

Anguilla Social Security Board
Financial Statements
December 31, 2006

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Anguilla Social Security Board

Report on the financial statements

We have audited the accompanying financial statements of Anguilla Social Security Board (the Board), which comprise the balance sheet as at 31 December 2006, and the related statements of income and reserve profit and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility 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 misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider 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 principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Board as at 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Chartered Accountants
The Valley
Anguilla, B.W.I.

October 18, 2007

ANGUILLA SOCIAL SECURITY BOARD

Balance Sheet

December 31, 2006

[Expressed in Eastern Caribbean Dollars (EC\$)]

	<u>Notes</u>	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>			
Cash on hand and in bank	4	3,542,680	2,585,804
Financial assets	5	149,335,581	130,362,497
Investment for contingencies reserve	6	1,350,000	1,350,000
Other receivables	7	62,036	30,139
Prepayments	8	89,844	51,173
Stationery and computer supplies		27,977	23,547
Property, plant and equipment, net	9	5,607,874	5,741,849
Software costs, net	10	504,217	320,765
		<u>160,520,209</u>	<u>140,465,774</u>
<u>LIABILITIES, RESERVES and DEVELOPMENT FUND</u>			
<u>Liabilities</u>			
Accounts payable and accruals	11	164,442	87,834
Pension fund obligation	12	1,215,105	1,230,288
		<u>1,379,547</u>	<u>1,318,122</u>
<u>Reserves and Development Fund</u>			
Short-term benefits branch reserve		3,084,543	2,581,767
Long-term benefits branch reserve		154,153,344	135,568,802
Social Security Development Fund		556,688	493,809
Social Security Development Fund reserve	13	750,000	500,000
Premises revaluation surplus	9	1,533,206	1,541,073
Unrealised loss on available-for-sale financial assets	5	(937,119)	(1,537,799)
		<u>159,140,662</u>	<u>139,147,652</u>
		<u>160,520,209</u>	<u>140,465,774</u>

These financial statements were approved on behalf of the Board of Directors on October 18, 2007 by the following:

Chairman
Dr. Aidan Harrigan

Director
Timothy A. Hodge

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

ANGUILLA SOCIAL SECURITY BOARD

Combined Statement of Income

For the year ended December 31, 2006

[Expressed in Eastern Caribbean Dollars (EC\$)]

	<u>Notes</u>	<u>2006</u>	<u>2005</u>
Income			
Contributions	14	20,284,267	16,845,392
Investments	15	8,871,564	7,762,156
Other income - fines and miscellaneous		<u>184,458</u>	<u>140,346</u>
		<u>29,340,289</u>	<u>24,747,894</u>
Expenses			
Benefits expenditures:	16		
Short-term		1,932,408	1,961,088
Long-term		<u>3,436,413</u>	<u>3,071,497</u>
		5,368,821	5,032,585
Social Security Development Fund	17	511,838	315,566
Administrative and other expenses	18	<u>4,176,376</u>	<u>3,693,187</u>
		<u>10,057,035</u>	<u>9,041,338</u>
Operating income		19,283,254	15,706,556
Other income			
Rent income, net	19	<u>109,076</u>	<u>121,486</u>
NET INCOME FOR THE YEAR		<u>19,392,330</u>	<u>15,828,042</u>

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

ANGUILLA SOCIAL SECURITY BOARD

Short-term Benefits Branch

Statement of Income and Reserve

For the year ended December 31, 2006

[Expressed in Eastern Caribbean Dollars (EC\$)]

	<u>Notes</u>	<u>2006</u>	<u>2005</u>
Income			
Contributions	14	3,042,640	2,526,809
Investment income	15	165,011	163,005
Other Income - fines and miscellaneous		<u>92,229</u>	<u>70,173</u>
		<u>3,299,880</u>	<u>2,759,987</u>
Expenses			
Benefits	16	1,932,408	1,961,088
Administrative and other expenses	18	<u>867,905</u>	<u>811,219</u>
		<u>2,800,313</u>	<u>2,772,307</u>
Operating income/(loss)		499,567	(12,320)
Other income			
Rent income, net	19	<u>2,029</u>	<u>2,551</u>
NET INCOME/(LOSS) FOR THE YEAR		<u>501,596</u>	<u>(9,769)</u>

SHORT-TERM BENEFITS BRANCH RESERVE

Balances at beginning of the year		2,581,767	2,590,356
Depreciation transfer from premises revaluation surplus	9	1,180	1,180
Net income/(loss) for the year		<u>501,596</u>	<u>(9,769)</u>
Balances at end of the year		<u>3,084,543</u>	<u>2,581,767</u>

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

ANGUILLA SOCIAL SECURITY BOARD

Long-Term Benefits Branch

Statement of Income and Reserve

For the year ended December 31, 2006

[Expressed in Eastern Caribbean Dollars (EC\$)]

	<u>Notes</u>	<u>2006</u>	<u>2005</u>
Income			
Contributions	14	16,480,967	13,686,881
Investment income	15	8,643,565	7,558,788
Other income - fines and miscellaneous		<u>92,229</u>	<u>70,173</u>
		<u>25,216,761</u>	<u>21,315,842</u>
Expenses			
Benefits	16	3,436,413	3,071,497
Administrative and other expenses	18	<u>3,308,471</u>	<u>2,881,968</u>
		<u>6,744,884</u>	<u>5,953,465</u>
Operating income		18,471,877	15,362,377
Other income			
Rent income, net	19	<u>106,273</u>	<u>118,303</u>
NET INCOME FOR THE YEAR		<u>18,578,150</u>	<u>15,480,680</u>

