



Annual Report

2013 - 2014

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OUR VISION

To be the leading maritime administration in the provision of exceptional service to the global shipping community.

OUR MISSION

The Maritime Authority will facilitate the development of the Cayman Islands as an international maritime centre and help foster a dynamic environment that supports its clients' efforts to maximise their growth opportunities and returns, whilst promoting compliance with international standards, regional agreements and domestic legislation in the areas of maritime safety and security, pollution prevention, and social responsibility.

AUTHORISATION AFFIDAVIT

30 June, 2014

To All Concerned:

I hereby authorise the dissemination of this document, which constitutes a summary of the activities of the Maritime Authority of the Cayman Islands during the fiscal year 1 July, 2013 – 30 June, 2014, to all relevant parties.

It includes the financial results of the organisation, duly audited and approved by the Auditor General.

It is submitted to the Cabinet of the Cayman Islands Government and is tabled in the Legislative Assembly as a public document.

A. Joel Walton, JP
CEO, MACI

STATEMENT FROM THE CHAIRPERSON

I am pleased to have this opportunity to highlight some of the activities of the Maritime Authority of the Cayman Islands (MACI).

At the board level, we must be visionaries. This year, we took a careful look at where we have been, where we are and where we want to be and in the end revised our vision, which is: "To be the leading maritime administration in the provision of exceptional service to the global shipping community." Through this vision we are working towards the development of Cayman as an international maritime centre.

The principal activity of MACI continues to be the implementation of applicable international conventions, treaties and related instruments. In general, MACI functions as the maritime administration of the Cayman Islands and as such discharges, on behalf of the Cayman Islands Government, the range of responsibilities and services normally associated with such a maritime administration.

In addition to being a regulatory and administrative body, MACI does have a commercial arm, the Cayman Islands Shipping Registry, which has been actively promoting Cayman and its services to the maritime industry at international maritime conferences and official meetings, and through co-hosted events. These activities have been professionally executed and are beginning to bear fruit.

RESULTS

I am delighted to report that MACI has delivered a strong performance for the financial year ended 30 June, 2014. Diligent work was undertaken to transform the previous year's deficit into this current year-end surplus.

Year over year revenues have increased by CI\$746K or 8%, while expenses have decreased by CI\$273K or 3%, a reflection of the solid execution of our business strategy. Total asset value and total equity value increased by CI\$871K and CI\$642K, respectively, both in excess of 20%.

Kudos must go to our dedicated Chief Executive Officer, management and staff for their diligent work during challenging times to ensure these positive results.

Recently, we also received encouraging news that the Cayman Islands Government Cabinet has granted approval for MACI to retain all registration fees effective 1 July, 2014. This development will certainly improve our financial results.

FUTURE

While the maritime industry has gone through challenging times in recent years, upward financial trends reassure us that the industry is stabilising and we anticipate a growth phase in the near future. MACI remains cognisant of the changing global marketplace and must be proactive in seeking new opportunities whilst offering competitive products

and services. It must also continue to focus on quality shipping, with high standards for the environment and maritime safety.

As I wrap up my first year as Chairperson of the MACI Board, I cannot help but be proud of the work that has been accomplished and excited about the year to come. I wish to thank my Board of Directors for its guidance and support as I transition into the maritime industry, whilst serving my country. I am similarly grateful to the dynamic MACI team which has remained dedicated, loyal and committed to our mission.

Philip A. Barnes, NP
Chairperson, MACI Board of Directors

STATEMENT FROM THE CEO

An extraordinary year has passed.

We have made great strides towards increasing our internationally recognised quality standards and have now attained Tokyo MOU Low Risk Ship status, in addition to our host of other recognitions: United States Coast Guard Qualship 21, “White List” status, and Top 13 ranking according to the International Chamber of Shipping.

Cayman hosted the 2nd Annual Cayman Islands Shipping Summit in March 2014, where leaders in the maritime industry gathered to discuss the most pressing issues of today, including asset management, environmental concerns, safety and incidence of piracy, and how to strengthen and support the industry that supplies 90% of all global trade. A welcomed participant in this Summit and a new partner for the Maritime Authority was Cayman Enterprise City’s Special Economic Zone. This is an important partnership as we work together to provide the legislation and infrastructure to fulfil our vision of being a model international maritime centre.

After five years, we are now seeing distinct signs of economic recovery and are finally able to say that the worst of the financial crisis is behind us. Without question, it has been a trying time for most industries, shipping and maritime included. As Rahm Emanuel famously said, “you never let a serious crisis go to waste” and at the Maritime Authority we have taken this advice to heart. Over these last years when income levels were down, the Authority has been streamlining, becoming more efficient and doing more with less. It is a wonderful testament to the hard work and dedication of the staff and management of the Authority that we have navigated our way so successfully through those days and have posted a profit for this financial year.

This effort has not only made us profitable – it has made us more competitive. Many jurisdictions are looking to surpass Cayman’s position in the market and therefore we have not one moment to daydream, but must remain vigilant and client-focused, constantly aiming to meet client needs through modern legislation and infrastructure, quality advice and timely service. The Cayman Islands Shipping Registry has continued to explore new markets in Brazil, Colombia and Panama and expand our global coverage. We are continuing to meet our clients where they are: through our Cayman and United Kingdom offices, our representative offices in the USA, France, Greece and Singapore and through our representatives in Brazil, Italy, The Netherlands, Hong Kong, Japan, Philippines, Australia and China.

A new financial year is ahead of us and again, my dedicated team has a long list of objectives and targets that they aim to meet and I am looking forward to working with them to achieve these goals as we maintain our high standards of service and continue our constant search for new opportunities.

A. Joel Walton, JP
CEO, MACI

ABOUT THE MARITIME AUTHORITY

The Maritime Authority of the Cayman Islands (MACI) is a statutory corporation formed as a separate legal entity under The Maritime Authority of the Cayman Islands Law, 2005, that came into effect 1 July, 2005.

ROLE AND FUNCTIONS

The original Cayman Islands Shipping Registry (CISR) maritime administrative structure, which is the main forerunner to MACI, was established in 1903 when George Town was formally recognised as a British Port of Registry. The CISR obtained British Registry Category 1 Status on 25 July, 1991. The Category 1 Group of British Registries includes Bermuda, British Virgin Islands, Cayman Islands, Gibraltar, Isle of Man and the UK. All of these so-called “Red Ensign” Registries can register vessels of any age, size and type, provided they meet international standards. The CISR is now a division of MACI; however, there are a number of other critical responsibilities that have been added to the Authority. The Authority combines into one body:

1. The original CISR’s vessel and mortgage registration, advisory and marine survey and audit services;
2. The overall responsibility for implementing Cayman’s marine pollution prevention, maritime safety and security, and seafarers’ welfare obligations under international Conventions and Codes and Cayman legislation for Cayman-flagged vessels;
3. The responsibility for the implementation of Cayman’s obligations under the Caribbean Memorandum of Understanding on Port State Control for foreign-flagged vessels entering Cayman Islands’ ports and for marine casualty investigation activities in relation to Cayman-flagged vessels;
4. The responsibility for national maritime policy formulation, the provision of advice on maritime-related matters, and the development of Cayman’s maritime-related legislation;
5. The responsibility to represent Cayman at international fora and to protect its maritime interests; and
6. The responsibility to facilitate the development of the Cayman Islands as an international maritime centre.

RELATIONSHIP BETWEEN THE CAYMAN ISLANDS AND THE UNITED KINGDOM GOVERNMENTS

The Authority is wholly-owned by the Government of the Cayman Islands, but governed by a Board of Directors appointed by the Governor-in-Cabinet. MACI reports to the Cabinet of the Cayman Islands through the Ministry of Financial Services, Commerce and Environment but is also answerable to the UK Secretary of State via the UK’s Department of Transport for the effective implementation of relevant international maritime and related Conventions that have been ratified by the UK Government and, hence, extended to Cayman.

RELATIONSHIP WITH THE PRIVATE SECTOR

In recognition of the global nature of shipping, and the need for MACI to have the benefit of local and international advice, two bodies were established, namely, the Maritime Sector Consultative Committee (MSCC) and the Cayman Islands Shipowners' Advisory Council (CISAC), which includes the Cayman Islands Shipowners' Advisory Council – Yacht Committee (CISAC–YC), as of the 2006/7 fiscal year.

MSCC (previously the Shipping Sector Consultative Committee, or SSCC) was formed in 1993 and is comprised of local service providers. The objective of the MSCC is to provide a formal mechanism through which the private sector may provide advice and recommendations for ensuring the maritime industry's continued growth and viability. The Authority believes it is imperative that these stakeholders have an opportunity to provide input on the development of the sector.

The CISAC is comprised of major shipowners with Cayman-flagged vessels and was formed in 1997. The CISAC-YC also consists of major yacht managers and owners with Cayman-registered vessels and was established in 2007. These bodies are for establishing and maintaining dialogue and for exchanging ideas between and among its members and the Cayman Islands maritime administration. Through these channels of communication, MACI hopes to maintain and improve the quality of the Cayman Islands Shipping Registry as well as promote its interests generally.

INTERNATIONAL REGULATORY ENVIRONMENT

One of the primary roles of MACI is to cooperate with overseas regulatory bodies to enable them to execute their regulatory functions. The main bodies include:

- The International Maritime Organization: The main international standard-prescribing body responsible for safety of life at sea, maritime security and the protection of the marine environment.
- The International Labour Organization: This body establishes international standards for employment and working conditions for seafarers.

There are other players whose activities have significantly impacted international shipping which affects Cayman-flagged vessels, namely: the International Association of Classification Societies, the United States Coast Guard, various signatories to Memoranda of Port State Control and, increasingly, the European Union (EU).

BOARD OF DIRECTORS

The second Board of the Maritime Authority of the Cayman Islands was appointed by the Governor on 1 September, 2010 and consists of individuals with expertise in the areas of law, financial management, national security, international shipping, corporate services and maritime affairs.

The Board has authority to delegate to any director, sub-committee or the Chief Executive Officer (CEO). Such delegation, however, does not preclude the Authority from exercising any power delegated. Thus far there are no sub-committees and the Board has chosen only to delegate the Authority's power to the CEO for engaging such officers and consultants as the CEO considers necessary and on such terms and conditions as the CEO considers appropriate within the salary scales approved by the Board.

In the absence of sub-committees, the CEO has established a Management Committee comprising the senior managers of the Authority that deal with such matters that would otherwise rest with a Board appointed sub-committee.

