ANGUILLA FINANCIAL SERVICES COMMISSION

Annual Report and Accounts 2008

Financial Statements

ANGUILLA FINANCIAL SERVICES COMMISSION

Financial Statements

December 31, 2008

(expressed in United States dollars)

ANGUILLA FINANCIAL SERVICES COMMISSION

FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER, 2008

CERTIFICATE OF AUDIT AND REPORT OF THE CHIEF AUDITOR

Section 62(2) of the Financial Administration and Audit Act 2003 (Revised Statutes of Anguilla Chapter F27)(the Act) permits me, as Chief Auditor, to accept the audit of the accounts and financial statements of a government agency by an independent auditor of the government agency if the appointment of the auditor has been approved by me, and the audit of the government agency has been performed in accordance with my directions.

After I accept the audit of the accounts and financial statements of a government agency by an independent auditor, Sections 62(6) and (7) of the Act require me to issue a certificate of audit and prepare a report that evidence the acceptance of the audit of the independent auditor, and to send the certificate of audit and report to the government agency, to the minister responsible for the government agency and to the Minister of Finance.

Section 16 of the Financial Services Commission Act 2003 requires the Financial Services Commission to submit to the Governor a copy of its audited accounts, including the report of the auditor on the accounts, and a report on its operations and activities for the financial year (the annual report). The Governor is required, as soon as is reasonably practicable, to cause them to be tabled in the House of Assembly.

The appointment of PriceWaterhouseCoopers (PwC) as the independent auditor of the Financial Services Commission was approved by me. PwC were directed to undertake their audit in accordance with appropriate auditing standards, and I accept their audit of the Commission's financial statements for the sixteen month period ended 31 December 2008.

As recorded in their Auditors' Report, PwC have audited the Balance Sheet of the Financial Services Commission as of 31 December 2008, the statement of surplus, statement of changes in accumulated reserves and statement of cash flows for the sixteen month period then ended, and a summary of significant accounting policies and other explanatory notes. The Commission's management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the Financial Services Commission Act, 2003. PwC's responsibility is to express an opinion on the financial statements based on their audit.

PwC conducted their audit in accordance with International Standards on Auditing. Those standards require that PwC comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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. 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. PwC believe that the audit evidence they have obtained is sufficient and appropriate to provide a basis for their opinion.

In PwC's opinion, the financial statements present fairly, in all material respects, the financial position of the Anguilla Financial Services Commission as of 31 December 2008 and the its financial performance and its cash flows for the sixteen month period ending 31 December 2008 in accordance with International Financial Reporting Standards and the Financial Services Commission Act, 2003.

I have no observations to make on these financial statements.

M L Daynes
Chief Auditor
28 September 2009

PRICEWATERHOUSECOOPERS

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March 31, 2009

INDEPENDENT AUDITORS' REPORT

To the Chief Auditor of Anguilla

We have audited the accompanying financial statements of Anguilla Financial Services Commission which comprise the balance sheet as of December 31, 2008, and the statement of surplus, statement of changes in accumulated reserves and statement of cash flows for the sixteen month period ending December 31, 2008, 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 and the Financial Services Commission Act, 2003. 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.

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 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 on the auditors' 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 auditors 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 policies 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 audit opinion.

PRICEWATERHOUSECOOPERS

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Anguilla Financial Services Commission as of December 31, 2008 and its financial performance and its cash flows for the sixteen month period ending December 31, 2008 in accordance with International Financial Reporting Standards and the Financial Services Commission Act, 2003.

PricewaterhouseCoopers

Chartered Accountants

Balance Sheet
As of December 31, 2008

(Expressed in United States dollars)

	December 31, 2008 $	August 31, 2007 $
Assets		
Non-current assets		
Property and equipment (note 6)	**21,506**	21,473
Current assets		
Cash and cash equivalents (note 7)	**184,186**	261,813
Investments (note 8)	**1,058,063**	627,041
Accounts receivable	**14,250**	30,541
Other assets (note 9)	**17,816**	18,263
	1,274,315	937,658
Total assets	**1,295,821**	959,131
Equity		
Accumulated reserves	**1,038,224**	897,414
Liabilities		
Current liabilities		
Accounts payable and accruals (note 10)	**60,614**	61,717
Deferred revenue (note 11)	**196,983**	–
Total liabilities	**257,597**	61,717
Total liabilities and equity	**1,295,821**	959,131

Approved by the Board Members on March 31, 2009

Member

Member

Anguilla Financial Services Commission

Statement of Surplus

For the period ending December 31, 2008

(Expressed in United States dollars)

