: \$8,125,000). The Executive Council of the Cayman Islands Government has committed to increasing the Paid-Up capital of the Authority to a minimum of \$10 million by the year 2008, by yearly transfers from surplus, after complying with reserve requirements. However, as at 30 June 2005 the General Reserve (after applying all of Net Surplus) does not meet the statutory level of 15% of Demand Liabilities and has a shortfall of \$278,630. The Cabinet has agreed to and subsequently approved a transfer from Paid-Up Capital to meet the shortfall.

### 9. Pensions

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#### a) *Public Service Pensions Plan*

Pension contributions for eligible employees of the Authority are paid to the Public Service Pensions Fund (the "Fund"). The Fund is administered by the Public Service Pensions Board ("the Pensions Board") and is operated as a multi-employer non-contributory Fund, whereby the employer pays both employer and employee contributions. Prior to 1 January 2000 the scheme underlying the Fund was a defined benefit scheme. With effect from 1 January 2000 the Fund had both a defined benefit and a defined contribution element. Participants joining after that date became members of the defined contribution element.

Using the projected unit credit method of measuring costs and obligations, the amended actuarial assessment for the Authority, effective 1 January 1999, assessed the normal annual contribution to be 10.15% of pensionable emoluments, plus an additional 6.44% in respect of the Authority's unfunded past service liability (PSL), which was estimated at \$479,114. In July 2001, the minimum normal contribution requirement for Statutory Authorities was revised to 13% effective 1 January 1999. This rate includes a 1% non-retirement benefit contribution. The Authority did not accept the rate of 13% and the Pensions Board PSL calculation because the calculation included accrual for participants' pensionable service prior to 1997 when the Authority was created, for service in departments and agencies other than the Cayman Islands Monetary Authority. The Authority therefore continued to fund 6% employee and 6% employer contributions during 1999 to 2002.

In April 2003, the Pensions Fund management advised that it was agreed that the unfunded PSL would remain a central liability of the entire public sector. Pensions management also confirmed that the contribution rate would be 13% effective 1 January 1999. The Authority began recognizing the revised contribution rate of 13% from 1 January 2003. In March 2005, the Financial Secretary informed the Authority that the decision to keep unfunded PSL a central liability of the entire public sector was reversed and the Authority is expected to recognize the unfunded PSL as a liability on its financial statements once the actuarial valuation is completed and the actual liability since 1997 is determined. The total amount recognised as a pension expense during 2004-5 was \$606,027 (2003-4: \$625,849). The pension plan has been accounted for under paragraphs 44-46 of International Accounting Standard 19 as if it were a defined contribution plan.

# CAYMAN ISLANDS MONETARY AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2005.

(Expressed in Cayman Islands Dollars)

### b) *Cash Supplement in Lieu of Pension*

Prior to 1 January 2000 employees on overseas and certain local contracts were not eligible to participate in the pensions schemes underlying the Fund. These employees received cash supplements of 12% of salary in lieu of pension contributions. With effect from 1 January 2000 all overseas and certain categories of locally employed staff became entitled to participate in the Defined Contribution plan. The Authority has elected to implement this option as of 1 July 2002 for contracts expiring after that day. Employees affected by such contracts will have the option to continue contributions to their existing pension schemes as long as those are properly approved or join the Fund. The Authority paid \$0 (30 June 2004: \$14,408) in cash supplements during the 2004-5 year in respect of these officers.

## 10. Financial Instruments

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a) *Credit risk.* Financial assets that potentially subject the Authority to credit risk consist principally of current, call and fixed deposits, long and short-term investments, accounts and interest receivable, and other receivables and prepayments. The Authority's current, call, and fixed deposits are placed with high credit quality institutions. Credit risk with respect to long and short-term investments, accounts and interest receivable, and other receivables and prepayments is limited because the Authority only transacts business with counterparts it believes to be reputable and capable of performing their contractual obligations. Accordingly, the Authority has no significant concentrations of credit risk.

b) *Interest rate risk.* The Authority's investments and deposits are at fixed interest rates. The ranges of interest rates and maturity dates are presented in Note 3.

c) *Fair values.* The carrying amount of current, call, and fixed deposits, accounts and interest receivable, other receivables and prepayments, demand liabilities, and other liabilities and payables approximated their fair value due to the short-term maturities of these assets and liabilities. The market value of investments is presented in Note 3. The fair values of other assets and liabilities are not materially different from the carrying amounts.

## 11. Related Party Transactions

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The Board of Directors of the Authority is appointed by the Governor and consisted of the Managing Director and nine directors as of 30 June 2004. Up to 31 December 2002, the Financial Secretary by virtue of his office was one of the directors. Due to the changes in the Law (2003 Revision) and the move to make the Authority independent, the Financial Secretary will not be a member of the Board of Directors of the Authority effective January 2003.

The following Government departments/entities provided services to the Authority during 2004-5:

- i) Audit Office at a cost of \$30,000 (2003-4: \$25,000).
- ii) Public Service Pension Board (see Note 9)
- iii) Legal Department.

The Authority acts as the Government's custodian of the Cayman Islands currency as well as collector of the annual license fees and issuer of licenses relating to the financial industry. These services are provided at no direct cost to the Government.

**CAYMAN ISLANDS MONETARY AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 30 June 2005.**

(Expressed in Cayman Islands Dollars)

*Related Party Transactions (continued)*

The Authority operates on a grant from the Government to cover its Recurrent and Capital Expenditures (see Note 4 for fixed asset purchases). At the end of each financial year the Authority contributes to the government the net operating surplus after fulfilling reserve requirements.

**12. Additional Bank Accounts**

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The Authority maintains a segregated insurance fund account with a local bank to collect funds from health insurance providers (as specified under regulation 5 of the Health Insurance Regulation (2002 Revision)). Those receipts are then paid over to the Cayman Islands Government. The account is in the name of the Authority but is not included as a part of the Authority's assets. The account balance was \$452,603 as at 30 June 2005. This account will be transferred to the Health Insurance Commission upon completion of the audit of Segregated Insurance Fund.

The Authority also maintains an interest bearing account with another local bank established to receive a draw down on Letter of Credit as a consequence of default by an insurance company. By virtue of Section 7(1) of the Insurance Law (2004 Revision) every insurance company carrying on domestic business in the Cayman Islands must have funds set aside for liability support to their policyholders in the event the company defaults on its financial obligations in this jurisdiction.

The account balance was \$1,550,000 as at 30 June 2005. This balance will be disbursed according to the directions from the Grand Court of Cayman Islands. This account is also in the name of the Authority but is not included as a part of the Authority's assets.