PROFILES OF THE DIRECTORS

Mr. Phillip Barnes, NP – Chairperson (19 November, 2013 – 30 June, 2014)

Mr. Philip Barnes, born in the district of George Town, Grand Cayman, has held appointments on boards in the Cayman Islands public and private sectors. These have included: Deputy Chairman of the National Housing Development Trust and Director of Caribbean Utilities Company Ltd., a TSE-listed company.

In 1983, Mr. Barnes obtained a Bachelors of Science degree (Hons.) in Accounting from Fort Lauderdale College, Florida and has been a Certified Public Accountant since 1987. Subsequent to public accounting, he worked in the offshore financial industry for a number of years and obtained the Trust and Estate Practitioners certificate (STEP) in 2006.

Mr. Barnes is an experienced financial accounting manager in the offshore financial industry. He trained and articulated with PriceWaterHouse, Cayman gaining extensive accounting and auditing experience. He is currently employed at Walkers (law firm) as Group Financial Controller.

Mr. Barnes has served his community over the years and is a Past President and life member of the Lions Club of Grand Cayman. He is also a Melvin Jones Fellow (highest award the Lions Club offers). Mr. Barnes is also a Past President and charter member of the Leos Club of Grand Cayman. Other civic responsibilities include Returning Officer for the Cayman Islands General Elections (district of George Town) and Funding Director of the Cayman Islands Scouts Association.

His professional memberships include the American Institute of Certified Public Accountants (AICPA) and the Cayman Islands Society of Public Accountants (CISPA). Mr. Barnes is also a Notary Public in and for the Cayman Islands.

Mr. Bruce Putterill - Deputy Chairperson

Mr. Putterill is a Cayman Islands lawyer who has been in practise for over 25 years. He was a Senior Partner and then Chairman of Appleby, a global leader in the supply of international offshore legal, fiduciary and administration services, before retiring as a Partner in 2009. He continues a relationship with the firm as Senior Counsel to the firm. For 2004-9, he was the Cayman Head of Appleby's Corporate & Commercial Practice Group and the Global Leader of the firm's Banking & Asset Finance Team and Funds & Investment Services Team.

Mr. Putterill is a leading shipping lawyer in the Cayman Islands and played a major role in the adoption by the Cayman Islands in the 1980s of the international maritime safety conventions and, subsequently, the establishment of the Cayman Islands Shipping Registry, now a division of the Maritime Authority of the Cayman Islands. He has been

an active member since inception of the Maritime Sector Consultative Committee, promoting and assisting the Cayman Shipping Registry in its on-going development.

Prior to moving to the Cayman Islands, Mr. Putterill practised as a solicitor in London with Norton Rose, specialising in ship finance. He holds a Law Degree from the University of Zimbabwe and is admitted as a Solicitor in England & Wales (non-practising) and as an Attorney-at-Law in the Cayman Islands.

Mr. Dennis Hunter - Director

Mr. Hunter has been the Managing Director of Queensgate Trust Company Ltd., and Queensgate Bank Ltd. (formerly Queensgate Bank & Trust Company Ltd.) in the Cayman Islands since 1993 and a Director thereof since 1990. He has over 30 years' experience in offshore banking and the administration of mutual funds. From 1978-93, he was the Financial Controller and Treasurer of Aall Trust & Banking Corporation Limited, Grand Cayman.

Mr. Hunter graduated with a Higher National Diploma in Business Studies and postgraduate Diploma in Management Studies from Newcastle and Brighton Polytechnics, respectively. He is a director of a range of investment funds, commercial property holding companies in Cayman, and other entities both onshore and offshore. He has also been a member of the Maritime Sector Consultative Committee since its inception.

Mr. James C. Parsons, Jr. - Director

Mr. Parsons qualified as a Certified Public Accountant in 1991 following his college education at Barry University in Miami, Florida. He presently holds the position of Deputy Port Director, and has been charged with the responsibility of the Accounting, Financial and Freedom of Information Reporting for the Port Authority of the Cayman Islands since 1 March, 2005.

Prior to joining the Authority, Mr. Parsons worked as a Senior Auditor for three and a half years with Ernst & Young, as a Fund Administrator/Accountant for three years with Deutsche Bank (Cayman) Ltd., and for eight years as Deputy Managing Director/Chief Financial Officer with Andy's Rent-A-Car Limited. Prior to attending university in the mid-1980s, Mr. Parsons held various junior and senior level positions with Barclays Bank, PLC, Lloyds Bank and Trust, and the Swiss Bank Corporation.

Mr. Parsons has previously served as an active member on two government boards in the 1990s, namely, the Housing Development Corporation Board, and the Immigration Board.

He is also a past member and Treasurer of the Rotary Club Central, and a past member of the Kiwanis Club of Grand Cayman. His experience also includes being a founding member of the Overseas Student Association.

Mr. John P. Wolf - Director

Mr. John Wolf is Head of the Corporate Department at Campbells. He specialises in maritime and shipping law with particular emphasis on pleasure vessels and deals with all matters involving British registered ships. Mr. Wolf regularly advises on all matters involving acquisition, financing, title, registration and operation of vessels at the British ports of registry in the Cayman Islands including acting for owners, purchasers and secured lenders.

He is a member of the Cayman Islands Shipping Registry's Maritime Sector Consultative Committee and author of numerous briefing papers and articles relating to the registration and financing of ships in the Cayman Islands.

Mr. Wolf trained and qualified in 1992 as a Solicitor of the Supreme Court in the City of London, England. He qualified as a Cayman Islands Attorney-at-Law in 1997 and has over 20 years practising experience in English and Cayman Islands law.

Mr. Kirkland H. Nixon, MBE, QFSM, JP - Director

Mr. Kirkland Nixon is a retired civil servant with over 38 years' experience. He joined the Civil Aviation Authority in 1966 as a Fireman and retired as Chief Fire Officer in 2005.

During his tenure in the Cayman Islands Government, Mr. Nixon was awarded the Most Excellent Order of the British Empire (MBE) in 1979. He was also instrumental in the establishment of the Cayman Islands Fire Brigade in 1980. He served as President of the Lions Club of Grand Cayman from 1979-80, and was appointed as a Justice of the Peace (JP) of the Cayman Islands in May 1987. In 1989, he was awarded the Queen's Fire Service Medal (QFSM) for meritorious service. He also received in 1989 the International Distinguished Service Award (IDSA) at the National Hurricane Conference in Miami, Florida.

Mr. Nixon served as the first Chairman and Founding Member of the National Trust of the Cayman Islands. He also served as President of the Cayman Islands Civil Service Credit Union and Justice of the Peace Association. Additionally, he has served on numerous Government Boards and Committees as follows: Chairman of the KEYS Foundation and the Cayman Islands Marine Institute; Deputy Chairman of the Civil Aviation Authority Board; Coordinator of the National Hurricane Committee; Secretary of the Cayman Airways Board; Member of the National Security Committee, Airport Security Committee and Civil Aviation Authority Board; and Ex-officio Member of the Planning Board.

Mr. Nixon presently serves as Chairman of the Tourism Attraction Board as well as of the Cayman Islands Airports Authority; and Member of the Public Service Pensions Board.

Mr. Nicolas (“Nicky”) A. Pappadakis - Director

Mr. Pappadakis, upon graduating from College, joined the family firm of A.G. PAPPADAKIS & CO LTD in London as management trainee, progressing through multiple assignments, and eventually to head of chartering and operations of the family firm and fleet (112.000 TDW O/B/O vessels, 30-60.000 TDW tankers, 40-77.000 bulk carriers, 23.000 TDW multipurpose/heavy lift vessels – 16.500 cargo liners and twin deckers at various periods). Prior to this, Mr. Pappadakis had served periods at sea as an apprentice on tankers, dry cargo and bulk carrier vessels. Eventually he became in charge of the family maritime and aviation interests.

Mr. Pappadakis has served on numerous committees and is Ex Chairman of INTERCARGO; Ex Chairman of the Malta International Shipping Council (Shipowners’ Association under Malta flag); Ex Chairman of the Greek Committee of RINA; Past President of the U.S. Propeller Club International Port of Piraeus; Past President of HELMEPA (Hellenic Marine Environment Protection Association); Ex Vice President of The Hellenic Chinese Chamber of Commerce, long serving member of the Board of Directors of the Union of Greek Ship-Owners and past member of The London Steam-Ship Owners’ P&I Club Committee.

Mr. Pappadakis currently serves as Vice Chairman & Chairman Emeritus of INTERCARGO; Chairman Emeritus of Malta International Shipping Council; Life Member of the U.S. Propeller Club International Port of Piraeus; member of the: Hellenic Committee of Lloyds Register, Hellenic Committee of American Bureau of Shipping, Hellenic Committee of DNV-GL, Mediterranean Committee of China Classification Society, The Hellenic Chinese Chamber of Commerce, HELMEPA and INTERMEPA (International Marine Environment Protection Association). Mr. Pappadakis is also a Life Member of NAMEPA.

Mr. Pappadakis has an ongoing deep concern and commitment for the sea, seafarers and the environment. He is deeply proud of his Caymanian nationality and Status and is dedicated to the people of the Cayman Islands having first arrived in Cayman in 1954 and is very proud to serve on the MACI Board of Directors.

Mr. A. Joel Walton, JP - MACI CEO & Ex-Officio Member

Since May 2004, Mr. Walton has been the Chief Executive Officer of the Maritime Authority of the Cayman Islands (MACI), which also owns and operates the Cayman Islands Shipping Registry. He obtained a Bachelor of Administration (Hons) degree with a specialization in Finance from Brock University, Canada, in 1983 and an MBA with a concentration in Finance and Strategic Planning from the University of Windsor, Canada, in 1988.

Mr. Walton formerly served in the Cayman Islands Civil Service, which he joined in 1983. He held several posts, including that of Deputy Financial Secretary of the Cayman Islands, which he held for 11 years, until May 2004.

Mr. Walton has held appointments on a number of boards and committees in the Cayman Islands public and private sectors including: Chairman of the Cayman Islands Health Services Authority Board, Cayman Company Sector Consultative Committee, Cayman Turtle Farm Board and Cayman Brac Economic Development Committee; and Deputy Chairman of the Cayman Islands Monetary Authority Board, Cayman Islands Public Service Pensions Board and Cayman Islands Stock Exchange Authority Board. Mr. Walton has also held other board appointments, including with the Caribbean Utilities Company Ltd., a Toronto Stock Exchange listed company, and with the Caribbean Development Bank.

He is currently Chairman of the MACI Executive Management Committee and the Maritime Sector Consultative Committee.

