

Public Service Pensions Board

Financial Statements

June 30, 2009

PUBLIC SERVICE PENSIONS BOARD

FINANCIAL STATEMENTS

JUNE 30, 2009

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**Public Service Pensions Board
Financial Statements
30 June 2009**

STATEMENT OF RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

These financial statements have been prepared by the Public Service Pensions Board in accordance with the provisions of the *Public Management and Finance Law (2005 Revision)*.

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 (2005 Revision)*.

As Chairman and Managing Director, we are responsible for establishing; and have established and maintain a system of internal controls designed to provide reasonable assurance that the transactions recorded in the financial statements are authorised by law, and properly record the financial transactions of the Public Service Pensions Board.

As Chairman and Managing Director we are responsible for the preparation of the Public Service Pensions Board financial statements and for the judgements made in them.

The financial statements fairly present the statement of net assets available for benefits, statement of changes in net assets available for benefits and statement of cash flows for the financial year ended 30 June 2009.

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

- (a) are completely and reliably reflect the financial transactions of Public Service Pensions Board for the year ended 30 June 2009;
- (b) fairly reflect the financial position as at 30th June 2009 and performance for the year ended 30th June 2009;
- (c) comply with International Financial Reporting Standards under the responsibility of the International Accounting Standards Board.

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.

Kenneth Jefferson, JP
Chairman
Public Service Pensions Board

Date- 24 May 2011

Jewel Evans Lindsey
Managing Director
Public Service Pensions Board

Date- 24 May 2011

Auditor General's Report

To the Board of Directors of the Public Service Pensions Board

I have audited the accompanying financial statements of the Public Service Pensions Board (the "Board") which comprise the Statement of Net Assets Available for Benefits as at 30 June 2009, Statement of Changes in Net Assets Available for Benefits and the Statement of Cash Flows for the year then ended, a Statement of Accumulated Plan Benefits as at 30 June 2009 and a summary of significant accounting policies and other explanatory notes as set out on pages 5 to 26 in accordance with the provisions of Section 11(3) of the *Public Service Pensions Law (2004 Revision)* and Section 52 (3) of the *Public Management and Finance Law (2005 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 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 upon 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 we have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Public Service Pensions Board as at 30 June 2009 and the results of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Matters of Emphasis

Without qualifying my opinion, I draw attention your attention to the following:

1. The *Public Service Pensions Law (2004 Revision)*, *Parliamentary Pensions Law, 2004* and *The Judges' Emoluments and Allowances Order, 2005* separately state that

"...the Board shall prepare and submit to the Auditor General in respect of that year a balance sheet and a statement of revenue and expenditure by the Board during the year; and such other financial statements as may be required..."

The Public Service Pensions Board pooled the Funds of each of the Plans into one set of financial statements, and did not identify or disclose the investments and administrative expenses for each Fund.

The management of the Public Service Pensions Board stated: *"the Passage of the Parliamentary Pensions Law in 2004 created the unintended effect of requiring the Board to prepare and maintain a distinct and separate set of financials for the Parliamentary Pensions Fund."*

I believe that the intent of these laws was to have separate reporting of financial information for each Fund. Section 9 (3) of the *Parliamentary Pensions Law, 2004* and *The Judges' Emoluments and Allowances Order, 2005* and Section 11(3) of the *Public Service Pensions Law (2004 Revision)*, clearly details the Auditor General's requirements in relation to each Fund specifically. These responsibilities imply that my Office is required to give an opinion on separate sets of financial statements that disclose separately the assets, liabilities and operations of each fund.

2. The preparation of these financial statements did not comply with the requirements of the *Public Management and Finance Law (2005 Revision)* under the following sections:

Section 4: the financial statements are to be prepared in accordance with International Public Sector Accounting Standards. The Public Service Pensions Board presented the financial statements in accordance with International Financial Reporting Standards and were audited to those Standards. In our opinion, we do not believe there would be a material difference in the presentation and accounting of the financial transactions of the Public Service Pensions Board.

Section 52: annual financial statements are to be prepared, submitted to the Auditor General for auditing, and included in an annual report that is required to be presented to the Legislative Assembly four months and two weeks after the end of the financial

year. In this case, the Public Service Pensions Board did not submit its information in the timeframe required, to be in compliance with the Law.

3. The 2008 Actuarial Valuation Report which was completed on March 2009 and submitted to the Financial Secretary on April 2009 has not been accepted and approved as at the date of this report. This contravenes *Section 3 of Public Service Pensions (Amendment) Law, 2004* which states that:

“After receiving a report under subsection (3) the Financial Secretary shall submit the report to the Governor and the Governor, shall either accept the report and approve, by regulations, the changes to the contribution rates recommended by the Board; or within 90 days of receiving the report, cause its own actuarial valuation to be carried out if it determines that there is good reason to do so.”

4. According to International Accounting Standard (IAS) 19, the Board should disclose the portion of assets or liabilities held for each ministry/ portfolio, statutory authority and government company participating in the plan. The Board’s accounting system cannot provide this information.