LONG-TERM BENEFITS BRANCH RESERVE

Balances at beginning of the year		135,568,802	120,081,730
Depreciation transfer from premises revaluation surplus	9	6,392	6,392
Net income for the year		<u>18,578,150</u>	<u>15,480,680</u>
Balances at end of the year		<u>154,153,344</u>	<u>135,568,802</u>

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

ANGUILLA SOCIAL SECURITY BOARD
 Social Security Development Fund
 Statement of Income and Development Fund Reserve
 For the year ended December 31, 2006

[Expressed in Eastern Caribbean Dollars (EC\$)]

	<u>Notes</u>	<u>2006</u>	<u>2005</u>
Income			
Contributions	14	760,660	631,702
Investment income	15	<u>62,988</u>	<u>40,363</u>
		823,648	672,065
Expenses			
Social projects funded	17	<u>511,838</u>	<u>315,566</u>
Operating income		311,810	356,499
Other income: Rent, net	19	<u>774</u>	<u>632</u>
NET INCOME FOR THE YEAR		<u><u>312,584</u></u>	<u><u>357,131</u></u>

SOCIAL SECURITY DEVELOPMENT FUND RESERVE

Balances at beginning of the year		493,809	386,383
Depreciation transfer from premises revaluation surplus	9	295	295
Net income for the year		312,584	357,131
Transfer to Development Fund Reserve	13	<u>(250,000)</u>	<u>(250,000)</u>
Balances at end of the year		<u><u>556,688</u></u>	<u><u>493,809</u></u>

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

ANGUILLA SOCIAL SECURITY BOARD

Statement of Cash Flows

For the year ended December 31, 2006

[Expressed in Eastern Caribbean Dollars (EC\$)]

	<u>2006</u>	<u>2005</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Net income for the year	19,392,330	15,828,042
Adjustments for:		
Depreciation and amortisation	418,264	380,308
Interest income	(6,774,900)	(6,114,349)
Dividend income	(335,187)	(392,115)
Net realised gains from available-for-sale financial assets	<u>(1,761,477)</u>	<u>(1,255,692)</u>
Operating income before working capital changes	10,939,030	8,446,194
Changes in operating assets and liabilities:		
Other receivables	(31,897)	(4,631)
Prepayments	(38,671)	(5,030)
Stationery and computer supplies	(4,430)	(8,518)
Accounts payable and accruals	76,608	53,834
Pension fund obligation	<u>(15,183)</u>	<u>36,681</u>
Net cash provided by operating activities	<u>10,925,457</u>	<u>8,518,530</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Interest received	6,253,445	5,801,066
Dividends received	114,975	429,615
Proceeds/(acquisitions) of investments in:		
Held-to-maturity financial assets:		
Fixed deposits - National Bank of Anguilla Ltd. (NBA)	(1,781,740)	(5,310,250)
Fixed deposits - Caribbean Commercial Bank (Anguilla) Ltd. (CCB)	(6,038,759)	(6,979,605)
Fixed deposits - British American Insurance Company (British American)	(1,500,000)	-
Bonds - Government of St. Lucia	(1,500,000)	-
Bonds - Government of Antigua and Barbuda	(2,075,280)	-
Bonds - Government of St. Vincent and Grenadines	(1,000,000)	-
Available-for-sale financial assets:		
Smith Barney	(1,344,100)	-
Summit Brokerage Services, Inc. (Summit)	(806,460)	(806,460)
Decrease/(increase) in loans and receivables:		
Loans - Anguilla Development Board (ADB)	288,000	288,000
Loans - Staff	(110,920)	(19,184)
Acquisitions of:		
Property, plant and equipment	(204,631)	(277,685)
Software costs	<u>(263,110)</u>	<u>(125,241)</u>
Net cash used in investing activities	<u>(9,968,580)</u>	<u>(6,999,744)</u>
Net increase/(decrease) in cash on hand and in bank	956,877	1,518,786
Cash on hand and in bank at beginning of year	<u>2,585,803</u>	<u>1,067,017</u>
Cash on hand and in bank at end of year	<u><u>3,542,680</u></u>	<u><u>2,585,803</u></u>

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

ANGUILLA SOCIAL SECURITY BOARD

Notes to the Financial Statements

December 31, 2006

[Expressed in Eastern Caribbean Dollars (EC\$)]

1. General information

The Anguilla Social Security Board (the Board) is a corporate body established by the Social Security Act, Revised Statutes of Anguilla Chapter S45 (R.S.A.c.S45) to administer the Social Security Fund (the Fund) with the objectives of providing various insurance and retirement benefits to persons insured as described in the Act. The address of the Board's registered office is James Ronald Webster Building, The Valley, Anguilla, B.W.I.

2. Statement of compliance and basis of preparation

(a) *Statement of compliance*

The financial statements of the Board have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the International Accounting Standards Board (IASB).

The financial statements of the Board were authorised for issue by the Board of Directors on October 18, 2007.