Ms. Glenda Dilbert-Davis - MACI Board Secretary & Ex-Officio Member

Ms. Dilbert-Davis joined the Maritime Authority of the Cayman Islands on 1 January, 2008, as Head of Human Resources & Administration. She has responsibility for all HR and Administrative functions and activities of MACI, including performance management, employee relations, training and development, recognition and reward.

Ms. Dilbert-Davis possesses over 25 years of governmental experience, having initially joined the public sector in Cayman Brac in 1983, and after a short stint in the private sector in Grand Cayman, and study leave abroad in the UK, she re-joined the public sector in 1989, where she has remained to date.

During this time, Ms. Dilbert-Davis worked in various Government agencies including, the George Town Hospital (now the Health Service Authority), Financial Secretary's Office, Portfolio of Finance & Economics, Public Services Pensions Board, Ministry of Education, Employment, Youth, Sports & Culture, and Department of Education Services. Whilst working in the Portfolio of Finance & Economics, she was involved in shipping-related matters and acted at times as Secretary to both the Shipping Sector Consultative and the Shipowners' Advisory Committees.

Ms. Dilbert-Davis holds a First-Class Certificate in Personnel Practice from Chichester University, UK, and a Masters in Human Resources Management from the University of Portsmouth, UK.

KEY MANAGEMENT PERSONNEL

(As at 30 June, 2014)

CEO

A. Joel Walton, JP

Director – Global Operations and Commercial Services

Kenrick Ebanks

Director – Global Safety and Compliance

Gregory Evans

Registrar of Shipping

Lorna Washington

Head, Maritime Policy, Quality and Casualty Investigation

Angus McLean

Registrar of Shipping (Designate)

Sian Pairaudeau

Head, Human Resources and Administration

Glenda Dilbert-Davis

Head, Business Development and Client Relationships

Exie Tomlinson-Panton

Head, Information and Technology

Osbert Francis

GLOBAL OPERATIONS

REGISTRATION

The Registration section is a frequent point of contact for clients and also serves as the core of the Cayman Islands Shipping Registry (CISR). This section is responsible for processing several types of registrations including: new, interim and provisional vessel registrations; transfer of ownership; vessels under construction; demise charter (bareboat), and registration of mortgages in accordance with the Merchant Shipping Law (2008 Revision). Registrations recognised all three Cayman ports of entry: George Town (Grand Cayman), The Creek (Cayman Brac) and Bloody Bay (Little Cayman), thereby broadening the geographic scope of the Registry.

The CISR has achieved recognition as a top jurisdiction for vessel registration and it is a popular flag of choice. This is mainly due to Cayman being a Category 1 British Red Ensign Registry that will register only the highest quality vessels, which meet the stiffest regulatory requirements in terms of design, construction, maintenance, safety and pollution control.

The CISR continues to recognise that it exists in a global community and it needs to be where its clients are, to listen, and to provide services and solutions. These services and solutions are supported by its Head Office in Cayman, or one of the 14 other CISR locations – a European Regional Office in Southampton, UK; Asian Regional Office in Singapore; London; USA; Brazil; France; Greece; Italy; The Netherlands; Hong Kong; Japan; Philippines; Australia and China.

The Registry ended the 2013 calendar year (1 January, 2013 – 31 December, 2013) with 178 new registrations for that period at .31 million gross tonnes (GRT), bringing the total number of vessels on the Register to 1,976 units and the gross registered tonnage to 4.0 million GRT¹. Additionally, the average age of vessels on the Register was 11.6 years at the end of November 2013. There has been an increase in ship registrations over the last year and overall ship deletions have decreased.

¹ Registration figures quoted in Annual Reports prior to 2012/13 were based on a fiscal year end

FINANCE

The balance sheet included in the Audited Financial Statements for the year ended 30 June, 2014, indicates that MACI's total assets were valued at CI\$4.455 million and total liabilities at CI\$1.443 million, resulting in a net worth of CI\$3.012 million compared to CI\$2.230 million for the period ended 30 June, 2013, where MACI's total assets were valued at CI\$3.584 million and total liabilities at CI\$1.354 million.

Operating revenue for 30 June, 2014, totaled CI\$9.606 million, a CI\$.746 million increase over CI\$8.860 million for 30 June, 2013. Operating expenses for 30 June, 2014 totaled CI\$8.681 million, a CI\$.465 million decrease over CI\$9.146 million for 30 June, 2013. Due to change in accounting policy (the adoption of IAS19 Revised), profit for 30 June, 2014 was CI\$.925 million before the re-measurements of the defined benefit pension scheme of CI\$0.142 million, resulting in an overall profit of CI\$0.783 million for 30 June, 2014. MACI experienced an overall change in position of CI\$1.160 million when comparing the loss of CI\$0.377 million, the ending position of 30 June, 2013, to the current reporting period's profit of CI\$0.783 million.

Financial Statements for 1 July, 2013 to 30 June, 2014, were audited by the Auditor General on 31 October, 2014 and form a part of this Report (see audited Financial Statements, Appendix 1).

INFORMATION TECHNOLOGY

The Information Technology section is responsible for providing support, business and technical solutions that utilises technology to gain efficiencies across the Maritime Authority's operations.

As part of its efforts to develop new products to improve business acumen with its clients, MACI is adopting a move towards cloud technology in off-shore jurisdictions to facilitate ease of access to users in an ever increasing global presence. MACI has started this migration with the first phase of deploying Microsoft Dynamics GP 2013 in the cloud. Microsoft Dynamics will enable MACI's Finance Section to operate in a more effective and efficient manner through streamlining accounting processes against industry best practices as well as increasing MACI's control over its systems. MACI is also in the process of upgrading the European Regional Office network infrastructure and migrating all servers into virtual environments. Along with this environment shift is the implementation of an email archiving solution that will become standard across the organisation.

INFORMATION MANAGEMENT

During the 2013/14 period, MACI continued to develop and improve its records management program by actively destroying Human Resource and Finance records in accordance with the Authorised Disposal Schedules developed by the Cayman Islands National Archive.

HUMAN RESOURCES AND ADMINISTRATION

The Human Resources and Administration section is charged with the responsibility for all matters related to staff recruitment, training and professional development as well as the creation, implementation and monitoring of all personnel policies, procedures and practices to ensure that the employees in the two regional offices, George Town, Grand Cayman (Head Office) and Southampton, United Kingdom (European Regional Office or ERO) and other representative offices are working to their fullest potential within a supportive working environment.

Personnel Changes

During this period, personnel changes at MACI were as follows:

| TYPE OF CHANGE | HEAD OFFICE | ERO |
|-----------------------|----------------------------------|---|
| New Hires | 2 – (1) Finance / (1) HR & Admin | 0 |
| Resignations | 0 | 0 |
| Promotions | 1 - Admin | 3 – (1) Survey and (2) Maritime Legislation |

Consultant Surveyors

During this period, MACI strengthened its strategic alliance with a third party to provide exclusive contract surveyors, who have a global presence, as a complement to its existing survey section. With the placement of surveyors in key locations, this initiative has been welcomed by MACI's clients, noting the cost reductions and savings in expenses and travel time. In addition to the surveyors based in Cayman and the UK, MACI has appointed consultant surveyors in 13 different countries giving us survey coverage within 6 hours travel time to any location in the world.

Training

Ten employees in the Head Office undertook training in the areas of IT, Internal Audit, Maritime Legislation, Communication, Time Management, Leadership/Management Skills, Business Writing and Grammar. Four other employees in Head Office are pursuing Degree level disciplines through local and online learning institutions. Seven employees in the ERO were trained in First Aid and our Surveyor Trainee, also based in Southampton, continued his survey related studies.

Maritime Scholarship

The 2014 Maritime Scholarship and Awareness Programme, which included social media promotion, resulted in the receipt of two applicants who were interviewed by MACI and a recommendation made to the Ministry of Education for the awarding of a maritime scholarship.

Private Health Insurance

The transition from a government-owned company providing health insurance coverage to civil servants (employees and pensioners) to private health insurance was completed effective 1 January, 2014, as directed by the MACI Board.

Employee Wellness Programme

An increased focus on employee wellness saw the introduction of “Lunch and Learn” sessions in the Head Office where healthy lunch options are provided to employees while topical issues are presented by guest speakers. Additionally, an annual Pedometer Walking Challenge was implemented in the Head Office and ERO.

GLOBAL SAFETY & COMPLIANCE

As a Category 1 British Registry, the Cayman Islands is authorised to certify all sizes and types of vessels. The survey and audit certification requirements for Cayman-registered ships are based on international conventions, which are given effect through Cayman Islands legislation.

The Safety and Compliance division activities include: conducting surveys and inspections; Port State Control (PSC) monitoring and Caribbean Memorandum of Understanding (CMOU) PSC implementation; and crew compliance services.

FLAG STATE PERFORMANCE

The Cayman Islands retained its ranking for a second consecutive year as one of the top performing flag states by the International Chamber of Shipping in its annual report on Flag State Performance. This independent report highlights the fact that MACI and its partners are working to the highest international standards and demonstrates MACI's commitment to operate a quality shipping registry.

PORT STATE CONTROL

During this period, the Safety section continued to maintain MACI's quality objectives ensuring "White List" status across the three major Port State Control Memoranda of Understanding (PSC MOU).

As a member of the Caribbean MOU on PSC, MACI continued to support the Cayman Islands Government by providing technical expertise and inspections on foreign-flagged vessels visiting ports in the Cayman Islands.

CREW COMPLIANCE

MACI has now completed the roll out of its crew compliance services to the Asian Regional Office in Singapore. Seafarer documentation can now be received and processed in the Cayman Islands, France, Singapore, UK and USA. As part of this ongoing project, MACI continues to develop a web-based portal to enable seafarers to submit all documentation and applications online.

PASSENGER YACHT CODE

MACI continued to lead the development of the Passenger Yacht Code (PYC) in the Red Ensign Group Technical Forum. The PYC is a code of practice for yachts carrying 13 to 36 passengers providing a yacht specific alternative to the International Convention for the Safety of Life at Sea (SOLAS) Passenger Ship compliance. The code sets out technical, safety and operational standards appropriate to the size and operation of the yachts operated under this code, which is gaining popularity in the ultra large super yacht industry.

MACI also chaired another successful industry Working Group meeting in Southampton during October 2013. The Working Group consists of regulatory and industry specialists and provides advice on the application and requirements of the PYC for use in the development of future amendments to the Code. The PYC 4th Edition was published in January 2014, following feedback from the REG group and the Working Group meeting. The Working Group meeting was attended by 37 regulatory and industry specialists.