Alastair J. Swarbrick, MA (Hons), CPFA
Auditor General

Cayman Islands
24 May 2011

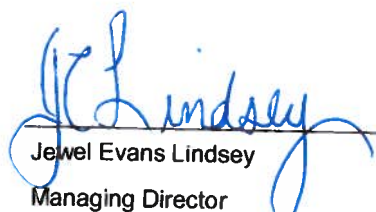
Public Service Pensions Board
Statement of Net Assets Available for Benefits
As at 30 June 2009
(Expressed in Cayman Islands Dollars)

	2009		2008	
	\$ 000		\$ 000	
ASSETS				
Current Assets				
Cash and Cash Equivalents (Note 3)				
Cash	1,388		4,949	
Term Deposits	5,888	7,276	2,506	7,455
		<u> </u>	<u> </u>	
Investments, at Fair Market Value (Note 4)		237,691		228,376
Receivables				
Contributions Receivable				
Employer's contributions	2,202		2,976	
Employer's - Additional Defined Benefit Costs	3,786		1,891	
Employee's contributions	451		1,210	
Pension Grants receivable				
Parliamentarian Grants Receivable (Note 7)	(131)		2,849	
Judiciary Grant Receivable (Note 9)	62		66	
Ex-gratia Grants Receivable (Note 7)	(272)		(229)	
Operating Grant Receivable	300		150	
Other Receivables	598	6,996	122	9,036
		<u> </u>	<u> </u>	
Prepayments				
PSP Fund Surplus	81		81	
Prepaid Expenses	-	81	24	105
		<u> </u>	<u> </u>	
Non-Current Assets				
Fixed Assets, Net (Note 5)		315		308
		<u> </u>		<u> </u>
Total Assets		<u>252,359</u>		<u>245,280</u>
LIABILITIES				
Current Liabilities				
Investment Management Fees	15		-	
Accounts Payable	514		331	
Overpaid Contributions (Note 6)	1,745		1,765	
Benefits Due (Note 13)	438	2,712	438	2,534
		<u> </u>	<u> </u>	
Non-Current Liabilities				
Due in Respect of Judiciary Contributions (Note 9)	1,689		1,689	
Capitalized Government Grant (Note 11)	-	1,689	62	1,750
		<u> </u>	<u> </u>	
Total Liabilities		<u>4,401</u>		<u>4,285</u>
Net Assets		<u><u>247,958</u></u>		<u><u>240,995</u></u>
Represented by				
Net Assets Available for Benefits:				
Accumulated Fund		<u><u>247,958</u></u>		<u><u>240,995</u></u>

Signed on behalf of the Public Service Pensions Board on 24 May 2011.



 Kenneth Jefferson, JP
 Chairman



 Jewel Evans Lindsey
 Managing Director

Public Service Pensions Board
Statement of Changes in Net Assets Available for Benefits
For the Year Ended 30 June 2009
(Expressed in Cayman Islands Dollars)

	2009	2008
	\$ 000	\$ 000
Pensions		
Contributions		
Employers	13,509	12,460
Employers' - Additional Defined Benefit Cost	16,092	14,643
Employees	13,655	12,450
Total	<u>43,256</u>	<u>39,553</u>
Late payment penalty income	145	21
Pre-Funded Pensions in Payment (Note 7)		
Parliamentarian Pensions	-	-
Judicial	35	50
Ex-Gratia Pensions	447	520
Total Contributions	<u>43,883</u>	<u>40,142</u>
Benefits paid to participants (Note 10)		
Public Service Pensions	(20,234)	(16,752)
Parliamentarian Pensions	(1,076)	(1,027)
Judicial	(43)	(43)
Ex-Gratia Pensions	(283)	(312)
Total Benefits paid to participants	<u>(21,636)</u>	<u>(18,134)</u>
Net Pensions	<u>22,247</u>	<u>22,008</u>
Investing		
Investment Income		
Unrealized (Loss) on Investments	(14,170)	(14,569)
Unrealized (Loss) on Foreign Exchange	110	-
Interest Earned on Investments	(2)	223
Interest Earned on Term Deposits and Call Accounts	115	209
Dividends Earned on Investments	2,251	19
Gain (Loss) on Sale of Investments	390	-
Total Investment Income (Loss)	<u>(11,306)</u>	<u>(14,118)</u>
Investment Expenses		
Investment Management and Custodial Fees (Note 16)	(1,433)	(1,621)
Interest Attributable to Judiciary Contributions (Note 9)	-	(58)
Other Investment Expenses	(107)	-
Total Investment Expenses	<u>(1,539)</u>	<u>(1,679)</u>
Net Investment Income (Loss)	<u>(12,846)</u>	<u>(15,798)</u>
Operating		
Operating Income		
Government Grant (Note 11)	661	649
Gain (Loss) on Sale of Fixed Assets	(108)	-
Other Income	433	89
Total Operating Income	<u>986</u>	<u>737</u>
Operating Expenses		
Administrative Expenses (Note 12)	(3,125)	(2,386)
Depreciation - Fixed Assets (Note 2)	(299)	(116)
Total Operating Expense	<u>(3,424)</u>	<u>(2,502)</u>
Net Operating Loss	<u>(2,438)</u>	<u>(1,764)</u>
Net increase in assets	<u>6,963</u>	<u>4,446</u>
Net Assets Available for benefits at start of year	<u>240,995</u>	<u>236,549</u>
Net Assets Available for benefits at end of year	<u>247,958</u>	<u>240,995</u>

The Notes to the Financial Statements on pages 9 to 26 form an integral part of these financial statements.

Public Service Pensions Board
Statement of Cash Flows
For the Year Ended 30 June 2009
(Expressed in Cayman Islands Dollars)

	2009 \$ 000	2008 \$ 000
Cash flows from operating activities		
Contributions received from employees	14,413	16,111
Contributions received from employers	14,293	9,450
Benefits Paid to Participants - Public Service	(20,234)	(16,608)
Benefits Paid to Participants - Parliamentarian	(1,076)	(1,027)
Benefits Paid to Participants - ExGratia	(284)	(288)
Net Investment Income Received	147	262
Other Income Received	553	691
Administrative Expenses Paid	(2,942)	(2,530)
Investment Management Fees and Other Expenses Paid	(1,161)	(1,736)
Net cash provided by operating activities	<u>3,709</u>	<u>4,326</u>
Cash flows from investing activities		
Purchase of investments	(21,109)	(27,605)
Proceeds from sale and maturity of investments	-	35,392
Purchase of Fixed Assets	(423)	(256)
Net cash applied to investing activities	<u>(21,532)</u>	<u>(27,557)</u>
Cash flows from financing activities		
Contributions received from employers - Additional Defined Benefit	14,176	14,427
Pensions in Payment Grant - Parliamentarian	2,981	-
Ex-gratia Grant and Prepaid Ex-gratia Grant	491	477
Net cash received from financing activities	<u>17,648</u>	<u>14,903</u>
Cash flows from judiciary contributions		
Contributions received from employees	-	-
Contributions received from employer	38	46
Benefits Paid to Participants	(42)	(66)
Interest Attributable to Judiciary Contributions	-	-
Net cash received from judiciary contributions	<u>(4)</u>	<u>(20)</u>
Net increase / (decrease) in cash and cash equivalents	(179)	(8,349)
Cash and cash equivalents at beginning of year (Note 3)	<u>7,455</u>	<u>15,803</u>
Cash and cash equivalents at end of year (Note 3)	<u>7,276</u>	<u>7,455</u>