	Sixteen month period ended December 31, 2008 $	Year ended August 31, 2007 $
Revenues		
Licence fees	**946,388**	757,246
Interest income	**66,072**	30,904
Other income	**–**	2,709
	1,012,460	790,859
Operating expenses		
Payroll and related costs (note 12)	**426,405**	293,969
Travel and subsistence (note 13)	**81,961**	55,321
Maintenance/technical support	**44,168**	26,562
Board members' allowances	**41,450**	25,950
Professional service fees	**33,004**	13,485
Subscriptions	**25,167**	23,216
Conference expenses (note 14)	**17,882**	2,550
Bad debts	**12,140**	–
Cleaning	**8,000**	6,000
Depreciation (note 6)	**7,141**	4,393
Office supplies	**5,272**	5,326
Audit fees	**4,500**	5,525
Entertainment	**4,256**	4,426
Communications	**2,305**	2,681
Other expenses	**1,564**	1,410
Bank charges	**695**	1,009
	715,910	471,823
Surplus for the period/year	**296,550**	319,036

The notes on pages 25 to 36 are an integral part of these financial statements.

Statement of Changes in Accumulated Reserves
For the period ended December 31, 2008

(Expressed in United States dollars)

	Accumulated reserves $
Balance as of August 31, 2006	578,378
Surplus for the year	319,036
Balance as of August 31, 2007	897,414
Surplus for the period	296,550
Contribution to the Government of Anguilla (note 15)	(155,740)
Balance as of December 31, 2008	**1,038,224**

The notes on pages 25 to 36 are an integral part of these financial statements.

Anguilla Financial Services Commission
Statement of Cash Flows
For the period ending December 31, 2008

(Expressed in United States dollars)

	Sixteen month period ended December 31, 2008 $	Year ended August 31, 2007 $
Cash flows from operating activities		
Surplus for the period	**296,550**	319,036
Item not affecting cash:		
Depreciation	**7,141**	4,393
Interest income	**(66,072)**	(30,904)
	237,619	292,525
Changes in operating assets and liabilities		
Decrease/(increase) in accounts receivable	**16,291**	(16,666)
Decrease/(increase) in other assets	**447**	(18,263)
Increase/(decrease) in accounts payable and accruals	**(1,103)**	(11,821)
Increase in deferred revenue	**196,983**	–
Cash generated from operations	**450,237**	245,775
Interest received	**40,987**	23,968
Net cash from operating activities	**491,224**	269,743
Cash flows from investing activities		
Purchase of property and equipment	**(7,174)**	(9,345)
Purchase of investments	**(405,937)**	(313,158)
Net cash used in investing activities	**(413,111)**	(322,503)
Cash flows from financing activities		
Contribution to the Government of Anguilla	**(155,740)**	–
Net cash used in financing activities	**(155,740)**	–
Net decrease in cash and cash equivalents	**(77,627)**	(52,760)
Cash and cash equivalents, beginning of the period	**261,813**	314,573
Cash and cash equivalents, end of the period (note 7)	**184,186**	261,813

The notes on pages 25 to 36 are an integral part of these financial statements.

1. General information

Incorporation and principal activity

The Anguilla Financial Services Commission ("the Commission") was established under the Financial Services Commission Act on November 26, 2003 and it commenced operations on February 2, 2004 in the Valley, Anguilla, BWI.

The principal activity of the Commission is to regulate the financial services industry in Anguilla in accordance with the prescribed financial services enactments and to carry out such other functions as are determined under section 3 of the Financial Services Commission Act, 2003.

2. Change of financial year end by the Commission

The financial year of the Commission is specified by law. The year end was changed from August 31 to December 31 as a result of an enactment of the Financial Services Commission (Amendment) Act 2007 on February 18, 2008. The change was recommended by the Board as being appropriate to align the financial year more closely with the operating cycle of the Commission. Accordingly, these financial statements have been drawn up as of December 31, 2008 and for the sixteen (16) month period then ended. Comparative figures are provided as of August 31, 2007 and for the twelve (12) month period then ended.

3. Summary of significant accounting policies

a) Basis of preparation

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

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), the Financial Services Commission Act, 2003 and under the historical cost convention.

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates.

3. **Summary of significant accounting policies (continued)**

a) **Basis of preparation (continued)**

Standard, amendment and interpretations effective in 2007

IFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures. IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Commission assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1.

IFRIC 8, 'Scope of IFRS 2' requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of IFRS 2. This standard does not have any impact on the Commission's financial statements.