During the 2013/14 fiscal year, a Netherlands-based shipbuilder launched the first superyacht designed and built to the PYC with regulatory oversight from MACI, playing a key role to ensure that the ship met the standards of the Code.

BUSINESS DEVELOPMENT, MARITIME POLICY, QUALITY, CASUALTY INVESTIGATION AND MACI CONSULTING

BUSINESS DEVELOPMENT AND CLIENT RELATIONSHIPS

The Business Development and Client Relationships section is responsible for promoting and ultimately increasing business for the Registry. This is done through event planning and management as well as the dissemination of information to specific target markets, while ensuring a superior level of customer service satisfaction throughout the organisation.

During the 2013/14 fiscal year, much work was done to continue highlighting the Cayman Islands Shipping Registry (CISR) through the attendance and organisation of various events and seminars overseas and locally. One such event was the Southampton Boat Show in September 2013, where the CISR exhibited and partnered with the Cayman Islands Department of Tourism (CIDOT) for the first time, showcasing the full extent of the Cayman product to the forefront of the affluent yachting fraternity. As part of its ongoing collaborative efforts, the CISR also exhibited with the CIDOT at the Miami Boat Show in February 2014. The CISR found that the large and lucrative South Florida market is responsive to learning more about the diversity of the tourism and maritime product that exists in the Cayman Islands and that this is a valuable market to continue to develop through educational and promotional activities.

Another significant achievement during this period was the implementation of a new public relations strategy which aims to raise the profile of the CISR in the local and international communities, reinforcing the key messages of the Registry: providing jobs for young Caymanians; shipping as another economic pillar; and Cayman as a respected flag. Internationally, the Registry's focus has been on the fast growing regions of development, namely Asia and South America (specifically Brazil, Colombia and Panama). These are markets that are also highly sought after by Cayman's competition and it is important for the Registry to be actively present and pushing the CISR brand to gain market share.

With regard to client relationships management, 88% of client queries were responded to within the organisation's target response time (previously a 48-hour target time, changed in December 2013 to 24 hours), with the remaining 12% requiring somewhat more time to satisfactorily answer. Additionally, MACI employees in both the Head and European Regional Offices continued to capture significant queries, complaints and compliments, based on specified criteria, throughout all sections of the organisation, which is in keeping with MACI's ISO 9001:2008 certification.

MARITIME POLICY, QUALITY AND CASUALTY INVESTIGATION

The Maritime Policy, Quality and Casualty Investigation section is responsible for the development of maritime policies within MACI and the development and updating of maritime legislation relevant to the discharge of the organisation's functions and responsibilities; the development, implementation and management of an effective Quality Management System (QMS) for MACI, which is aimed at enhancing customer satisfaction, operational efficiency and cost effectiveness; and marine casualty investigation activities in relation to Cayman-flagged vessels.

Regulations (Development and Implementation)

During this period, the major focus was the implementation of the Maritime Labour Convention, 2006 (MLC), which is due to come into force for the Cayman Islands on 8 August, 2014. Following extensive work within MACI and discussion with the United Kingdom, a number of draft regulations were developed, which give full effect to the Convention. On 7 February, 2014, the United Kingdom agreed to the extension of the MLC to the Cayman Islands on the proviso that the implementing legislation would be passed by the Cayman Islands Legislative Assembly by the time the MLC enters into force. Eight new regulations and one amending regulation will be published by the Legislative Assembly in August 2014 alongside much accompanying guidance material published by MACI. All of these regulations were gazetted before the entry into force of MLC for the Cayman Islands.

Merchant Shipping Law

During the 2013/14 financial year, significant revisions to the Merchant Shipping Law (MSL) and Marine Pollution Law (MPL) commenced to ensure that the governing legislation remains fit for purpose, is user friendly to MACI's clients and can keep up with the pace of regulatory change. Once completed, a key feature will be provision to give effect to International Conventions by enabling type legislation and through the use of shipping notices. This major revision is anticipated to be completed and submitted to Cayman Islands Government Cabinet by early 2015. As this is an amendment to primary legislation, final implementation will be subject to Legislative Assembly approval.

Maritime Policy

During the 2013/14 fiscal year, the section developed a number of policy issues, which have been identified to ensure that MACI can attract certain ship types which are currently beyond its reach due to the existing regulatory framework. Proposals for the conduct of marriages and gambling on board ships are two key examples.

The section has also led on developing policy for a "one stop shop" for maritime services in the worldwide network of offices and to enable MACI officers to provide apostile services outside of Cayman. It has also played a lead role in finalising the new

Memorandum of Understanding between Cayman and the United Kingdom covering the respective roles and responsibilities of a Category 1 British Red Ensign Registry.

Quality Management Systems

In December 2013, MACI's Head and ERO offices successfully underwent the recertification audits by the British Standards Institution. No non-conformities or other adverse observations were raised in a wholly positive audit report. Furthermore, a new ISO Management Representative was appointed in the Head office and received the relevant training in September 2013.

MACI remains the only Cayman Islands Government entity (including statutory authorities and government-owned companies) to hold an internationally accredited approval to the ISO 9001:2008 quality management standard.

Casualty Investigation

During the fiscal year 2013/14, it was agreed to set up a Casualty Investigation Fund. This fund is now up and running and is funded by a small annual subscription paid for by each vessel. It is intended that this fund will offset the financial risk to the Cayman Islands Government in having to conduct a major and expensive casualty investigation.

As part of the Law revision, the Casualty Investigation section of the MSL is being reviewed and Accident Investigation regulations have been drafted. These will be completed and submitted to the Cayman Islands Government Cabinet by early 2015. Final work is being undertaken for the creation of a Marine Accident Investigation Authority (MAIA) and it is anticipated that an appointment will be made to the MAIA by the end of 2014. This appointment will be initially on a non-statutory basis. The appointment will be enshrined in the revised Merchant Shipping Law.

Casualty Investigation regulations have also been developed to give effect to the mandatory Casualty Investigation Code. These regulations will be passed to Cabinet as part of the revised Merchant Shipping Law package in early 2015.

MACI CONSULTING

In addition to the regulatory and compliance services offered by the Authority, MACI also offers consultation services through MACI Consulting, which is functionally independent of all statutory and regulatory services offered through the Global Safety and Compliance division.

This arm of the organisation strives to provide cost-effective consulting services on a variety of maritime issues, including advice on the administrative structure and technical requirements of establishing an effective maritime administration related to a country's levels and type of shipping activity; advice on the financial implications of establishing, operating and maintaining a maritime administration; the impact of regulating a significant flag fleet; and the assessment of needs regarding the legal and regulatory regime necessary for a maritime administration to fulfil its obligations, plus the drafting of specific legislation.

This branch of MACI also advises on the organisation of conferences geared toward maritime issues and the staging of conferences, seminars and workshops in specialised maritime subjects, and also the preparation and/or delivery of training in the maritime sector, including Port State Control, International Ship and Port Facility Security Code, International Safety Management, commercial yacht safety and other specialised areas.

During the current reporting period, MACI Consulting engaged with Lloyd's Register in a training program focusing on the design construction and operation of passenger yachts built to the Passenger Yacht Code. Courses are due to be delivered to the industry at the end of 2014 and early 2015.



**Maritime Authority of the
Cayman Islands
Financial Statements
For the year ended June 30, 2014**



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AUDITOR GENERAL'S REPORT

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

I have audited the accompanying financial statements of Maritime Authority of the Cayman Islands (the "Authority"), which comprise the statement of financial position as at 30 June 2014 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 8 to 25 in accordance with the provisions of Section 60(1)(a) of the *Public Management and Finance Law (2013 Revision)*.

Management's Responsibilities for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Maritime Authority of the Cayman Islands as at 30 June 2014 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

Contingent Liability

Without qualifying my opinion I draw attention to a possible contingent liability involving the Authority's operations in the United Kingdom(UK).

There is uncertainty as to whether the Authority's UK office (Cayman Islands Shipping Registry) could be called upon by Her Majesty's Revenue and Customs (HMRC) to pay either corporation tax on surpluses generated and / or value added tax on services supplied. This is based on a UK law passed in 2005 requiring all foreign Governments with revenue generating enterprises operating in the UK to pay corporation tax.

If enforced, the Authority could be liable for significant corporation taxes on its UK operations. We included this information in our report because we believe that it is critical for users in understanding any significant issues that may impact the true financial position of the Authority.

There has been no formal discussions with the HRMC to date on this matter.



Alastair Swarbrick, MA (Hons), CPFA
Auditor General

31 October 2014
Cayman Islands



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

Year Ended 30 June 2014

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STATEMENT OF RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

These financial statements have been prepared by the Maritime Authority of the Cayman Islands in accordance with the provisions of the Public Management and Finance law (2013 Revision) and International Financial Reporting Standards.

We accept responsibility for the accuracy and integrity of the financial information in these financial statements and their compliance with the Public Management and Finance Law (2013 Revision).

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

- (a) completely and reliably reflect the financial transactions of Maritime Authority of the Cayman Islands for the year ended June 30, 2014;
- (b) fairly reflect the financial position as at June 30, 2014 and performance for the year ended June 30, 2014;
- (c) comply with the provisions of the Public Management and Finance law (2013 Revision) and International Financial Reporting Standards.

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

A handwritten signature in blue ink, appearing to read "P. Barnes", is written over a horizontal line.

Philip Barnes
Chairperson
Maritime Authority of the
Cayman Islands

A handwritten signature in blue ink, appearing to read "A. Walton", is written over a horizontal line.