The Notes to the Financial Statements on pages 9 to 26 form an integral part of these financial statements.

Public Service Pensions Board
Statement of Accumulated Plan Benefits
As at 30 June 2009
(Expressed in Cayman Islands Dollars)

	2009	2008
	\$ 000	\$ 000
Actuarial present value of accumulated plan benefits		
Inactive and Active Participants	(456,329)	(316,931)
Total Actuarial present value of accumulated plan benefits	<u>(456,329)</u>	<u>(316,931)</u>
Fund's Net Assets Available for Benefits at the Valuation Date	<u>247,958</u>	<u>240,995</u>
Fund Deficit	<u>(208,371)</u>	<u>(75,936)</u>

**Public Service Pensions Board
Notes to the Financial Statements
For the Year Ended 30 June 2009
(Expressed in Cayman Islands Dollars)**

1. Introduction and Background Information

a. Introduction

The Public Service Pensions Board (the "Board") was re-established as a Statutory Authority on 14 April 1999. Principal place of business is Smith Road Centre, 154 Smith Road, Grand Cayman, Cayman Islands. The Board's responsibilities include, but are not limited to, administering the Public Service Pensions Plan (the "Plan"), investing all contributions received from public sector employers and employees into the Fund, making pension benefits as required under the Law, communicating with the plan employers and participants, recommending contribution rates to the Government in accordance with the latest actuarial valuation and determining the financial implications of any amendments to the Plan. The Public Service Pensions Law (2004 Revision) (the "Law") is the law governing the Fund. The Board is responsible for, amongst other things, administering the Public Service Pensions, Parliamentary Pensions, Judicial Pensions and Ex-Gratia Pension Plans and investing all contributions received into the Fund.

b. General Background Information

The Public Service Pensions, the Parliamentary Pensions and the Judicial Pensions Plans consist of two parts: a defined benefit part and a defined contribution part. All employees who joined the Plan prior to 14 April 1999 were enrolled in the Defined Benefit Part of the Plan. Those employees joining after 14 April 1999 were enrolled in either one of the two parts depending on their circumstances. The Public Service Pensions (Amendment and Validation) Law, 2000 which was passed on 20 June 2000 amended the date after which all new employees were to be enrolled in the Defined Contribution Part of the Plan to 1 January 2000. Those employees receiving Contracted Officers Supplement (COS) are exempted from participation in the Plan through the Public Service Pensions (Amendment and Validation) Law, 2000. However, when existing contracts are renewed, employees will no longer be in receipt of COS and will be eligible join the defined contribution part of the Plan.

1. Introduction and Background Information (continued)

c. Contributions

Employees who participate in the Plan contribute at the rate of 6% of pensionable earnings and employers contribute a matching 6%. Contribution rates to cover additional defined benefit costs were prescribed by the Board based on the 1 January 2005 and 1 January 2002 actuarial results and were as follows:

	2005		2002	
	Defined Benefit*	Defined Contribution	Defined Benefit*	Defined Contribution
Cayman Islands Government (See note 21)	28.53%	1.00%	10.00%	1.00%
Cayman Islands Monetary Authority	1.00%	1.00%	1.00%	1.00%
Cayman Turtle Farm (1983) Ltd.	9.44%	1.00%	10.00%	1.00%
Civil Aviation Authority	26.10%	1.00%	10.00%	1.00%
University College of the Cayman Islands	3.99%	1.00%	3.99%	1.00%
Public Service Pensions Board	1.00%	1.00%	10.00%	1.00%
Water Authority	9.57%	1.00%	0.26%	1.00%
Cayman Islands Airport Authority	13.14%	1.00%	N/A	1.00%
Health Services Authority	1.00%	1.00%	N/A	1.00%
National Roads Authority	2.24%	1.00%	N/A	1.00%
Cayman Islands Development Bank	17.11%	1.00%	N/A	1.00%
Cays Foundation	12.31%	1.00%	N/A	1.00%
National Housing Development Trust	N/A	1.00%	N/A	1.00%
Information & Communication Technology Authority	N/A	1.00%	N/A	N/A

* The full liability for additional defined benefit costs will be borne by each respective employer.

Contribution rates for the additional defined benefit costs are based on pensionable earnings as of the valuation date and reflect the following:

- i. with respect to the defined contribution participants, the cost of certain benefits provided that are of a defined benefit nature;
- ii. with respect to the defined benefit participants, the excess over 12% of pensionable earnings, of the normal benefit accrual cost plus the annual cost of meeting the unfunded past service liabilities.

Additional employers have joined the Public Service Pensions Plan as a result of the increasing number of Statutory Authorities being established by the Government. It was not possible to determine an appropriate additional defined benefit rate for the newer authorities as they have not been subject to an actuarial valuation.