(b) *Basis of preparation*

The financial statements have been prepared on the historical cost basis except for available-for-sale financial assets which are measured at fair value and land and building which are stated at its appraised values.

(c) *Functional and presentation currency*

These financial statements have been prepared in Eastern Caribbean Dollars (EC Dollars), which is the Board's functional currency. Except as indicated, financial information presented in EC Dollars has been rounded to the nearest dollar. The provisions of Social Security (Financial and Accounting) Regulations R.R.A.S45-4 are also in force in the preparation of financial statements.

(d) *Use of estimates*

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

ANGUILLA SOCIAL SECURITY BOARD

Notes to the Financial Statements

December 31, 2006

[Expressed in Eastern Caribbean Dollars (EC\$)]

2. Statement of compliance and basis of preparation (continued)

(d) *Use of estimates (continued)*

The accounting policies have been consistently applied by the Board to all periods presented in these financial statements.

(e) *Actuarial review*

The seventh actuarial review of the Social Security Fund was conducted in 2005 by Mr. Hernando Perez Montas. This covers the three year period January 1, 2002 to December 31, 2004. The report assessed the Fund as being actuarially sound. The next actuarial review is scheduled in 2008 covering the period January 2005 to December 2007.

3. Significant accounting policies

The significant accounting policies adopted in the preparation of these financial statements are set out below:

(a) *Financial instruments*

i. *Classification*

The Board classifies its financial assets and liabilities in the following categories: financial assets and liabilities at fair value through profit and loss, loans and receivables, held-to-maturity investments and available for sale financial assets.

Financial instruments at fair value through profit and loss comprise financial instruments held-for-trading and financial instruments designated as fair value through profit and loss upon initial recognition. A financial instrument is classified in this category if acquired principally for the purpose of settling in the short term or if so designated by management.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Board does not intend to sell immediately or in the near term.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Board's management has the positive intention and ability to hold to maturity. Were the Board to sell other than an insignificant amount of held to maturity assets, the entire category would be tainted and reclassified as available-for-sale.

Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at

ANGUILLA SOCIAL SECURITY BOARD

Notes to the Financial Statements

December 31, 2006

[Expressed in Eastern Caribbean Dollars (EC\$)]

3. Significant accounting policies (continued)

(a) Financial instruments (continued)

i. Classification (continued)

fair value. Available-for-sale instruments include money market placements and certain debt and equity investments.

ii. Recognition

The Board recognises financial assets and liabilities on the date it becomes party to the contractual provisions of the instrument.

A regular way purchase of financial assets is recognised using trade date accounting. From this date any gains or losses arising from changes in fair value of the financial assets or financial liabilities are recorded.

Financial liabilities are not recognised unless one of the parties has performed or the contract is a derivative contract not exempted from the scope of IAS 39.

iii. Measurement

Financial instruments are measured initially at fair value (transaction price) plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent to initial recognition, all instruments classified at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the statement of income and all instruments classified as available-for-sale are measured at fair value with changes in fair value recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in reserves is recognised in the statement of income.

Financial assets classified as loans and receivables are carried at amortised cost using the effective interest rate method with impairment losses, if any, recognised in the statement of income.

Financial liabilities other than those at fair value through profit and loss are stated at cost.

iv. Fair value measurement principle

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques. If the fair value of the financial instruments cannot be reliably estimated, it is stated at cost.

ANGUILLA SOCIAL SECURITY BOARD

Notes to the Financial Statements

December 31, 2006

[Expressed in Eastern Caribbean Dollars (EC\$)]

3. Significant accounting policies (continued)

(a) Financial instruments (continued)

iv. Fair value measurement principle (continued)

When discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is the market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

v. Derecognition

The Board derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Board is recognised as a separate asset or liability.

The Board derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Board enters into transactions whereby it transfers assets recognised on its balance sheet, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the balance sheet. Transfers of assets with retention of all or substantially all risks and rewards include securities lending and repurchase transactions.

When assets are sold to a third party with a concurrent total rate or return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions. In transactions where the Board neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the Board continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

The Board also derecognises certain assets when it charges off balances pertaining to the assets deemed to be uncollectible.

The Board uses the weighted average method to determine realised gains and losses on derecognition.

ANGUILLA SOCIAL SECURITY BOARD

Notes to the Financial Statements

December 31, 2006

[Expressed in Eastern Caribbean Dollars (EC\$)]

3. Significant accounting policies (continued)

(b) *Property, plant and equipment*

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. The initial cost of property, plant and equipment comprises its purchase price, including any directly attributable costs of bringing the assets to their working condition and location for their intended use. Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the items will flow to the Board and the cost of the items can be measured reliably. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

Depreciation is charged to the statement of income on the straight line basis over the estimated useful lives of items of property, plant and equipment. Land is carried at cost, less any impairment in value.

The estimated useful lives are as follows:

Building	40 years
- Long-term improvements	17 years
- Short-term improvements	2 years
Furnitures, fittings and equipment	5-10 years
Computer equipment	5-8 years
Vehicle	5 years
Generator	5 years

The assets' useful lives and depreciation method are reviewed periodically to ensure that the period and method of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of income in the year the item is derecognised.