A. Joel Walton
Chief Executive Officer
Maritime Authority of the
Cayman Islands



MARITIME AUTHORITY OF THE CAYMAN ISLANDS
STATEMENT OF FINANCIAL POSITION

As at June 30 2014

(Expressed in Cayman Islands Dollars)

| | | <i>June 30, 2014</i> | <i>June 30, 2013</i> |
|---|--------------|-------------------------|-------------------------|
| | <i>Notes</i> | | |
| Assets | | | |
| Current Assets | | | |
| Cash & Cash Equivalents | 5 | 2,172,356 | 944,649 |
| Trade and Other Receivables (net) | 6 | 2,018,750 | 2,353,552 |
| Other Receivables (Cabinet) - Due from Parent | 7 | 74,064 | 25,951 |
| Total Current Assets | | <u>4,265,170</u> | <u>3,324,152</u> |
| Property, Plant & Equipment | 8 | 190,013 | 259,769 |
| Total Assets | | <u><u>4,455,183</u></u> | <u><u>3,583,921</u></u> |
| Equity and Liabilities | | | |
| Current Liabilities | | | |
| Accounts Payable | 9 | 387,968 | 393,333 |
| Revenue Deposits | 10 | 198,639 | 278,423 |
| Employee Entitlements | 11 | 57,383 | 57,589 |
| Other Current Liabilities | 24 | 0 | 128,021 |
| Casualty Investigation Fund | 26 | 52,967 | 0 |
| Total Current Liabilities | | <u>696,957</u> | <u>857,366</u> |
| Other Long Term Liabilities | 12/23 | 746,000 | 497,000 |
| Total Liabilities | | <u><u>1,442,957</u></u> | <u><u>1,354,366</u></u> |
| Equity | | | |
| Contributed Capital | 13 | 1,500,000 | 1,500,000 |
| Retained Earnings | | <u>1,512,226</u> | <u>729,555</u> |
| Total Equity | | <u><u>3,012,226</u></u> | <u><u>2,229,555</u></u> |
| Total Equity and Liabilities | | <u><u>4,455,183</u></u> | <u><u>3,583,921</u></u> |

Approved on Behalf of the Board of Directors on October 22, 2014

Chairperson
Philip Barnes

Chief Executive Officer
A. Joel Walton

The accompanying notes on pages 8 – 25 form an integral part of these financial statements.



MARITIME AUTHORITY OF THE CAYMAN ISLANDS
STATEMENT OF COMPREHENSIVE INCOME
For the year ended June 30 2014
 (Expressed in Cayman Islands Dollars)

| | | June 30, 2014 | June 30, 2013 | |
|---|--------------|------------------|------------------|-----------------------|
| | Notes | | | |
| Revenue | | | | |
| Sales of Goods and Services | 14 | 7,026,756 | 6,422,803 | |
| Tonnage Revenue | 16 | 1,302,529 | 1,205,649 | |
| Other Income | 17 | 844,318 | 837,197 | |
| Revenue from Government | 15 | 432,270 | 394,028 | |
| Total Revenue | | 9,605,873 | 8,859,677 | |
| Expenses | | | | |
| Personnel Cost | 18 | 4,165,612 | 4,271,242 | Reclassified (4m iii) |
| Professional Services | 19 | 1,685,501 | 1,520,475 | |
| Other Expenses | 20 | 1,004,983 | 1,046,888 | |
| Travel, Business Development and Entertainment | 22 | 587,171 | 636,165 | |
| Survey Related Expense | 14 | 553,407 | 562,521 | |
| Operating Lease and Utilities | 21 | 522,401 | 949,217 | |
| Depreciation | 8 | 162,127 | 159,886 | |
| Total Expenses | | 8,681,202 | 9,146,394 | |
| Profit/(Loss) | | 924,671 | (286,717) | Reclassified (4m iii) |
| Other Comprehensive Loss | | | | |
| Items that will not be classified to profit or loss: | | | | |
| Re-measurements of Defined Benefit Pension Scheme | 12/23 | (142,000) | (91,000) | Reclassified (4m iii) |
| Total Comprehensive Income/(Loss) | | 782,671 | (377,717) | |

The accompanying notes on pages 8 – 25 form an integral part of these financial statements.



MARITIME AUTHORITY OF THE CAYMAN ISLANDS
STATEMENT OF CHANGES IN EQUITY
For the year ended June 30 2014
 (Expressed in Cayman Islands Dollars)

| | Retained Earnings | Contributed Capital | Total | |
|--------------------------------|-------------------|------------------------|------------------|-----------------------|
| | Notes | | | |
| Balance at June 30 2012 | 1,107,272 | 1,500,000 | 2,607,272 | |
| Net Loss for 12/13 | (286,717) | - | (286,717) | Reclassified (4m iii) |
| Other Comprehensive Loss | (91,000) | - | (91,000) | Reclassified (4m iii) |
| Balance at June 30 2013 | 729,555 | 1,500,000 | 2,229,555 | |
| Profit for 13/14 | 924,671 | - | 924,671 | |
| Other Comprehensive Loss | (142,000) | - | (142,000) | |
| Balance at June 30 2014 | 1,512,226 | 1,500,000 | 3,012,226 | |

The accompanying notes on pages 8 – 25 form an integral part of these financial statements.



MARITIME AUTHORITY OF THE CAYMAN ISLANDS
STATEMENT OF CASH FLOWS
For the year ended June 30 2014
(Expressed in Cayman Islands Dollars)

| | June 30, 2014 | June 30, 2013 | |
|---|----------------------|----------------------|-----------------------|
| <i>Notes</i> | | | |
| Cash Flows Used From Operating Activities | | | |
| Net Profit/(Net Loss) | 924,671 | (286,717) | Reclassified (4m iii) |
| Actuarial Re-Measurements | (142,000) | (91,000) | Reclassified (4m iii) |
| Adjustments for: | | | |
| Depreciation | 162,127 | 159,886 | |
| Loss/(Gain) on Assets | 5,211 | (12,857) | |
| Decrease/(Increase) in Receivables | 286,689 | (13,631) | |
| (Decrease)/Increase in Payables | (5,365) | 86,518 | |
| (Decrease) in Revenue Deposits | (79,784) | (19,075) | |
| (Decrease)/Increase in Employee Entitlements | (206) | 9,564 | |
| (Decrease)/Increase in Other Liabilities | (128,021) | 59,346 | Reclassified (4m iii) |
| Increase in Casualty Investigation Fund | 52,967 | - | |
| Increase in Long Term Liabilities | 249,000 | 184,000 | Reclassified (4m iii) |
| Net cash from operating activities | 1,325,289 | 76,034 | |
| Cash Flows Used In Investing Activities | | | |
| Acquisition of Fixed Assets | 8 (101,582) | (60,152) | |
| Sale Proceeds of Fixed Assets | 4,000 | 27,955 | |
| Net cash used in investing activities | (97,582) | (32,197) | |
| Net increase in Cash and Cash Equivalents | 1,227,707 | 43,837 | |
| Cash and cash equivalents at beginning of period | 944,649 | 900,812 | |
| Exchange gains on cash and cash equivalents | | | |
| Cash and cash equivalents at end of period | 2,172,356 | 944,649 | 5 |

The accompanying notes on pages 8 – 25 form an integral part of these financial statements.

MARITIME AUTHORITY OF THE CAYMAN ISLANDS
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30 2014
(Expressed in Cayman Islands Dollars)

1. Organization and Objectives

Maritime Authority of the Cayman Islands ("MACI", "Authority") is a statutory corporation formed as a separate legal entity under the Maritime Authority of the Cayman Islands Law (2005) which came into effect on July 1, 2005. The Authority is wholly-owned by the Cayman Islands Government (CIG) but governed by a Board of Directors appointed by the Governor-in-Cabinet. MACI reports to the Cabinet of the Cayman Islands through the Ministry of Financial Services, Commerce and Environment but is also responsible to the United Kingdom (UK) Secretary of State via the UK's Department of Transport for the effective implementation of the relevant international maritime and related conventions that have been ratified by the UK Government and extended to the Cayman Islands.

The original Cayman Islands Shipping Registry (CISR) maritime administration structure, which is the main forerunner to MACI, was first set-up in 1903 when George Town was established as a British Port of Registry. The CISR obtained British Registry Category 1 Status on July 25, 1991. The Category 1 Group of British Registries includes the UK, Bermuda, Cayman, Gibraltar, Isle of Man, and the British Virgin Islands. The CISR is now a division of MACI. However, there are a number of other critical responsibilities that have been added to the new Authority. The Authority therefore combines into one body:

1. The CISR's vessel and mortgage registration, advisory, and marine survey and audit services;
2. The overall responsibility for implementing Cayman's maritime safety and security, marine pollution prevention and social responsibility obligations under international Conventions and Codes, and under the Cayman legislation for Cayman-flagged vessels;
3. The CIG delegated responsibility for the implementation of Cayman's obligations under the Caribbean Memorandum of Understanding on Port State Control (CMOU PSC) for foreign-flagged vessels entering Cayman ports;
4. The CIG delegated responsibility for marine Casualty Investigation activities in relation to Cayman-flagged vessels;
5. The CIG delegated responsibility for national maritime policy formulation, the provision of advice on maritime-related matters, and the development of Cayman's maritime-related legislation;
6. The CIG delegated responsibility to represent the Cayman Islands at international fora and to protect its maritime interests;
7. The CIG delegated responsibility to help facilitate the development of the Cayman Islands as an international maritime centre.

2. Basis of preparation

The financial statements of MACI are prepared in accordance with International Financial Reporting Standards (IFRS) using the accrual basis of accounting. These standards are issued by the International Accounting Standards Board (IASB) and interpretations issued by the Standing and Interpretations Committee of the International Accounting Standards Committee. The reporting currency is Cayman Islands Dollars and figures presented have not been rounded.

MARITIME AUTHORITY OF THE CAYMAN ISLANDS
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30 2014
(Expressed in Cayman Islands Dollars)

2. Basis of preparation (Continued)

Comparative Information – The Financials for MACI provide comparable information for year on year performance for June 30 2013.

3. Reporting Period

The reporting period is for the year ended June 30, 2014.

4. Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a) Financial Assets and Liabilities

i) Classification

A financial asset is classified as any asset that is cash, a contractual right to receive cash or another financial asset, exchange financial instruments under conditions that are potentially favourable or an equity instrument of another enterprise. Financial assets in the Authority's financial statements comprise of cash and cash equivalents, accounts receivable and short term investments.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial instrument or to exchange financial instruments with another enterprise under conditions that are potentially favourable. Financial liabilities in the Authority's financial statements comprise long and short term liabilities.

ii) Recognition

The Authority recognises financial assets and financial liabilities on the date it becomes party to the contractual provisions of an instrument. From this date, any gains and losses arising from changes in fair value of the assets and liabilities are recognised in the statement of Comprehensive Income.