1. Introduction and Background Information (continued)

An interim rate of 1% was applied to all authorities during 2004 and 2005. New rates will be prescribed based on the 2008 actuarial valuation.

d. Investment Policy

The investment objective of the Board is for the Fund to earn returns that will, in conjunction with the financing plan, result in it becoming fully funded or self-sustaining. The investments are diversified within the constraints of the Law to ensure that risk is not unduly concentrated in any one type of investment or area of currency. The Board has established an Asset Mix Policy in collaboration with its investment managers with a goal to achieve long-term returns 3-4% above inflation. The Asset Mix Policy indicates the policy and permissible ranges for broad classes of investments. In the longer term the investment portfolio will have a bias to equities because these have been shown to provide a greater return when compared to other classes of investments.

2. Significant Accounting Policies

These financial statements are prepared on a going concern basis under the historical cost convention and in accordance with International Financial Reporting Standards and present the aggregate financial position of the Fund as a separate financial reporting entity independent of the plan sponsors and plan participants. They are prepared to assist participants and others in reviewing the activities of the Fund for the fiscal period, but they do not portray the funding requirements of the Plan or the benefits security of individual plan participants. The significant policies adopted by the Board are as follows:

Contributions: Contributions are accounted for on the accrual basis. Actuarial Valuations with an effective date of 1 January 2008 were conducted for three separate Plans; the Public Service Pensions Plan, the Parliamentary Pensions Plan and the Judiciary Pensions Plan. These Actuarial Valuation Reports were completed on 17 March, 2009 and submitted to the Financial Secretary on 28 April 2009. As the Cabinet has not yet accepted and approved the 2008 report and the recommended rate of contributions contained therein, Contributions Received and Contributions Receivable are based on the 2005 Actuarial Valuation which was accepted by the Board, approved by Cabinet, and tabled in the Legislative Assembly on 9 November 2006.

2. Significant Accounting Policies (continued)

Investments: Investments are stated at their fair market value at the date of the Statements of Net Assets Available for Benefits. Realised and unrealised gains and losses are recognised in the Statements of Changes in Net Assets Available for Benefits.

Investment Income: Investment income is accounted for on the accrual basis.

Fixed Assets: Fixed assets are initially recorded at cost. Subsequently amortization is computed per annum on a straight line basis as follows:

Furniture and Fixtures	10%
Computer Equipment and Software	20%
Office Equipment	20%
Vehicle	25%
Leasehold Improvements	16.67 – 33%

Foreign Currency Transactions: Transactions in foreign currencies, other than US Dollars, are translated at the rate of exchange prevailing at the date of the transaction. Transactions in US Dollars are translated at the rate of US\$1.20 = CI\$1.00. Assets and liabilities denominated in foreign currencies are translated at the rate prevailing at the date of the Statement of Net Assets Available for Benefits. Exchange gains and losses are recognised in the Statement of Changes in Net Assets Available for Benefits.

3. Cash and Cash Equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of bank balances and term deposits maturing within one year from the financial statement date.

	<u>30 June 2009</u>	<u>30 June 2008</u>
Cash:	\$ 1,388,119	\$ 4,948,766
Term Deposits:	<u>5,888,333</u>	<u>2,505,822</u>
Total	<u>\$ 7,276,452</u>	<u>\$ 7,454,588</u>

The detail of the term deposits at Cayman National Bank is shown below:

<u>Account Number</u>	<u>Principal</u>	<u>Value Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
TD-023-07804	\$ 5,833,333	April 03/09	July 03/09	1.0625%
TD-013-06149	<u>55,000</u>	June 05/09	December 07/09	0.0625%
Total	<u>\$ 5,888,333</u>			

4. Investments

The appointed Investment Managers manage the Fund's investments under discretionary investment agreements which conform to the list of Approved Investments detailed in the Second Schedule of the Public Service Pensions Law (2004 Revision).

Investment and Market Conditions, per Advisory Capital

The Plan (In General):

The 2nd quarter witnessed the capital markets break from the devastating collapse that began following the failure of Lehman Brothers in September 2008. The Plan experiences an excellent quarter, recording a 15.3% return, bringing the year-to-date returns to a positive 3.2%. In spite of the excellent quarterly performance, the 1-year performance remains negative at 5.7%. The Plan's long-term risk return trade-offs is moderate and well above the norm when measured against a peer universe sample of about 118 pension funds.

Global Equities:

During the last quarter, it became clear that the extreme risk aversion which characterized the last quarter of 2008 was likely over, which allowed equity markets around the world to rise substantially by more than 20.0%. Against this market movement, global equities within the pension plan advanced 18.1% for the quarter. As a result, year-to-date performance is now a positive 5.5%, while the 1-year performance ending June 30, 2009 remains negative at 11.7%

Real Estate Equities:

The fundamentals improved markedly for global real estate over the quarter, producing an impressive 32.5%, being the best returns within the investment mix of the plan and, on a forward-looking basis, reinforcing the underlying value. The strong performance pushed the year-to-date performance into positive territory at 3.1%. However, performance during the one year ending June 30, 2009 remains significantly negative at 33.0%.

Fixed Income:

For the periods ending June 30, 2009, the fixed income segment experienced an excellent quarter generating a 12.0% return, bringing the year-to-date performance to 2.0% and the 1-year performance to 5.1%.