Revaluation of land and building

Following initial recognition at cost, land and building are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on building and subsequent accumulated impairment losses, if any. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

ANGUILLA SOCIAL SECURITY BOARD

Notes to the Financial Statements

December 31, 2006

[Expressed in Eastern Caribbean Dollars (EC\$)]

3. Significant accounting policies (continued)

(b) *Property, plant and equipment (continued)*

Any revaluation surplus is credited to the asset revaluation reserve included in the reserves section of the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in statement of income, in which case the increase is recognised in the statement of income.

An annual transfer from the asset revaluation reserve to branch reserves and development fund accounts is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets' original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the assets and the net amount is restated to the revalued amount of the assets. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to branch reserves and development fund accounts.

(c) *Software costs*

Software costs are carried at cost less accumulated amortisation and any impairment in value. Costs incurred to acquire or develop computer software and significant enhancements to existing software features are capitalised after technological feasibility is established. Software costs are amortised on a straight-line basis over the estimated useful life of eight (8) years. Amortisation commences when the asset is available for use.

(d) *Impairment losses*

The carrying amounts of the Board's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses, if any, are recognised in the statement of income.

(e) *Foreign currency*

Transactions in foreign currencies are converted to EC dollars at the foreign exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to EC dollars at the foreign exchange rates ruling at that date. Foreign exchange differences arising from fluctuations in rates are recognised in the statement of income. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are converted to EC dollars at the foreign exchange rates ruling at the dates of the transactions.

ANGUILLA SOCIAL SECURITY BOARD

Notes to the Financial Statements

December 31, 2006

[Expressed in Eastern Caribbean Dollars (EC\$)]

3. Significant accounting policies (continued)

(f) *Employee benefits*

The Board sponsors a defined benefit pension scheme for its employees. Operations commenced on January 1, 2001, under the temporary supervision of the Board, until a Trust Deed was formally sanctioned on March 4, 2005. The Anguilla Social Security Staff Pension Fund (the Staff Pension Fund) is contributory (funded on a bipartite basis by the Board and the present employees and those employees entering the service of the Board after commencement of said scheme and hold confirmed positions in the Board's employ). The plan assets are managed by the Staff Pension Fund.

(g) *Distribution of income*

The income from Employer and Employee contributions is ascribed to the various branches in the following proportions, as per Section 18(1a) of the Financial and Accounting Regulations of the Social Security Act (R.S.A.c. S45):

(i) Short-term Benefits Branch	15.00%
(ii) Long-term Benefits Branch	81.25%
(iii) Social Security Development Fund	3.75%

The investment income, including rent income, is distributed to each branch in proportion to the amount of reserves in each branch at the end of the preceding year, as per Section 18(1b) of the Financial and Accounting Regulations of the Social Security Act (R.S.A.c. S45).

The 2006 and 2005 allocations are as follows:

(i) Short-term Benefits Branch	1.86% (2005: 2.10%)
(ii) Long-term Benefits Branch	97.43% (2005: 97.38%)
(iii) Social Security Development Fund	0.71% (2005: 0.52%)

Other income is distributed equally between the two benefit branches.

(h) *Distribution of expenditure*

The expenditure on the benefits grouped under a specific branch is ascribed to that branch as per Section 2(b) of the Financial and Accounting Regulations of the Social Security Act (R.S.A.c S45).

The benefits are grouped as follows:

- (i) Short-term Benefits Branch - sickness benefit, maternity benefit, funeral grant.
- (ii) Long-term Benefits Branch - age benefit, invalidity benefit, survivor's benefit, non-contributor old age pension.

ANGUILLA SOCIAL SECURITY BOARD

Notes to the Financial Statements

December 31, 2006

[Expressed in Eastern Caribbean Dollars (EC\$)]

3. Significant accounting policies (continued)

(h) *Distribution of expenditure (continued)*

Administrative expenses are distributed among the benefit branches in proportion to the sum of the contribution income and benefit expenditure of each branch as compared to these amounts for the Fund as a whole, as per Section 19(2) of the Financial and Accounting Regulations of the Social Security Act (R.S.A.c. S45). In 2006 and 2005, the allocations are as follows:

Short-term Benefits Branch	19.99% (2005: 21.12%)
Long-term Benefits Branch	80.01% (2005: 78.88%)

All other expenditure which is not attributable to any specific branch shall be distributed among the two benefit branches in equal proportion.

(i) *Rental income*

Rental income is recognised in the statement of income on a straight-line basis over the lease term.

(j) *Interest income*

Interest income is recognised in the statement of income as it accrues, and takes into account the effective yield on the assets.

(k) *Dividend income*

Dividend income is recognised in the statement of income when the Board's right to receive payment is established.

(l) *Taxation*

No provision is made for income tax since Anguilla does not have any form of income tax.

(m) *Subsequent events*

Post year-end events that provide additional information about the Board's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post year-end events that are non-adjusting events are disclosed in the notes when material.

ANGUILLA SOCIAL SECURITY BOARD

Notes to the Financial Statements

December 31, 2006

[Expressed in Eastern Caribbean Dollars (EC\$)]

4. Cash on hand and in bank

	<u>2006</u>	<u>2005</u>
Cash on hand	1,452,085	663,079
Cash in bank	<u>2,090,595</u>	<u>1,922,725</u>
	<u>3,542,680</u>	<u>2,585,804</u>

Cash in bank includes cash in transit as of year-end amounting to EC\$1,209,690 for an investment in Government of St. Vincent US\$ Bonds. The effective date of the investment is January 5, 2007.