MARITIME AUTHORITY OF THE CAYMAN ISLANDS
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30 2014
(Expressed in Cayman Islands Dollars)

4. Significant Accounting Policies (Continued)

iii) *De-recognition*

A financial asset is de-recognised when the Authority realizes the rights to the benefits specified in the contract or loses control over any right that compromise that asset. A financial liability is de-recognised when it is extinguished, that is, when the obligation is discharged, cancelled or expires.

iv) *Measurement*

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

Financial liabilities are subsequently measured at amortized cost, being the amount at which the liability was initially recognised less any principal repayments plus any amortisation (accrued interest) of the difference between that initial amount and the maturity amount.

b) Foreign Currency Translation

Foreign currency transactions are recorded at the exchange rates prevailing on the date of the transaction. Gains and losses resulting from the settlement of such transaction and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of Comprehensive Income. Assets and liabilities are translated at the exchange rate in effect at the Statement of Financial Position date.

c) Revenue Recognition

Revenue from the sale of goods and services, including revenue resulting from user charges or fees, is recognised when it is earned. This is generally at time of sale or on delivery of service. Revenue from the rendering of a service is recognised by reference to the stage of completion of contracts or in accordance with agreements to provide services. The stage of completion is determined according to the proportion that costs incurred to date bear to the estimated total costs of the transaction.

d) Purchase Agreement

MACI operates on a fee for service basis with the CIG. The annual purchase agreement sets out the service which the Authority agrees to deliver to CIG based on quantity, quality, location and cost of services. These fees form part of the overall Authority revenue stream which equates to 4.5% in 2014 (4.4% in 2013). The full amount of the purchase agreement is treated as income in the year which it is earned.

e) Expenses

Expenses are recognised when incurred.

f) Receivables and advances

Receivables and advances are recorded at the amounts expected to be ultimately collected in cash.

MARITIME AUTHORITY OF THE CAYMAN ISLANDS
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30 2014
(Expressed in Cayman Islands Dollars)

4. Significant Accounting Policies (Continued)

g) Property, Plant and Equipment

Property, Plant and Equipment are stated at historical cost less accumulated depreciation. Depreciation is calculated on a straight-line method of 20% per annum for Furniture & Fixtures, Leasehold Improvements and Office Equipment; and 33 1/3% for Computer Hardware and Software, which is sufficient to write-off the cost of the assets over their estimated useful lives.

h) Cash and cash equivalents

For the purpose of the Statement of Cash Flows, cash and cash equivalents consist of current and call deposit and fixed deposit maturing within 30 days from the date of acquisition and yield an interest rate of 0.125 per annum. Cash accounts are held in Euro, Great Britain Pounds, United States Dollars and Cayman Islands Dollars.

i) Accounts Payable

Account Payables are recorded on an accrual basis at the amount owing after allowing for credit notes and other adjustments.

j) Employee entitlements

Amounts incurred but not paid at the end of the reporting period are accrued. Annual leave due, but not taken, is recognised as a liability. (See also **Note 11**)

k) Employee benefits

Obligation for contribution to defined contribution and defined benefits pension plans are recognized as an expense in the statement of Comprehensive Income as incurred (See **Note 18**). Defined benefit scheme surpluses and deficits are measured at fair value of plan assets at the reporting date; less plan liabilities calculated using the projected unit credit method discounted to its present value using yields available on high quality corporate bonds that have maturity dates approximating to the terms of the liabilities; plus unrecognised past service cost; less the effect of minimum funding requirements agreed with scheme trustees. Re-measurements of the net defined obligation are recognised directly within equity and include actuarial gains and losses, return on plan assets (interest exclusive) and any asset ceiling effects (interest exclusive). Service cost and net interest expense (income) are recognised in profit or loss.

l) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect:

- Reported amounts of assets and liabilities
- Disclosure of contingent assets and liabilities at the date of financial statements
- The reported amounts of revenue and expenses during the reporting period

Actual results could differ from those estimates, the impact of which would be recorded in future periods.

MARITIME AUTHORITY OF THE CAYMAN ISLANDS
 NOTES TO FINANCIAL STATEMENTS
 For the year ended June 30 2014
 (Expressed in Cayman Islands Dollars)

4. Significant Accounting Policies (Continued)

m) Changes in International Financial Reporting Standards

Standards issued but not yet effective up to the date of issuance of the Authority's financial statements are listed below. This listing of standards and interpretations issued are those that the Authority reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Authority intends to adopt these standards when they become effective.

- i. IAS 19 – Defined Benefit Plans: Employee Contributions (Amendment) (effective for periods beginning on or after July 1, 2014) - IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. IAS 19 requires such contributions that are linked to service to be attributed to periods of service as a negative benefit. The amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service. This amendment is applied retrospectively.
- ii. IFRS 24 – Related Party Disclosures (effective for periods beginning July 1, 2014) – the amendment clarifies that a management entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment is applied retrospectively.
- iii. Change in accounting policy. (ii) **Adoption of IAS 19 (revised 2011)**. The adoption has resulted in changes to:
 - a) The way income and expense is determined and presented in relation to the Authority's defined benefit scheme
 - b) The timing for the recognition of termination benefit liabilities
 - c) The definition of other long-term benefits

All reclassifications noted within the financial statements are based on the change in the standard. The Authority has not restated its prior year pension scheme valuation and retained earnings however as the accounting change and the expected retrospective application is immaterial. Refer to **Note 23** for the summary quantitative effects of the change in accounting policy.

5. Cash and Cash Equivalents

| | <i>June 30, 2014</i> | <i>June 30, 2013</i> |
|--|-------------------------|-----------------------|
| Bank Accounts | 1,921,345 | 693,951 |
| Fixed Deposits | <u>251,011</u> | <u>250,698</u> |
| Total Cash and Cash Equivalents | <u><u>2,172,356</u></u> | <u><u>944,649</u></u> |

In 2014, included in the "Bank Accounts" balance is \$198,639 (2013: \$278,423) of funds held from Customer's Revenue Deposits and \$52,243 of funds relating to the Casualty Investigation Fund (**Note 25**).

The Authority has no specific policy in determining components of cash.

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6. Trade and Other Receivables (net)

| | <i>June 30, 2014</i> | <i>June 30, 2013</i> |
|-----------------------------------|----------------------|----------------------|
| Sales of Goods & Services | 2,010,122 | 2,376,678 |
| Prepayments | 185,239 | 106,316 |
| Other Receivables | 23,389 | 70,558 |
| <i>Total Gross Receivables</i> | <u>2,218,750</u> | <u>2,553,552</u> |
| Less Provision for Doubtful Debts | 200,000 | 200,000 |
| <i>Total Net Receivables</i> | <u>2,018,750</u> | <u>2,353,552</u> |

Ageing Profile of Sales of Goods and Services as at June 30, 2014 and June 30, 2013

| | | |
|--------------|--------------------|--------------------|
| 1-30 Days | \$1,095,800 | \$1,295,426 |
| 31-90 Days | \$355,314 | \$432,999 |
| Over 90 Days | \$559,008 | \$648,253 |
| Total | \$2,010,122 | \$2,376,678 |

7. Other Receivables (Cabinet) – Due from Parent

| | <i>June 30, 2014</i> | <i>June 30, 2013</i> |
|---|----------------------|----------------------|
| Policy Advice to Cabinet | - | - |
| Provision to Technical Advice and Support to Government Agencies, Private Sector and General Public | - | 18,705 |
| Registration of Marine Vessels and Advice, Assistance and Advocacy | 59,975 | 686 |
| State Inspections and Investigations Services | 14,089 | 6,560 |
| <i>Total Other Receivables (Cabinet) - Due From Parent</i> | <u>74,064</u> | <u>25,951</u> |

The impairment assessment is generally performed on an ongoing basis by Management. Once determined, write offs are approved by the CEO or a designate. In 2014 the Authority directly wrote off \$209,448 in receivables.

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8. Property, Plant and Equipment

| | Furniture & Fixture | Leasehold Improvement | Office Equipment | Computer Equipment | Other Assets / Booth Displays | Total |
|------------------------------------|---------------------|-----------------------|------------------|--------------------|-------------------------------|----------------|
| Original Cost | | | | | | |
| Balance at 30/06/13 | 70,212 | 82,906 | 128,912 | 590,102 | 50,002 | 922,134 |
| Additions: | 0 | 0 | 215 | 86,408 | 14,959 | 101,582 |
| Reclassification: | 0 | 0 | 0 | 26,433 | (26,433) | 0 |
| Disposals: | (15,821) | (29,054) | (11,462) | (2,005) | (18,852) | (77,194) |
| Balance at 30/06/14 | 54,391 | 53,852 | 117,665 | 700,938 | 19,676 | 946,522 |
| Accumulated Depreciation | | | | | | |
| Balance at 30/06/13 | 64,755 | 70,357 | 114,055 | 397,643 | 15,555 | 662,365 |
| Additions: | 2,288 | 10,665 | 5,935 | 138,353 | 4,886 | 162,127 |
| Reclassifications: | 0 | 0 | 0 | 0 | 0 | 0 |
| Disposals: | (12,652) | (27,170) | (8,938) | (1,950) | (17,273) | (67,983) |
| Balance at 30/06/14 | 54,391 | 53,852 | 111,052 | 534,046 | 3,168 | 756,509 |
| Net Book Value at 30/06/14: | 0 | 0 | 6,613 | 166,892 | 16,508 | 190,013 |
| Net Book Value at 30/06/13: | 5,457 | 12,549 | 14,857 | 192,459 | 34,447 | 259,769 |

9. Accounts Payable

| | <i>June 30, 2014</i> | <i>June 30, 2013</i> |
|-------------------------------------|----------------------|----------------------|
| Trade Creditors (Less Than 30 Days) | 117,916 | 101,648 |
| Trade Creditors (Over 31 Days) | 200,352 | 125,033 |
| Accruals | 69,700 | 166,652 |
| Total Accounts Payable | <u>387,968</u> | <u>393,333</u> |

10. Revenue Deposits

| | <i>June 30, 2014</i> | <i>June 30, 2013</i> |
|-------------------------------|----------------------|----------------------|
| Revenue Deposits (USD) | 116,978 | 140,919 |
| Revenue Deposits (Euro) | 81,661 | 137,504 |
| Total Revenue Deposits | <u>198,639</u> | <u>278,423</u> |

Revenue deposits represent amounts paid in advance and held in the Authority's bank accounts, by clients for services to be rendered.

MARITIME AUTHORITY OF THE CAYMAN ISLANDS
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11. Employee Entitlements

| | <i>June 30, 2014</i> | <i>June 30, 2013</i> |
|--|----------------------|----------------------|
| Leave Entitlement (Management Committee Members) | 4,465 | 3,703 |
| Leave Entitlement (Managers) | 45,078 | 42,643 |
| Leave Entitlement (Administration) | <u>7,840</u> | <u>11,243</u> |
| Total Employee Entitlements | <u>57,383</u> | <u>57,589</u> |

12. Long Term Liabilities

| | <i>June 30, 2014</i> | <i>June 30, 2013</i> |
|--|-----------------------|-----------------------|
| Defined Benefit Liability (Note 22) | <u>746,000</u> | <u>497,000</u> |
| Total Other Long Term Liabilities | <u>746,000</u> | <u>497,000</u> |

13. Contributed Capital

The authorised capital of MACI is CI\$1,500,000. The Cayman Islands Government is the sole subscriber and has contributed Paid-Up Capital of CI\$1,500,000 as at June 30, 2014. The Cabinet of the Cayman Islands Government has fulfilled its commitment of contributed Capital to MACI of the required CI\$1,500,000, having contribute equal yearly equity injections.