4. Investments (continued)

Total Returns to June 30, 2009
Annualized for periods exceeding 1 year

1 Month	Last 3 Months	Year-to-Date	1 Year	2 Years	3 Years	4 Years	5 years	From Inception
2.5%	15.3%	3.2%	-5.7%	5.6%	1.3%	3.3%	3.6%	2.0%

The investment portfolios are detailed below:

	<u>30 June 2009</u>	<u>30 June 2008</u>
Equities	\$ 109,805,008	\$ 113,031,414
Fixed Income	120,605,384	104,326,898
Real Estate	<u>7,280,275</u>	<u>11,017,597</u>
Total	<u>\$ 237,690,667</u>	<u>\$ 228,375,909</u>

5. Fixed Assets

Fixed assets consist of the following components:

	Furniture & Fixtures	Computer Equipment	Office Equipment	Leasehold Improvements	Computer Software	Vehicles	Total
Cost							
As at 01 July 2008	\$150,543	\$116,282	\$104,784	\$348,155	\$24,848	\$19,900	\$764,512
Purchased in the period	148,918	1,827	2,035	278,909	2,658	-	434,347
Disposals / adjustments	(153,852)	(549)	-	(348,155)	-	-	(502,556)
As at 30 June 2009	<u>\$145,609</u>	<u>\$117,560</u>	<u>\$106,819</u>	<u>\$278,909</u>	<u>\$27,506</u>	<u>\$19,900</u>	<u>\$696,303</u>
Acc Depreciation							
As at 01 July 2008	\$64,569	\$69,605	\$90,642	\$211,715	\$11,634	\$7,960	\$456,125
Provision in the period	34,743	11,836	5,333	223,091	3,851	3,980	282,834
Disposals / adjustments	(84,751)	16,736	2,934	(295,352)	2,942	-	(357,491)
As at 30 June 2009	<u>\$14,561</u>	<u>\$98,177</u>	<u>\$98,909</u>	<u>\$139,454</u>	<u>\$18,427</u>	<u>\$11,940</u>	<u>\$381,468</u>
Net Book Value							
As at 30 June 2009	<u>\$131,048</u>	<u>\$19,383</u>	<u>\$7,910</u>	<u>\$139,455</u>	<u>\$9,079</u>	<u>\$7,960</u>	<u>\$314,835</u>
As at 30 June 2008	<u>\$85,974</u>	<u>\$46,677</u>	<u>\$14,142</u>	<u>\$136,440</u>	<u>\$13,214</u>	<u>\$11,940</u>	<u>\$308,387</u>

6. Overpaid Contributions

Overpaid contributions are contributions, both employee and employer, which are paid over the amount of pension due or on behalf of employees not eligible to participate in the Plan. These overpayments are either netted with receivables or refunded at the request of the employer.

	<u>30 June 2009</u>	<u>30 June 2008</u>
Overpaid Contributions – Employer	\$ 128,916	\$ 139,037
Overpaid Contributions – Employee	157,880	168,001
Overpaid Contributions – Additional Defined Benefit Cost	<u>1,458,346</u>	<u>1,458,346</u>
Total Overpaid Contributions	<u>\$1,745,142</u>	<u>\$1,765,384</u>

7. Ex-Gratia and Parliamentarian/Payments

Ex-Gratia Pensions:

The Board administers the payment of Ex-gratia Pension Plan (“Ex-Gratia”) on behalf of the Cayman Islands Government as set out in The Public Service Pensions (Ex-Gratia Pensions) Regulations, 2004. Eligibility for Ex-Gratia Pension as set out by said law:

- i. Any Caymanian (as defined in the Immigration Law, 2003) who-
- ii. Is sixty years of age or older; or
- iii. Is not sixty years of age but who has been certified by the Chief Medical Officer of the Government as being permanently disabled; and
- iv. Held an office in the Public Service or the Other Public Service for any period of at least four or more years in the aggregate; and
- v. During at least four years (in the aggregate) of his said service, was not entitled to a pension or did not receive a contracted officer’s supplement or similar compensation.

Ex-Gratia Pension Payment Actvitiy 2005-2009

Year	2005	2005-6	2006-7	2007-8	2008-9
Annual Grant	60,650	97,500	422,090	520,000	447,500
Annual Payments	(79,832)	(203,624)	(311,722)	(312,318)	(490,833)
Surplus / (Deficit)	(19,182)	(106,124)	110,368	207,692	(43,333)
Accumulated Surplus/(Deficit)	17,497	(88,627)	21,741	229,433	272,766

7. Ex-Gratia and Parliamentarian/Payments (continued)

Parliamentary Pensions:

The Members of the Legislative Assembly participate in the Parliamentary Pensions Plan as governed by the Parliamentary Pensions Law, 1984 (1995 Revision) (the "Parliamentary Pensions Law"). Members contribute at a rate of 6% of pensionable earnings and employers contribute a matching 6%. An additional contribution as prescribed by the latest Actuarial Valuation, is made by the employer to cover the additional defined benefit cost associated with the plan. All contributions received are pooled for investment purposes with those of the Public Service Pensions Fund. The Board does not charge any fees for acting as administrators of the Parliamentary Pensions Plan

The Parliamentary Pensions Law provides for payment of retirement benefits to eligible members with 2 or more parliamentary terms or for periods equal in aggregate to not less than 6 years. Normal retirement age under the Parliamentary Pensions Law is 55. The maximum amount of pension payable to the Parliamentarians cannot exceed two-thirds of their highest salary earned whilst a member of the Legislative Assembly.

8. Assets Allocated to Parliamentary Pensions Fund

The Board administers the Government sponsored pension plans which consist of the Public Service Pensions Plan, Ex-gratia allowances, and the Parliamentary Pensions Plan. Historically, and in accordance with the establishment of the Fund under the Parliamentary Pensions Law (1995), the financial statements and records of the Fund have been prepared and maintained on a combined or consolidated basis.

Passage of the Parliamentary Pensions Law in 2004 created the unintended effect of requiring the Board to prepare and maintain a distinct and separate set of financial statements for the Parliamentary Pensions Fund. Section 9 of the Parliamentary Pensions Law, 2004 currently states that "the Board shall prepare and maintain financial statements relating to the Parliamentary Pensions Fund. These financial statements shall include a balance sheet, statement of revenue and expenditure, and any other financial statements as may be required."