5. Financial assets

The Board's financial assets are summarised by measurement categories as follows:

	<u>2006</u>	<u>2005</u>
Held-to-maturity financial assets	113,071,677	99,175,898
Available-for-sale financial assets	29,871,566	25,358,849
Loans and receivables	<u>6,392,338</u>	<u>5,827,750</u>
	<u>149,335,581</u>	<u>130,362,497</u>

The assets included in each of the categories above are detailed below:

i. Held-to-maturity financial assets

The following shows the breakdown of held-to-maturity financial assets as of December 31, 2006 and 2005, consisting of fixed deposits with banks, investment in bonds, government and other securities, by contractual maturity dates:

	<u>Due within</u> <u>one year</u>	<u>Due over</u> <u>one year</u>	<u>Total</u> <u>2006</u>	<u>Total</u> <u>2005</u>
Fixed deposits				
NBA	15,414,651	29,099,42	44,514,07	42,732,3
CCB	22,984,995	27,356,86	50,341,85	44,303,0
British American	-	10,635,46	10,635,46	9,135,4
	<u>38,399,646</u>	<u>67,091,75</u>	<u>105,491,39</u>	<u>96,170,8</u>
Investments in Bonds				
Eastern Caribbean Home Mortgage Bank (ECHMB)	-	2,000,00	2,000,00	2,000,0
Government of St. Kitts / Nevis	-	1,005,00	1,005,00	1,005,0
Government of St. Lucia	-	1,500,00	1,500,00	-
Government of Antigua and Barbuda	-	2,075,28	2,075,28	-
Government of St. Vincent and Grenadines	-	1,000,00	1,000,00	-
	<u>-</u>	<u>7,580,28</u>	<u>7,580,28</u>	<u>3,005,0</u>
	<u>38,399,646</u>	<u>74,672,03</u>	<u>113,071,67</u>	<u>99,175,8</u>

ANGUILLA SOCIAL SECURITY BOARD

Notes to the Financial Statements

December 31, 2006

[Expressed in Eastern Caribbean Dollars (EC\$)]

5. Financial assets (continued)

i. Held-to-maturity financial assets (continued)

The fixed deposits carry interest rates between 5% to 9.75% while investments in bonds carry interest rates between 5.5% to 8.25%.

ii. Available-for-sale financial assets

The Board's available-for-sale financial assets are as follows:

	<u>2006</u>	<u>2005</u>
Equity securities - International		
Smith Barney	19,629,996	16,309,320
Merrill Lynch	1,732,455	1,615,128
Summit	1,908,199	847,851
Anguilla European Masters Fund (AEMF)	307,166	292,800
	<u>23,577,816</u>	<u>19,065,099</u>
Equity securities - Local and Regional		
NBA	1,500,000	1,500,000
Anguilla Electricity Company Limited (ANGLEC)	4,587,750	4,587,750
ECHMB	81,000	81,000
Eastern Caribbean Securities Exchange Ltd.	125,000	125,000
	<u>6,293,750</u>	<u>6,293,750</u>
Total Available-for-sale financial assets	<u>29,871,566</u>	<u>25,358,849</u>

The movements of the "Unrealised loss on available-for-sale financial assets" account as a result of changes in the fair values, are as follows:

	<u>2006</u>	<u>2005</u>
Fair value of Available-for-sale financial assets, beginning of year	25,358,849	23,581,987
Add: Movements during the year:		
Net realised gains (see note 15.1)	1,761,477	1,255,692
Additional investment in Smith Barney	1,344,100	-
Additional investment in Summit	806,460	806,460
	<u>29,270,886</u>	<u>25,644,139</u>
Fair value of Available-for-sale financial assets, end of year	<u>29,871,566</u>	<u>25,358,849</u>
Unrealised (gain) loss for the year	<u>(600,680)</u>	<u>285,290</u>
Unrealised loss on available-for-sale financial assets, beginning of year	1,537,799	1,252,509
Add: Unrealised (gain) loss for the year	<u>(600,680)</u>	<u>285,290</u>
Unrealised loss on available-for-sale financial assets, end of year	<u>937,119</u>	<u>1,537,799</u>

ANGUILLA SOCIAL SECURITY BOARD

Notes to the Financial Statements

December 31, 2006

[Expressed in Eastern Caribbean Dollars (EC\$)]

5. Financial assets (continued)

iii. Loans and receivables

The Board's originated loans and receivables are as follows:

	<u>2006</u>	<u>2005</u>
Loans		
ADB*	2,277,000	2,565,000
Staff	<u>191,087</u>	<u>80,167</u>
	<u>2,468,087</u>	<u>2,645,167</u>
Receivables		
Interest on fixed deposits	3,490,325	3,107,840
Interest on loans	22,832	25,720
Interest on bonds	190,882	49,023
Dividends on ANGLEC shares	<u>220,212</u>	<u>-</u>
	<u>3,924,251</u>	<u>3,182,583</u>
	<u>6,392,338</u>	<u>5,827,750</u>

* This represents loans of EC\$1,620,000 and EC\$2,700,000 which were drawn on September 1, 1989 and December 29, 1997, respectively. Both loans are payable in quarterly installments after five years from the date of drawdown and carry a six percent (6%) interest per annum. The loans will mature on October 31, 2009 and January 31, 2018, respectively.