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14. Sales of Goods and Services

| | <i>June 30, 2014</i> | <i>June 30, 2013</i> |
|--|-------------------------|-------------------------|
| Safety Surveyor Fees (a) | 5,423,227 | 4,880,274 |
| Technical Compliance (b) | 762,845 | 741,455 |
| Safety Surveyor Recoverable Fees (a) | 532,844 | 511,855 |
| Vessel Registration (c) | <u>307,840</u> | <u>289,219</u> |
| Total Sales of Goods and Services | <u>7,026,756</u> | <u>6,422,803</u> |

a) Safety Survey and Recoverable Fees

As a Category 1 British Registry, Cayman is authorised to certify all sizes and types of vessels. The survey and audit certification requirements for Cayman-registered ships are based on international conventions which are given effect through Cayman Islands legislation. Additionally, these survey and audit requirements are also guided by policies and procedures agreed among the members of the British Registers.

Safety Survey Recoverable Fees and Expenses are covered in Shipping Notice No. 02/2014 (Rev 1), section 5.1; Where a fee is determined by the amount of work involved, the amount to be charged will be calculated by taking into account the amount of time spent, both in office and out of the office, on the service, or other relevant activity, including where applicable:

- Travelling time between the office and the location of or a localised base for a ship or shore establishment involved
- The cost of return transport between the office and the location of the ship or shore establishment
- The cost of local travel between a localised base and the ship or shore establishment involved
- The cost of accommodation and subsistence for the persons undertaking the work
- Any additional cost incurred in relation to the work involved

b) Technical Compliance

- 1) Services Include Endorsements - Crew members of Cayman-registered vessels may hold any nationality or residency. They must be holders of Certificates of Competency issued by one of the countries recognised by Cayman and for which, where appropriate, it issues Endorsements attesting to the recognition of such certificates.
- 2) Seaman's Discharge Book – A Seaman Discharge Book (SDB) is a seafarer's official record of service and current employment status. A bona-fide seafarer on a Cayman-registered vessel, including yachts, is eligible to be issued with a Cayman SDB.
- 3) Minimum Safe Manning – Cayman issues a Minimum Safe Manning Document under provisions of Chapter V (Safety of Navigation) of Safety of Life at Sea (SOLAS) 1974 as amended; to all ships to which Chapter 1 of SOLAS applies and to ensure that all vessels are sufficiently, efficiently and safely manned with properly trained and certified personnel.

c) Vessel Registration

Cayman offers five types of vessel registration (Full, interim, provisional, under construction and demise (bareboat) charter). The Cayman Islands is an efficiently regulated international finance jurisdiction at the leading edge of global best practice. Cayman offers several vessel ownership structures, ranging from individual ownership through to a choice of corporate ownership options.

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15. Revenue from Government

| | <i>June 30, 2014</i> | <i>June 30, 2013</i> |
|---|----------------------|----------------------|
| Policy Advice to Cabinet | 131,625 | 172,735 |
| Provision to Technical Advice and Support to Government Agencies, Private Sector and General Public | - | 18,589 |
| Registration of Marine Vessels and Advice, Assistance and Advocacy | 216,136 | 183,024 |
| State Inspections and Investigations Services | 84,509 | 19,680 |
| Total Revenue from Government | <u>432,270</u> | <u>394,028</u> |

The Authority provides services to the CIG outlined in the annual Purchase Agreement for which CIG has to pay for. During this financial year, the annual purchase agreement was \$308,567 and the Authority provided services for a value of \$432,270. The amount of \$131,625 was written off (from 'Policy Advice to Cabinet' output) for services provided but not covered by the agreement therefore the Authority wasn't paid.

16. Tonnage Revenue

Tonnage Services - The term 'tonnage', or more often 'gross tonnage', in very simple terms relates to the internal volume of the ship and this has no relation to the weight of the ship, as is often confused. Historically, the term tonnage relates to the cargo carrying capability of the ship, and the word originates from the word 'tun' which is a barrel and therefore, a ship tonnage was measured on how many barrels it could carry. In the modern day the calculation of gross tonnage is a very complex process, but the basic philosophy is the same. As a measure of the cargo carrying capacity, it relates directly to the earning capacity of the ship and accordingly port dues are charged according to the tonnage. Based on the same principle, modern ship registers collect an annual (calendar) fee based on the tonnage of the ship.

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17. Other Income

| | <i>June 30, 2014</i> | <i>June 30, 2013</i> |
|---|-----------------------|-----------------------|
| Professional Service Fee | 379,883 | 404,452 |
| Royalties, Settlement and Other Income | 83,254 | 90,108 |
| Communication/Courier Fee | 170,279 | 163,665 |
| Vessel Books and Products | 63,168 | 82,677 |
| Other Fees (Including Refund of Revenues) | (6,252) | (517) |
| (Loss)/Gain on Revaluation/Disposal of Fixed Assets | (5,213) | 12,857 |
| Gain/(Loss) on Foreign Exchange Transaction | <u>159,199</u> | <u>83,955</u> |
| Total Other Income | <u><u>844,318</u></u> | <u><u>837,197</u></u> |

"Royalties, Settlement and Other Income"- This includes an agreed sum as stated in the settlement agreement reached in August 2011 between MACI and their Authorized Reseller. The agreement also provides for an ongoing quarterly payment to MACI for all items authorized to be resold.

18. Personnel Cost

| | <i>June 30, 2014</i> | <i>June 30, 2013</i> |
|------------------------------------|-------------------------|-------------------------|
| Salaries and Wages | 3,302,895 | 3,377,955 |
| Other Personnel Cost | 57,786 | 94,267 |
| Pension Expense | 449,104 | 432,211 |
| Health Care Expense | 356,033 | 357,245 |
| Movement in Annual Leave Provision | <u>(206)</u> | <u>9,564</u> |
| Total Personnel Cost | <u><u>4,165,612</u></u> | <u><u>4,271,242</u></u> |

19. Professional Services

| | <i>June 30, 2014</i> | <i>June 30, 2013</i> |
|--|-------------------------|-------------------------|
| Professional Services - Survey Related | 951,460 | 822,570 |
| Professional Services - Registration and Marketing | 590,112 | 568,117 |
| Long Range Identification Tracking | 83,252 | 74,192 |
| Audit Fees | 51,000 | 51,000 |
| Legal Fees | <u>9,677</u> | <u>4,596</u> |
| Total Professional Services | <u><u>1,685,501</u></u> | <u><u>1,520,475</u></u> |

MARITIME AUTHORITY OF THE CAYMAN ISLANDS
NOTES TO FINANCIAL STATEMENTS
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20. Other Expenses

| | <i>June 30, 2014</i> | <i>June 30, 2013</i> |
|-------------------------------------|----------------------|----------------------|
| Debt Write Off | 254,372 | 341,397 |
| General and Administration Services | 347,915 | 291,819 |
| Maintenance | 248,916 | 238,801 |
| Bank Fees | 122,763 | 117,798 |
| Insurance | 31,017 | 57,073 |
| Total Other Expenses | 1,004,983 | 1,046,888 |

21. Lease Obligations

MACI leases the premises used for its operations in George Town and in the United Kingdom for the European Regional Office (ERO). The George Town office relocated to the Government Administration Building, on Elgin Avenue in George Town in February 2013 while continuing paying lease obligations for previous location through October 2013. CIG granted services in kind (free) occupancy from November 2013 to June 2014. The Service Level and Occupancy Agreement dated 9 September 2014 for 5,405 sq. ft. at \$56.57 per sq. ft. The lease is year to year with an annual renewal.

The Lease agreement for the ERO (Southampton) was dated 6 September 2002 for the total office space of 2,578 sq ft at £17.49 per sq ft. The lease is for 15 years with an option to renew. Lease payments under the operating leases are charged to the income statement in equal instalments over the period of the lease as follows:

| | European Regional Office | George Town Office |
|----------------------------------|--------------------------|--------------------|
| Lease Obligation for 1 year | CI\$65,379 | CI\$305,764 |
| Lease Obligation for 2-5 years | CI\$141,655 | CI\$ - |
| Lease Obligation for 6 -11 years | CI\$ - | CI\$ - |

22. Travel, Business Development and Entertainment

In order to maintain and promote the flags services amongst our competitors, MACI participates in various business development industry events. Including exhibits at major shipping shows/conferences and participates in various forums. In the global maritime industry, to maintain good client relations, various follow up and site meetings are required. All official travel and entertainment are fully paid from MACI's revenues. MACI does partner with key sponsors to co-share exhibits per possible.

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23. Pension Obligation

Pension contributions are paid for eligible employees of MACI to either the Public Service Pensions Fund (the "Fund") or the Chamber of Commerce Silver Thatch Pension Fund ("Silver Thatch"). The Fund is administered by the Public Service Pension Board (the "Pensions Board") and is operated as a multi-employer contributory fund. 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, with participants joining after 1 January 2000 becoming members of the defined contribution element only. MACI therefore funds 6% employee and 6% employers' contributions for all employees joining MACI prior to 1 January 2006. For employees joining after 1 January 2006, the contribution rate in effect is 5% employer's contribution and the employees are required to contribute 5% if enrolled with the Silver Thatch or 6% to participate in the Public Service Pension Fund. Using the projected Unit Credit method of measuring costs and obligations, the actuarial assessment for the Authority assessed the minimum normal annual contribution to be 13% of pensionable earnings (includes basic salary and allowances) in the actuarial valuation. MACI first became a statutory authority as of July 1, 2005. Accordingly, no IAS19 actuarial reports for prior years have previously been submitted for MACI.

Pensionable service continues from date of hire. The retirement pension computation is generally based on the monthly pensionable earnings at the time of retirement, unless there are transfers from one office to another, in which case the computation may be based on one-third of the aggregate pensionable earnings during the final three years. Eligibility for retirement pension is generally on or after attaining age 50 and completing 10 years of service. An employee who terminates employment can expect to receive a pension commencing at age 60, based on benefits accrued at the time the termination or alternatively to receive the participant contribution account balance. The pension has the same features of commutation, post-retirement death benefit, and post-retirement pension increases as for active employees eligible for retirement benefits.