IFRIC 10, 'Interim financial reporting and impairment', prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Commission's financial statements.

Interpretations to existing standards that are not yet effective and not relevant for the Commission's operations

The following interpretations to existing standards have been published and are mandatory for the Commission's accounting periods beginning on or after 1 January 2008 or later periods but are not relevant for the Commission's operations.

IFRIC 12, 'Service concession arrangements' (effective from 1 January 2008).
IFRIC 13, 'Customer loyalty programmes' (effective from 1 July 2008).

b) **Property and Equipment**

Property and equipment are stated at historical cost, less accumulated depreciation and impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Commission and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of surplus during the financial period in which they are incurred.

(Expressed in United States dollars)

3. Summary of significant accounting policies (continued)

b) Property and Equipment (continued)

Depreciation is calculated using the straight-line method to allocate the cost of each asset to their residual values, if any, over the estimated useful lives indicated below.

Furniture and fittings	5-10 years
Computers and equipment	5-10 years

The asset's residual values and useful lives are reviewed and adjusted if appropriate at each balance sheet date.

An asset's carry amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of surplus.

c) Accounts receivable

Accounts receivable are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of accounts receivables is established when there is objective evidence that the Commission will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the accounts receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the market rate of interest for similar borrowers. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of surplus. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.

d) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash at bank and in hand, deposits held at call with banks, and other short term highly liquid investments with maturities at acquisition of three months or less.

e) Foreign currency transactions

Functional and presentation currency

Items included in the financial statements of the Commission are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The Commission's functional and presentation currency is United States dollars.

3. **Summary of significant accounting policies (continued)**

e) **Foreign currency transactions (continued)**

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in currencies other than the functional currency are reported at the exchange rates prevailing at the year end. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the statement of surplus.

f) **Revenue recognition**

Licence fees

Licence fees comprise of amounts collected from companies licensed by the Commission. Revenue is recognised when the licence fees are due.

Interest income

Interest income is recognised in the statement of surplus for all interest bearing instruments on an accruals basis using the effective yield method based on actual purchase price. Interest income includes income earned on cash and cash equivalents and term deposits.

g) **Impairment of non-financial assets**

Property and equipment are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

h) **Financial assets**

The Commission classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivable are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. At the balance sheet date, accounts receivable and term deposits are classified as loans and receivables.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Commission commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the entity has transferred substantially all risks and rewards of ownership. Loans and receivables are carried at amortised cost using the effective interest method.

3. Summary of significant accounting policies (continued)

h) Financial assets (continued)

The Commission assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

i) Provisions

Provisions are recognised when the Commission has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made.

j) Employee benefits

Pension costs

The Commission's contribution to the Government's defined benefit pension plan is charged to the statement of surplus in the period to which the contributions relate. The Commission does not have its own pension plan and its pension costs are limited to contributions made.

Post-employment obligations

The Commission recognizes a liability and an expense for gratuity due to its employees based on the terms of the employment contracts.

4. Financial risk management

The Commission's activities expose it to a variety of financial risks: currency risk, credit risk, liquidity risk and interest rate risk.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. Substantially all of the Commission's transactions, assets and liabilities are denominated in United States dollars. Therefore, there is no significant exposure to currency risk.

Credit risk

Credit risk arises from the possibility that counterparties may default on their obligations to the Commission. The amount of the Commission's maximum exposure to credit risk is indicated by the carrying amount of its financial assets. Impairment provisions are made for losses that have been incurred at the balance sheet date, if any. The Commission monitors this risk annually or more frequently as deemed necessary.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the ability of funding through an adequate amount of committed credit facilities. Management does not believe significant liquidity risk exists at December 31, 2008.

(Expressed in United States dollars)

4. Financial risk management (continued)

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. None of the Commission's liabilities are interest bearing. The interest bearing assets include the cash and term deposits and investments (notes 7 and 8). The Commission is exposed to risk associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

Fair value of financial assets and liabilities

Fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market value, if one exists. None of the Commission's financial assets and liabilities are traded in a formal market. Estimated fair values are assumed to approximate their carrying values.

5. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Commission makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Management does not consider that there are estimates and assumptions that will have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(Expressed in United States dollars)

6. Property and Equipment

	Computers and Equipment $	Furniture and Fittings $	Total $
Year ended August 2007			
Opening net book value	9,606	6,915	16,521
Additions	6,719	2,626	9,345
Depreciation charge	(2,954)	(1,439)	(4,393)
Closing net book amount	13,371	8,102	21,473
As at August 31, 2007			
Cost	21,838	12,167	34,005
Accumulated depreciation	(8,467)	(4,065)	(12,532)
Net book amount	13,371	8,102	21,473
Sixteen month period ended December 31, 2008			
Opening net book value	13,371	8,102	21,473
Additions	2,918	4,256	7,174
Depreciation charge	(5,225)	(1,916)	(7,141)
Closing net book amount	**11,064**	**10,442**	**21,506**
As at December 31, 2008			
Cost	24,756	16,423	41,179
Accumulated depreciation	(13,692)	(5,981)	(19,673)
Net book amount	**11,064**	**10,442**	**21,506**

(Expressed in United States dollars)

7. Cash and cash equivalents

	December 31, 2008 $	August 31, 2007 $
Term deposits maturing within 90 days	–	210,547
Operating bank accounts	**184,186**	51,266
Total cash and cash equivalents	**184,186**	261,813

The operating bank accounts and the term deposits are held with National Bank of Anguilla. The operating bank accounts bear interest at a rate of 1% per annum. The term deposits included in cash and cash equivalents are as follows:

	December 31, 2008 S	August 31, 2007 $
Term deposit of nil (2007:158,630) matured on November 21, 2007 and bore interest at a rate of 3.75% per annum.	–	158,630
Term deposit of nil (2007:51,917) matured on October 31, 2007 and bore interest at a rate of 3.75% per annum.	–	51,917
	–	210,547

(Expressed in United States dollars)

8. Investments

	December 31, 2008 $	August 31, 2007 $
Loans and receivables		
Term deposit held at National Bank of Anguilla, maturing on February 25, 2009 (2007: February 21, 2008) and bearing interest at a rate of 5.00% per annum (2007: 4.25%).	**408,953**	319,516
Term deposit held at National Bank of Anguilla, maturing on March 18, 2009 (2007: March 14, 2008) bearing interest at a rate of 5.25% per annum (2007: 5.50%).	**616,500**	300,000
	1,025,453	619,516
Interest receivable	**32,610**	7,525
Total investments	**1,058,063**	627,041

9. Other assets

	December 31, 2008 $	August 31, 2007 $
Other prepayments	**14,816**	2,670
Housing deposits	**3,000**	2,800
Prepaid training costs	–	12,793
Total other assets	**17,816**	18,263

(Expressed in United States dollars)

10. Accounts payable and accruals

	December 31, 2008 $	August 31, 2007 $
Gratuity accrual	**31,735**	16,432
Accrued expenses	**26,828**	25,083
Trade payables	**2,051**	5,535
Bonus accrual	–	14,667
Total accounts payable and accruals	**60,614**	61,717

11. Deferred revenue

Deferred revenue consists of licence fees for the financial year ended December 31, 2009 paid during the current year.

(Expressed in United States dollars)

12. Payroll and related costs

	Sixteen month period ended December 31, 2008 $	Year ended August 31, 2007 $
Salaries	**313,162**	183,821
Housing allowances	**50,200**	25,900
Gratuities	**28,268**	22,216
Social security costs	**11,310**	5,741
Staff recruitment	**9,514**	32,469
Health insurance	**9,152**	6,055
Pension costs	**4,799**	3,083
Bonuses	–	14,684
Total payroll and related costs	**426,405**	293,969

Included in the payroll and related costs are amounts paid to key members of management as follows:

	Sixteen month period ended December 31, 2008 $	Year ended August 31, 2007 $
Salaries	**201,401**	116,587
Housing Allowances	**50,200**	25,900
Gratuities	**28,268**	22,216
Bonuses	–	10,777
Total key management payroll and related costs	**279,869**	175,480

(Expressed in United States dollars)

13. Travel and Subsistence

	Sixteen month period ended December 31, 2008 $	Year ended August 31, 2007 $
Industry Support	**33,595**	22,587
Training	**16,843**	4,470
Regulatory	**16,589**	17,013
Chairman's Travel & Subs.	**14,934**	11,251
Total travel and subsistence	**81,961**	55,321

14. Conference expenses

	Sixteen month period ended December 31, 2008 $	Year ended August 31, 2007 $
Training	**16,762**	1,308
Regulatory	**700**	1,167
Industry Support	**420**	75
Total conference expenses	**17,882**	2,550

15. Contribution to the Government of Anguilla

In accordance with the Financial Services Commission (Amendment) Act 2007, the Commission may make payments from its surplus to the Government of Anguilla after all its reserves have been adequately funded. During the period ended December 31, 2008, the Commission made a monetary contribution of $155,740 to the Government of Anguilla. This was reflected in the statement of changes in accumulated reserves.