The current and non-current portions of the loans are as follows:

	<u>2006</u>	<u>2005</u>
Current portion	288,000	288,000
Noncurrent portion	<u>1,989,000</u>	<u>2,277,000</u>
	<u>2,277,000</u>	<u>2,565,000</u>

There are no material unrecognised financial assets as of December 31, 2006.

6. Investment for contingencies reserve

A contingencies reserve was established to be available to meet any unforeseen or abnormal expenditure which the current income of the Board may not be sufficient to cover, or to make good any unforeseen or abnormal reduction of income. The contingencies reserve is increased to an amount equivalent to the average expenditure of the Board for the provision of benefits and administration for two (2) months. The contingencies reserve of EC\$1,350,000 as of December 31, 2006 and 2005, has been invested at NBA and CCB, under fixed deposits which bear an interest rate of 6% and 6.5% per annum, respectively. The fixed deposits will mature on January 4, 2007 and July 11, 2007, respectively, and are subject to rollover upon maturity.

ANGUILLA SOCIAL SECURITY BOARD

Notes to the Financial Statements

December 31, 2006

[Expressed in Eastern Caribbean Dollars (EC\$)]

7. Other receivables

	<u>2006</u>	<u>2005</u>
Rent	52,551	24,178
Others	9,485	5,961
	<u>62,036</u>	<u>30,139</u>

8. Prepayments

	<u>2006</u>	<u>2005</u>
Insurance	40,240	40,825
Staff uniforms	24,671	-
Anniversary booklet	11,309	-
Sponsorship - National Sports Awards Ceremony 2006	-	5,376
Others	13,624	4,972
	<u>89,844</u>	<u>51,173</u>

9. Property, plant and equipment

	<u>2005</u>	<u>Additions</u>	<u>Disposals</u>	<u>2006</u>
Cost and revaluation				
Land	1,139,797	-	-	1,139,797
Building	4,225,046	35,640	-	4,260,686
Furnitures, fittings and equipment	544,538	54,566	-	599,104
Computer equipment	359,808	20,812	-	380,620
Vehicle	84,686	-	-	84,686
Generator	99,662	93,613	-	193,275
	<u>6,453,537</u>	<u>204,631</u>	<u>-</u>	<u>6,658,168</u>

	<u>2005</u>	<u>Depreciation for the year</u>	<u>Disposals</u>	<u>2006</u>
Accumulated depreciation:				
Land	-	-	-	-
Building	144,125	146,828	-	290,953
Furnitures, fittings and equipment	327,851	90,549	-	418,400
Computer equipment	222,775	45,637	-	268,412
Vehicle	16,937	16,937	-	33,874
Generator	-	38,655	-	38,655
	<u>711,688</u>	<u>338,606</u>	<u>-</u>	<u>1,050,294</u>

ANGUILLA SOCIAL SECURITY BOARD

Notes to the Financial Statements

December 31, 2006

[Expressed in Eastern Caribbean Dollars (EC\$)]

9. Property, plant and equipment (continued)

	<u>2006</u>	<u>2005</u>
Net book value:		
Land	1,139,797	1,139,797
Building	3,969,733	4,080,921
Furniture, Fittings and Equipment	180,704	216,687
Computer Equipment	112,208	137,033
Vehicle	50,812	67,749
Generator	154,620	99,662
	<u>5,607,874</u>	<u>5,741,849</u>

The Board's land and building were revalued on January 4, 2005 by an independent and qualified valuer, the Land Development Survey Services of Anguilla. The value was estimated using the Investment approach method of valuation.

Annual transfers from the asset revaluation reserve to branch reserves (i.e. Short-term benefits branch reserve and Long-term benefits branch reserve) and Social Security Development Fund accounts are made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets' original cost. Every year, depreciation of EC\$7,867 from Premises revaluation surplus is transferred to branch reserves (allocated to Short-term benefits branch reserve: EC\$1,180; Long-term benefits branch reserve: EC\$6,392 and Social Security Development fund: EC\$295).

10. Software costs

	<u>2006</u>	<u>2005</u>
Cost:		
Beginning balance	560,967	435,726
Purchases during the year	263,110	125,241
Ending Balance	<u>824,077</u>	<u>560,967</u>
Accumulated amortisation:		
Beginning balance	240,202	170,081
Charges for the year	79,658	70,121
Ending Balance	<u>319,860</u>	<u>240,202</u>
Net book value	<u>504,217</u>	<u>320,765</u>

11. Accounts payable and accruals

	<u>2006</u>	<u>2005</u>
Accounts payable	163,342	81,212
Unearned revenue	1,100	-
Accruals	-	6,622
	<u>164,442</u>	<u>87,834</u>

ANGUILLA SOCIAL SECURITY BOARD

Notes to the Financial Statements

December 31, 2006

[Expressed in Eastern Caribbean Dollars (EC\$)]

12. Pension fund obligation

The Board has a defined benefit pension scheme for its regular employees, which requires contribution on a bipartite basis by the Board and its employees to be made to administered funds. The plan is administered by the Staff Pension Fund. The benefits are based on the employees' average compensation in the last three years of service prior to retirement.