8. Assets Allocated to Parliamentary Pensions Fund (continued)

The Parliamentary Pensions Fund, since inception, has been pooled for investment purposes with those of the larger Public Service Pensions Fund for greater investment return opportunities and to contain administrative costs, and given the fact that no administration fees were charged to the Parliamentary Pension Fund, it was never necessary to maintain separate financial records for each fund under management. Therefore, at this stage, to prepare and submit a balance sheet and statement of revenue and expenditure specifically for the Parliamentary Pensions Fund would require the PSPB to establish a basis for the split of financial data, and would involve significant allocation estimations for all financial transactions, other than for contributions and benefit payments for Members of the Legislative Assembly. Presentation of such information in a specific financial statement format would imply a greater accuracy than the allocation estimates warrant.

The Board acted as advisor to Government, and was closely involved in the process of drafting the Parliamentary Pensions Law, 2004. To ensure consistency, the language and provisions of the Parliamentary Pensions Law were initially extracted directly from the Public Service Pensions Law. Through an oversight exacerbated by the Board's delays in tabling financial statements, not all administrative aspects of the draft law were fully tested, and inadvertently, the provision requiring a separate set of financial statements was repeated in the Parliamentary Pensions Law. It was not the intention to create unnecessary administrative burden in the compilation of data that provides little or no meaning to the users of the financial information. Accordingly, the Board has chosen to comply with the spirit of the Parliamentary Pensions Law, 2004, and has prepared these financial statements on a combined or consolidated basis in accordance with historical practice. Note 14 to these financial statements outlines the share of assets allocated to each of the Plan Funds, including the Parliamentary Pensions Plan.

9. Judiciary Pension Contributions

The Fund receives contributions on behalf of Judges of the Grand Court. These members contribute at a rate of 10% of pensionable earnings and employers were to contribute an additional 31% effective 1 January 2000 through to 1 January 2005. An actuarial valuation as at 1 January 2008 concluded that existing contribution rates to the plan are sufficient. The assets duly belonging to the Judges of the Grand Court are under the administration of the Board. These contributions have been pooled for investment purposes with those of the Fund. The liability as

9. Judiciary Pension Contributions (continued)

shown on the Statement of Net Assets reflects contributions received to date, and an element of income allocated to those contributions based on the Fund's annual rate of return.

10. Benefits Paid to Participants

Beginning in April 1999, payments were paid out of the Fund for pensioners of the Public Service Pensions Plan. The Government continued to pre-fund payments made to recipients of the Ex-gratia Allowances. The Parliamentary Pension Plan were pre-funded by payments from the Government up until the passage of the Parliamentary Pensions Law (2004) on 23 August 2004 which required that benefit payments should be paid from the Parliamentarian Pensions Fund.

Benefits Due relates to participants who had attained the age of 60 prior to 30 June 2005 and whose pension payments had not commenced. Under section 23 of the Public Service Pensions Law (2004 Revision), participants of the Plan were required to initiate their pension upon attaining the age of 60 and as such were no longer eligible to accrue further benefits.

11. Capitalized and Operating Governments

Prior to 2005, the Board received an annual subsidy from the Cayman Islands Government to cover Operating, Capital and Investment Management Expenses. Under the Cayman Islands Government's Financial Management Initiative, services are now purchased from the Board and the funds treated as operating income; and as such, funds used to purchase fixed assets will no longer be capitalised.

The portion of the Government Subsidy received prior to 2005 that relates to the purchase of capital assets is included in the Statement of Net Assets Available for Benefits as Capitalized Government Grant. This will be amortized to the Statement of Changes in Net Assets Available for Benefits over the useful lives of the assets purchased.

	<u>30 June 2009</u>	<u>30 June 2008</u>
CAPITALIZED GOVERNMENT GRANT		
Opening Net Capitalized Government Grant	\$61,556	\$110,552
Amortization of Capitalized Government Grant	(61,556)	(48,996)
Closing Net Capitalized Government Grant	<u>\$-0-</u>	<u>\$ 61,556</u>

11. Capitalized and Operating Governments (continued)

	<u>30 June 2009</u>	<u>30 June 2008</u>
OPERATING INCOME FROM GOVERNMENT SUBSIDY		
Income from Government (Cash Basis)	\$600,000	\$600,000
Plus Amortization of Capitalized Government Subsidy	61,556	48,996
Total for the year	<u>\$661,556</u>	<u>\$648,996</u>

12. Administrative Expenses

	<u>30 June 2009</u>	<u>30 June 2008</u>
Salaries and Benefits	\$2,216,655	\$1,499,016
Office Accommodation	173,585	181,962
General Administrative	518,909	553,519
Actuarial Fees	-	37,491
Audit Fees	117,633	65,000
Other Professional Fees	55,157	27,196
Trustee Allowances & Training	42,387	21,318
Total	<u>\$3,124,326</u>	<u>\$2,385,502</u>

13. Benefits Due

Benefits Due represents the liability to pay participants who had attained the age of 60 and whose pension payments had not commenced prior to the fiscal year ends of 30 June 2009 and 30 June 2008. Under section 23 of the Public Service Pensions Law (2004 Revision), participants of the Plan were required to initiate their pension upon attaining the age of 60 and as such were no longer eligible to accrue further pension benefits.

14. 2008 Actuarial Valuation Report

In accordance with the Public Service Pensions Law (2004 Revision), the Board fulfilled its statutory obligations by preparing the 01 January, 2008 Actuarial Valuation report which was completed on 17 March, 2009 and submitted to the Financial Secretary on 28 April 2009. As Cabinet has not yet accepted and approved the 2008 Report and the recommended rate of contributions contained therein, both Contributions Received and Contributions Receivable in these Financial Statements are reflective of the 2005 Report, which are the last approved rates. However, the 2009 statement of accumulated plan benefits is based on the 2008 actuarial valuation report.