The Defined Benefit assets as well as the Defined Contribution assets of the Plan are held as a part of the Fund and managed by the PSPB. The assets of two other pension plans are pooled together to constitute the Fund. The assets are notionally allocated to each of the three participating pension plans through an internal accounting mechanism that tracks, for each accounting period, actual cash flows and allocates investment income and expenses in proportion to the opening value of assets allocated. Similar internal accounting is used for developing each participating entity's share of the asset portfolio of the Fund.

To prepare the valuation report, assumptions are used in a forward looking financial and demographic model to present a single scenario from a wide range of possibilities; the results based on that single scenario are included in the valuation. The future is uncertain and the plans' actual experience will differ from those assumptions; these differences may be significant or material because these results are very sensitive to the assumptions made and in some cases, to the interaction between the assumptions.

The schemes are valued by independent Actuaries and there have been no changes to the actuarial methods. No curtailment or settlement occurred during the report period. The latest actuarial valuation was done as at 30 June 2014 which reflected the pension liability actual for 30 June 2013 amount to be \$466,000 for which the Authority had previously recorded a provision of \$497,000 (under the old IAS 19, the final amount would have been \$490,000). To reflect the current valuation, the Authority has recorded the amount of \$249,000 and is reflected in the Statement of Comprehensive Income.

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23. Pension Obligation (Continued)

The reporting currency is Cayman Islands Dollars and figures presented have been rounded by the Actuary.

| Disclosure Information (000's) | June 30 2014 | June 30 2013 |
|---|--------------|--------------|
| Change in defined benefit obligation | | |
| Defined benefit obligation at end of prior year | 1,697 | 1,415 |
| Current Service Cost | 179 | 165 |
| Interest Expense | 88 | 74 |
| Participant contributions | 54 | 54 |
| Re-measurements; Effect of changes in demographic assumptions | - | 108 |
| Re-measurements; Effect of changes in financial assumptions | 327 | 19 |
| Re-measurements; Effect of experience adjustments | (22) | (138) |
| Defined benefit obligation at end of year | 2,323 | 1,697 |
| Change in fair value of plan assets | | |
| Fair value of plan assets at end of prior year | 1,231 | 986 |
| Interest Income | 67 | 54 |
| Employer Contributions | 62 | 62 |
| Participant Contributions | 54 | 54 |
| Return on plan assets (excluding interest expense) | 163 | 75 |
| Fair value of plan assets at end of year | 1,577 | 1,231 |
| Amounts recognized in the statement of financial position | | |
| Defined benefit obligation | 2,323 | 1,697 |
| Fair value of plan assets | 1,577 | 1,231 |
| Funded status | 746 | 466 |
| Effect of asset ceiling/onerous liability | - | - |
| Net liability | 746 | 466 |
| Components of defined benefit cost | | |
| Total Service Cost | 179 | 165 |
| Interest expense on DBO | 88 | 74 |
| Interest (income) on plan assets | (67) | (54) |
| Total net interest cost | 21 | 20 |
| Administrative expense and taxes | - | 5 |
| Defined benefit cost included in P&L | 200 | 190 |
| Re-measurements (recognized in other comprehensive income) | | |
| Effect of changes in demographic assumptions | - | 108 |
| Effect of changes in financial assumptions | 327 | 19 |
| Effect of experience adjustments | (22) | (138) |
| (Return) on plan assets (excluding interest income) | (163) | (80) |
| Total re-measurements included in OCI | 142 | (91) |
| Total defined benefit cost recognized in P&L and OCI | 342 | 99 |

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23. Pension Obligation (Continued)

| Significant actuarial assumptions | June 30 2014 | June 30 2013 |
|---|--|--|
| <i>Weighted-average assumptions to determine benefit obligations</i> | | |
| Discount Rate | 4.50% | 5.20% |
| Rate of salary increase | 3.50% | 3.50% |
| Rate of price inflation | 2.50% | 2.50% |
| Rate of pension increases | 2.50% | 2.50% |
| Post-retirement mortality table | UP-94 projected on a generational basis using Scale BB | UP-94 projected on a generational basis using Scale BB |
| Cost Method | Projected Unit Credit | Projected Unit Credit |
| Asset Valuation Method | Market Value | Market Value |
| <i>Weighted-average assumptions to determine defined benefit cost</i> | | |
| Discount rate | 5.20% | 5.25% |
| Rate of salary increase | 3.50% | 3.50% |
| Rate of price inflation | 2.50% | 2.50% |
| Rate of pension increases | 2.50% | 2.50% |
| Post-retirement mortality table | UP-94 projected on a generational basis using Scale BB | UP-94 projected to 2011 using Scale AA |

| | |
|--|-------|
| Sensitivity analysis | |
| Discount rate – 25 basis points | 2,450 |
| Weighted average duration of defined benefit obligation (in years) | 2,206 |
| Inflation rate – 25 basis points | 2,209 |
| Inflation rate + 25 basis points | 2,445 |
| Mortality – 10% of current rates | 2,362 |
| Mortality + 10% of current rates | 2,387 |
| Expected cash flows for following year | |
| Expected employer contributions | 64 |
| Defined benefit obligation by participant status | |
| Actives | 2,276 |
| Vested deferreds | 47 |
| Retires | - |
| | 2,323 |

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23. Pension Obligation (Continued)

The valuations are based on the draft financial statements as of 30 June, 2013 as well as asset value as 30 June, 2014 provided by PSBP (without further audit), along with cash flow and other supplemental asset information. These assets are held in trust by CIBC Mellon. The Fund currently has investment policy with a target asset mix of 80% equities and 20% bonds. As 30 June 2014, the Funds were invested as follows:

| Plan Assets By Asset Category | Amount (000's) | Percentage |
|-------------------------------|------------------|-------------|
| Global equity securities | \$381,162 | 79% |
| Debt securities | \$95,602 | 20% |
| Real estate/infrastructure | \$0 | |
| Cash | \$6,871 | 1% |
| Total | \$483,635 | 100% |

Actuarial assumptions were used which were approved by the Financial Secretary, the main sponsor of the Plan. The assumptions as at the reporting date are used to determine the present value of the benefit obligation at that date and the pension expense for the following year.

| | |
|---|---|
| Discount Rate | 5.25% per year for 30 June 2012 funded status and fiscal 2013 and 2014 expense |
| | 5.20% per year for 30 June 2013 funded status and fiscal 2014 expense determination |
| | 4.5% per year for 30 June 2014 funded status and fiscal 2015 expense determination |
| Increases in pensionable earnings | 3.5% per year |
| Expected long-term rate of return on assets (net of expenses) for purposes of IFRIC 14 only | 7.00% per year |

24. Related Party Transactions

The Board of Directors of MACI is appointed by the Governor and consists of the Chief Executive Officer, Secretary to the Board as ex-officio members and seven directors as at June 30 2014. The fees of \$10,625 (2013: \$8,000) relates to payments made to the seven directors and Secretary to the Board only.

For the purpose of IAS 24 disclosure, the following are significant related party transactions:

- i. An employee of MACI is a close family member to a Director of MACI's Board. This employee has been employed by MACI for a number of years, whereas the Director's appointment was more recent. The employee earns an approved MACI annual salary and has no decision making authority
- ii. One of the Directors was recently appointed as a Director of the Public Service Pension Board
- iii. One of the Directors (non-remunerated) is a related party to one of the Authority's vendors which provides legal services (\$9,487)
- iv. Apart from the disclosed information, there are no other significant related party transactions

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24. Related Party Transactions (Continued)

For the purpose of IAS 24 disclosure, the CEO is included in the number and cost of the Executive Management Team. The total number of personnel of the Executive Management Team was 3 in 2014 (2013: 3) and salaries and other short term benefits expensed were \$485,682 (2013: \$476,030) and long term benefits obligation were \$896,395.

The following Government department/entities provided services to MACI during 2014 with amounts being expensed:

- i. Treasury Department (\$108,542); at June 30th, 2014 \$3,080 was included in the Accounts Payable amount
- ii. Computer Services Department (\$168,182); at June 30th, 2014 \$150,692 was included in the Accounts Payable amount
- iii. Immigration Department (\$26,450)
- iv. Cayman Islands London Office (\$48,350)
- v. Public Service Pension Board (\$196,274)

MACI is responsible for the registration of vessels and the collection of the related fees which are paid over to the CIG. For the 2014, \$161,710 represented the value of services provided and of that amount; \$0.00 was unpaid at June 30th, 2014. MACI operates on a purchase agreement for outputs delivered to Government (see **note 15**). MACI bills Cabinet on a monthly basis to help cover its recurrent expenditure for these outputs.

25. Financial Instruments

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. Credit risk with respect to accounts and interest receivable, and other receivables and prepayments is limited because the Authority only transacts business with clients it believes to be reputable and capable of performing their contractual obligations. Accordingly, the Authority has no significant concentrations of credit risk.

b) Fair Value

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 fair value of other assets and liabilities are not materially different from the carrying amounts.

c) Foreign Currency Risk

The Authority received revenue in Euro, Great Britain Pounds (GBP), United States Dollars (US\$) and Cayman Islands Dollars (CI\$). Expenses are also paid in GBP, USD and CI\$. Since the exchange rates are variable between the reporting currency CI\$, the Euro, and the GBP, the Authority is exposed to foreign currency risk.

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26. Casualty Investigation Fund

The Cayman Islands Government/MACI is party to the SOLAS Convention and is obliged to investigate certain marine casualties and publish the report of the findings. The investigations are required by IMO's mandatory "Casualty Investigation Code" (MSC.255(84)).

During the 2013/14 financial year MACI created a sinking fund with the funds from the sinking fund to be designated for carrying out casualty investigation on board of Cayman registered vessels. The fund currently has a balance of \$52,967, of which \$52,243 (difference of \$724 to be paid over to the fund in July 2014) form part of MACI's cash balance of \$2,172,356.

27. Subsequent Events

Five of the Board Directors term expire on August 31st, 2014 and Cabinet paper submitted to the Ministry recommending their re-appointment.

The Board of Directors of the Authority have approved to implement a 2-3% increase in rates. This came into effect on 1 July 2014 per Shipping Notice No 02/2014 dated 6 April 2014.

The Merchant Shipping (Amendment) Law, 2014 (Law 17 of 2014); A law to amend section 162 of the Merchant Shipping Law (2011 revision) to make ship registration fees payable to the Maritime Authority rather than to the Treasury; and to make provisions for incidental and connected matters. This amendment was passed on 11 September 2014.