The following table summarizes the components of net benefit expense recognised in the statement of income and set forth the plan's benefit obligations, fair value of plan assets, and fund status:

<i>Net benefit expense</i>	<u>2006</u>	<u>2005</u>
Current service cost	91,674	91,674
Interest cost on benefit obligation	115,854	115,854
Expected return on plan assets	(40,186)	(40,186)
Net benefit expense	<u>167,342</u>	<u>167,342</u>

<i>Benefit liability</i>	<u>2006</u>	<u>2005</u>
Benefit obligation	2,242,133	2,071,617
Fair value of plan assets	<u>(1,027,028)</u>	<u>(841,329)</u>
Pension fund obligation	<u>1,215,105</u>	<u>1,230,288</u>

The movements in the Pension fund obligations are as follows:

	<u>2006</u>	<u>2005</u>
Opening balance	1,230,288	1,193,607
Net benefit expense recognised in the statement of income	167,342	167,342
Contributions made	<u>(182,525)</u>	<u>(130,661)</u>
Closing balance	<u>1,215,105</u>	<u>1,230,288</u>

The principal assumptions used in determining pensions for the Board's plan are shown below:

	<u>2006</u>	<u>2005</u>
Discount rate	7%	7%
Expected rate of return on plan assets	7%	7%
Rate of salary increases	4%	4%

ANGUILLA SOCIAL SECURITY BOARD

Notes to the Financial Statements

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[Expressed in Eastern Caribbean Dollars (EC\$)]

13. Social Security Development Fund Reserve

The Social Security Development Fund Reserve was created in 2004. This fund will go towards the focus areas such as HIV/AIDS education, youth and adolescents at risk, and health services. Since its creation in 2004, the Board had transferred EC\$250,000 each year from Social Security Development Fund to Social Security Development Fund Reserve.

14. Contribution income

	<u>2006</u>	<u>2005</u>
Contribution - Employers	10,056,689	8,377,507
Contribution - Employees	<u>10,056,689</u>	<u>8,377,507</u>
	20,113,378	16,755,014
Less: Refunds	<u>(360)</u>	<u>(6,566)</u>
	20,113,018	16,748,448
Contributions - Self-employed	<u>171,249</u>	<u>96,944</u>
	<u><u>20,284,267</u></u>	<u><u>16,845,392</u></u>

15. Investment income

	<u>2006</u>	<u>2005</u>
Interest income		
Fixed deposits (NBA and CCB)	5,290,431	4,858,121
Fixed deposits (British American)	969,488	889,455
Loans - ADB	144,514	161,716
Bonds - ECHMB	110,000	110,000
Bonds - Government of St. Kitts / Nevis	75,375	75,375
Bonds - Government of Antigua	74,335	-
Bonds - Government of St. Lucia	55,419	-
Bonds - Government of St. Vincent and Grenadines	28,356	-
Checking accounts	24,502	17,943
Loans - Staff	<u>2,480</u>	<u>1,739</u>
	<u>6,774,900</u>	<u>6,114,349</u>
Dividend income		
ANGLEC shares	220,212	275,265
NBA shares	106,875	108,750
ECHMB shares	<u>8,100</u>	<u>8,100</u>
	<u>335,187</u>	<u>392,115</u>
Realised gain/(loss) from Available-for-sale financial assets (see note 15.1)		
Smith Barney investments	1,674,022	1,275,392
Summit Brokerage Services, Inc.	25,901	5,045
Merrill Lynch investments	<u>61,554</u>	<u>(24,745)</u>
	<u>1,761,477</u>	<u>1,255,692</u>
	<u><u>8,871,564</u></u>	<u><u>7,762,156</u></u>

ANGUILLA SOCIAL SECURITY BOARD

Notes to the Financial Statements

December 31, 2006

[Expressed in Eastern Caribbean Dollars (EC\$)]

15. Investment income (continued)

Related receivables on interest and dividend are included in the "Financial assets - loans and receivables" account in the balance sheet.

15.1 Realised gain / (loss) from Available-for-sale financial assets

The following table shows the gains and losses from available-for-sale equity securities which were recognised in the statement of income:

	<u>Smith Barney Merrill Lynch</u>		<u>Summit</u>	<u>Total</u>	<u>Total</u>
			<u>Brokerage</u>	<u>2006</u>	<u>2005</u>
Dividend and interest income	293,49	5,58	30,84	329,9	239,5
Gains on disposals	1,769,29	21,05	64,06	1,854,4	1,506,8
Losses on disposals	(155,49)	-	(4,26)	(159,75)	(274,0)
Management fee	(233,27)	(73)	(29,098)	(263,11)	(216,4)
	<u>1,674,02</u>	<u>25,90</u>	<u>61,55</u>	<u>1,761,4</u>	<u>1,255,6</u>

16. Benefits expenses

The following table presents the benefits paid by the Board as of December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Short-term Benefits		
Sickness	1,222,260	1,219,242
Maternity	620,148	654,846
Funeral	90,000	87,000
	<u>1,932,408</u>	<u>1,961,088</u>
Long-term Benefits		
Age	2,319,079	2,041,537
Non-contributory Old Age Pension	379,923	368,399
Survivors	412,000	350,869
Invalidity	325,411	310,692
	<u>3,436,413</u>	<u>3,071,497</u>
	<u>5,368,821</u>	<u>5,032,585</u>

17. Social Security Development Fund

The Board's Social Security Development Fund was established in 1986 as a vehicle to fund socially desirable projects that would benefit the citizens of Anguilla. The Social Security Development Fund

ANGUILLA SOCIAL SECURITY BOARD

Notes to the Financial Statements

December 31, 2006

[Expressed in Eastern Caribbean Dollars (EC\$)]

17. Social Security Development Fund (continued)

contributes to human well-being and the progress of society through sports development, education, health services, environmental protection, economic development and community revitalization.