15. Pension Contributions (Re: Actuarial Valuations – Effective 1 January 2005)

Actuarial Valuations with an effective date of 1 January 2008 were conducted for three separate Plans; the Public Service Pensions Plan, the Parliamentary Pensions Plan and the Judiciary Pensions Plan. These Actuarial Valuation Reports were completed on 17 March, 2009 and submitted to the Financial Secretary on 28 April 2009. As the Cabinet has not yet accepted and approved the 2008 report and the recommended rate of contributions contained therein, Contributions Received and Contributions Receivable are based on the 2005 Actuarial Valuation which was accepted by the Board, approved by Cabinet, and tabled in the Legislative Assembly on 9 November 2006.

The principal assumptions for the 2008 Actuarial Valuations (excluding the estimated retirement age which varied with each Plan) used in the computation of the actuarial estimate of the pension liability for each of the three named Pension Plans are as follows:

- i. annual salary increases of 4.0%;
- ii. long term inflation rate of 2.5% per annum;
- iii. valuation interest rate to discount future benefit payments of 7%;
- iv. expected long-term rate of return on the Fund's invested assets of 7%;
- v. anticipated future pensions payments increases of 2.5% per annum; and
- vi. estimated retirement age of 55 for the Parliamentary Pensions Plan, 57 for the Public Service Pensions Plan, and 65 for the Judiciary Pensions Plan.

Where actuarial results calculate that a Plan's share of Fund assets exceed the calculated past service liability, the Plan is said to have a Fund Surplus. Conversely, should Past Service Liabilities exceed a particular Plan's share of Fund assets, the result is called a Fund Deficiency. Fund Deficiencies arise mainly as a result of participants having accrued considerable Defined Benefit entitlements prior to establishment of the Fund. Results of the Actuarial Valuations are summarized under separate caption below for each of the Plans.

a. Public Service Pensions Plan Actuarial Valuation – 1 January 2008

The Actuarial Valuation calculated a Fund Deficiency as at 1 January 2008 of \$192,310,713 consisting of the following components:

Value of Pension Fund Allocated Assets	\$ 242,705,674
Past Service Liability	(435,016,387)
Fund Deficiency	\$ (192,310,713)

15. Pension Contributions (continued)

a. Public Service Pensions Plan Actuarial Valuation – 1 January 2008 (continued)

The actuarial valuation calculated a normal cost of 13.00% which is the required amount to fund the cost of Defined Contribution benefits earned during the current year, with allowance for future pay projections. The normal cost to fund the cost of Defined Benefit contributions was determined to be 16.03% during the current year. Amortization of the Fund Deficiency, attributable to the Defined Benefit component of the Plan, over a 20 year period results in an additional contribution rate of 32.90%. Therefore, the total annual cost of the Defined Benefit component of the Plan as at 1 January 2008 was calculated to be 44.90% of total pensionable emoluments.

While the Plan remains under funded, the actuaries determined that the liability for inactive members (existing pensioners and beneficiaries and those with deferred pensions) is sufficiently covered by available assets. The actuary recommended that the basic 12.00% employee/employer contribution rates be increased by 32.90% for the Defined Benefit, and 1.00% for the Defined Contribution components of the Plan.

b. Parliamentarian Pensions Plan Actuarial Valuation – 1 January 2008

The Actuarial Valuation calculated a Fund Deficiency as at 1 January 2008 of \$14,704,350 consisting of the following components:

Value of Pension Fund Allocated Assets	\$ 4,729,348
Past Service Liability	(19,433,698)
Fund Deficiency	\$ (14,704,350)

The Actuarial Valuation calculated a normal cost of 27.46 % which is the required amount to fund the cost of benefits earned during the current year, with allowance for future pay projections. Amortization of the Fund Deficiency over a 20 year period results in an additional contribution rate of 76.61%.

Therefore, the total annual cost of the Plan as at 1 January 2008 was calculated to be 104.07% when both active and inactive members were considered.

15. Pension Contributions (continued)

c. Judiciary Pensions Plan Actuarial Valuation – 1 January 2008

The Actuarial Valuation calculated a Fund Surplus as at 1 January 2008 of \$ 22,297 consisting of the following components:

Value of Pension Fund Allocated Assets	\$ 1,901,085
Past Service Liability	<u>(1,878,788)</u>
Fund Surplus	<u>\$ 22,297</u>

The actuarial valuation calculated a normal cost of 40.00% which is the required amount to fund the cost of benefits earned during the current year, with allowance for future pay projections. Therefore, the actuary recommended that the current contribution rates of 10% for the Employee and 30% for the Employer continue until the date of the next actuarial valuation.

16. Investment Consultancy Fees

The Board utilizes the services of various Investment Managers and other investment consultants in the course of its business. During the year, the Board employed the services of the following:

- a. Western Asset Management ("WAM", as Investment Manager)
- b. Morgan Stanley Investment Management Ltd ("Morgan Stanley", as Investment Manager)
- c. ING Clarion Real Estate Securities, L.P. ("ING", as Investment Manager)
- d. RBC Dexia Investment Services ("RBC Dexia" as Custodian)
- e. Advisory Capital (Investment Consultants)

The Board incurred Investment management and consultancy expenses as follows:

	<u>30 June 2009</u>	<u>30 June 2008</u>
Western Asset Management	\$ 333,719	\$ 327,878
Morgan Stanley	672,121	1,093,710
ING	139,693	-
RBC Dexia Custodial Fees	98,171	77,973
Advisory Capital	<u>188,076</u>	<u>121,314</u>
Total	<u>\$ 1,431,780</u>	<u>\$1,620,875</u>

17. Financial Instruments

All investments are subject to one or more types of “inherent” risk which is expected and necessary to assume in order to achieve needed returns. From a Pension Plan perspective, inherent risk factors typically comprise of:

- a. Capital risk
- b. Credit risk
- c. Inflation risk
- d. Interest Rate risk
- e. Balance Sheet/Liquidity risk
- f. Market/Equity risk

The portfolio is currently comprised primarily of investments in two pooled funds in both the equities and fixed income sectors. It is a very risk-averse strategy through which inherent risks are mitigated primarily by adherence to asset allocation and diversification policies prescribed by statute. Each class of assets is managed by separate internationally recognized money managers, who are recommended by the Committee and approved by the Board of Trustees, thereby further diversifying the portfolio among unrelated managers and investments. Performance of each investment manager is monitored and measured against international benchmarks by independent investment consultants (Advisory Capital). Senior Management and the Board also perform annual due-diligence visits to each investment managers.