The following table shows the projects funded by Social Security Development Fund as of December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Tranquility Jazz Festival	134,410	134,410
Anguilla Teachers Music Association	131,759	-
The Anguilla Community Foundation	80,646	-
Youth Crime Watch	63,710	-
Sports Project	60,485	9,203
Anguilla Amateur Athletic Association	19,758	-
Nations Fitness Quest Project	9,981	-
Camp-Be-Aware	8,065	8,065
Scouts of Anguilla	1,680	-
Anguilla Amateur Cycling Association	1,344	-
Anguilla Tennis Academy	-	67,205
HIV AIDS	-	50,000
Anguilla National Creative Arts	-	40,000
Nursing Education	-	3,995
Anguilla Race Against AIDS	-	2,688
	<u>511,838</u>	<u>315,566</u>

18. Administrative and other expenses

	<u>2006</u>	<u>2005</u>
Administration expenses	2,035,91€	1,672,965
Salaries and allowances of staff	1,892,49€	1,770,886
Allowances and expenses of the Board and Investment Committee	137,84€	141,242
Other expenses	110,121	108,094
	<u>4,176,37€</u>	<u>3,693,187</u>

19. Rent income

The Board leases a portion of its building to various tenants. The rent income, net of expenses incurred for the upkeep and maintenance of the building, are as follows:

	<u>2006</u>	<u>2005</u>
Rent income	195,810	180,384
Less: Maintenance expenses	<u>(86,734)</u>	<u>(58,898)</u>
	<u>109,076</u>	<u>121,486</u>

Related receivables are included in the "Other receivables" account in the balance sheet.

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Notes to the Financial Statements

December 31, 2006

[Expressed in Eastern Caribbean Dollars (EC\$)]

20. Related Party Transactions

- i. The Board's cash in bank account and fixed deposits were held at CCB, a registered employer, since inception. Funds held at CCB as of December 31, 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
Cash in bank	880,906	1,922,725
Fixed deposits	50,341,857	44,303,098
Contingencies reserve	<u>650,000</u>	<u>650,000</u>
Funds held at CCB, end of year	51,872,763	46,875,823
Funds held at CCB, beginning of year	<u>46,875,823</u>	<u>38,770,066</u>
Increase in funds held at CCB	<u><u>4,996,940</u></u>	<u><u>8,105,757</u></u>

- ii. Mr. Fabian Fahie, previous Chairman of the Board, Mr. Stanley Reid, Member of the Board, and Mr. Timothy Hodge, Director of the Board, are also Directors of NBA. The following funds are held at NBA as of December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Fixed deposits	44,514,078	42,732,338
Contingencies reserve	<u>700,000</u>	<u>700,000</u>
Funds held at NBA, end of year	45,214,078	43,432,338
Funds held at NBA, beginning of year	<u>43,432,338</u>	<u>38,122,088</u>
Increase in funds held at NBA	<u><u>1,781,740</u></u>	<u><u>5,310,250</u></u>

- iii. Remuneration to directors and executive staff during 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
Board and Investment Committee allowances	122,085	128,023
Executive staff salaries	<u>372,894</u>	<u>316,487</u>
	<u><u>494,979</u></u>	<u><u>444,510</u></u>

21. Financial instruments

(a) Currency Risk

Almost all transactions are made in East Caribbean Dollars (EC\$) and United States Dollars (US\$). EC\$ is fixed to the US\$ at the rate of 2.6882. The Board is not exposed to any significant currency risk.

(b) Interest Rate Risk

The Board does not have any borrowings. Time deposits and loans are at pre-agreed fixed rates. The Board is not exposed to any significant interest rate risk.

ANGUILLA SOCIAL SECURITY BOARD

Notes to the Financial Statements

December 31, 2006

[Expressed in Eastern Caribbean Dollars (EC\$)]

21. Financial instruments (continued)

(c) Credit Risk

At the balance sheet date there was no significant concentration of credit risk. The maximum exposure to the credit risk is represented by the carrying value of each financial asset in the balance sheet.

(d) Fair values

The fair values of all financial instruments approximate the carrying values reflected in the balance sheet.

The Board does not believe that its operations are subject to any significant concentration of price, credit, liquidity or cash flow risks. As a result, it has not entered into any contractual arrangement with the view to hedging any risk exposure. The Board, however, will continuously monitor its operating environment and assess its exposure to various risks with the view to mitigating any potential loss.

22. Comparative information

Certain comparative figures have been re-classified to conform with the current year financial statement presentation.