Some inherent risks are further mitigated by specific circumstances:

Credit Risk: Financial assets that potentially subject the Board to credit risk consist principally of current, call and fixed deposits, long and short-term investments, accounts and interest receivable and other receivables and prepayments. The Board’s current, call and fixed deposits are placed with high credit quality institutions. Credit risk with respect to long and short-term investments, accounts and interest receivable, and other receivables and prepayments is limited because the Board only transacts business with counterparts it believes to be reputable and capable of performing their contractual obligations. The greatest risk that the Board faces other than market related risks in terms of its investments, is the possibility that there could be some form of pension contribution holiday. Should this happen, it would seriously impede the Boards operations, as it would then become necessary to liquidate the investments in order to meet its statutory financial obligations.

17. Financial Instruments (continued)

Interest Rate Risk: The Board's interest bearing investments and deposits are at fixed interest rates.

Inflation Risk: Inflation risks are mitigated by regular review and adjustment of Plan funding, in accordance with the mandated Actuarial Valuations due every three years.

A risk factor unique to pension/annuity plans is "Longevity Risk:

Longevity Risk: Longevity risk applies primarily to the Defined Benefit (DB) part of the Plans. Longevity risk is also mitigated by regular review and adjustment of the Plans funding in accordance with the mandated Actuarial Valuations due every three years.

Fair Values: The carrying amount of current, call, and fixed deposits, accounts and interest receivable, other receivables and prepayments, demand liabilities, and other liabilities and payables approximated their fair value due to the short-term maturities of these assets and liabilities. The market value of investments is presented in Note 4. The fair values of other assets and liabilities are not materially different from the carrying amounts.

18. Leases and Commitments

During the year, the Board entered into a two-year lease arrangement with TPC Limited for the use of office space of Smith Road Professional Centre located at Smiths Road, George Town. The term of the lease has contract date from April 1, 2009 to March 31, 2011. The lease is divided into 2 parts - ground and second floor agreement. The rental agreement for the ground and second floor is payment of \$32 / per square foot of the gross rentable area (being usable area grossed up by a common area factor of 18%) per annum by equal monthly installments in advance of 1 day of each month. The total mainfloor and second floor is approximately 1,632.58 sq ft. and 3,915.3 sq ft respectively of gross rentable area. Interest at a prescribed rate (3%) on any rent or other sum the payment of which is more than 10 days overdue. The rent is to increase by a percentage equivalent to the year over year change in the Cayman Islands Consumer Price Index as published by the Cayman Islands Economics and Statistics Office of the Cayman Islands Government for the immediately preceding calendar year. Notwithstanding the actual CPI, the amount of increase

18. Leases and Commitments (continued)

shall not be lower than 3% and shall not exceed 6%. The tenant shall have the right to terminate the lease by giving notice of not less than six month in writing after the first year of the term of lease.

The Board terminated the lease agreements it previously held in Cricket Square and Mirco Center.

19. Subsequent Events

As noted in the disclosure notes for 2007 – 2008, capital markets experienced extreme volatility and turbulence beginning in 2007, culminating in a severe downturn in the Global Economy in 2008 and ongoing in 2009. Investments of every class, genre and nationality have been affected by the ongoing financial crisis. Despite some recovery in the global markets, much uncertainty remains entering the 3rd quarter of physical year 2010.

Due to a clause in the lease for accommodations at Cricket Square the Board was unable to renew its lease and had to arrange for alternative accommodation. The Board entered into an agreement with the Smith Road Centre commencing April 1, 2009. The agreed rent was \$32 per square foot or \$4,354 per month for a term of two years ending March 31st 2011.

Per Government mandate, effective July 1, 2010, all Civil Servants salaries have been reduced by a minimum of 3.2%, representing a rollback of the 2007 - 2008 cost-of-living increase. We are unable to quantify the impact on pension contributions at this time as some form of protection of employees' pensions has been proposed but as yet the outcome is still undetermined.

20. Related Party Transactions

Key Management Personnel

There are four full-time equivalent personnel considered at the Senior Management Level. The total remuneration includes: regular salary, pension contributions, health insurance contributions, acting allowances, duty allowances, motor car upkeep/allowance, and COLA back pay. Total remuneration for Senior Management in 2008-09 was approximately \$353K (2008: \$353K).

Intra-Government Agencies

The Board engaged the services of the Computer Services Department and the Office of the Auditor General during the year. The transactions amounted to \$114,041 and \$117,633 respectively. The services are deemed to have been engaged at arms length.

21. Plan Participants

IAS 19 Accounting policy requires the Public Service Pensions Board to disclose the entities to which the assets of the fund belong and the amounts for each participant. The current pension administration system does not allow for the breakdown of this information. The ministries and portfolios in Public Service Pensions Plan are the following:

- a. Audit Office
- b. Cabinet Office
- c. Judicial Administration Department
- d. Portfolio of Legal Affairs
- e. Portfolio of Finance and Economics
- f. Ministry of Tourism, Economics, Investment and Commerce
- g. Office of the Complaints Commissioner
- h. Portfolio of the Civil Service
- i. Portfolio of Internal and External Affairs
- j. Ministry of District Administration, Planning, Agriculture and Housing
- k. Ministry of Education, Employment, Training, Youth, Sports, Culture
- l. Ministry of Health and Human Services
- m. Ministry of Communication, Works and Infrastructure

See note 1 (c) for Statutory Authorities and Government Companies that participate in the plan.