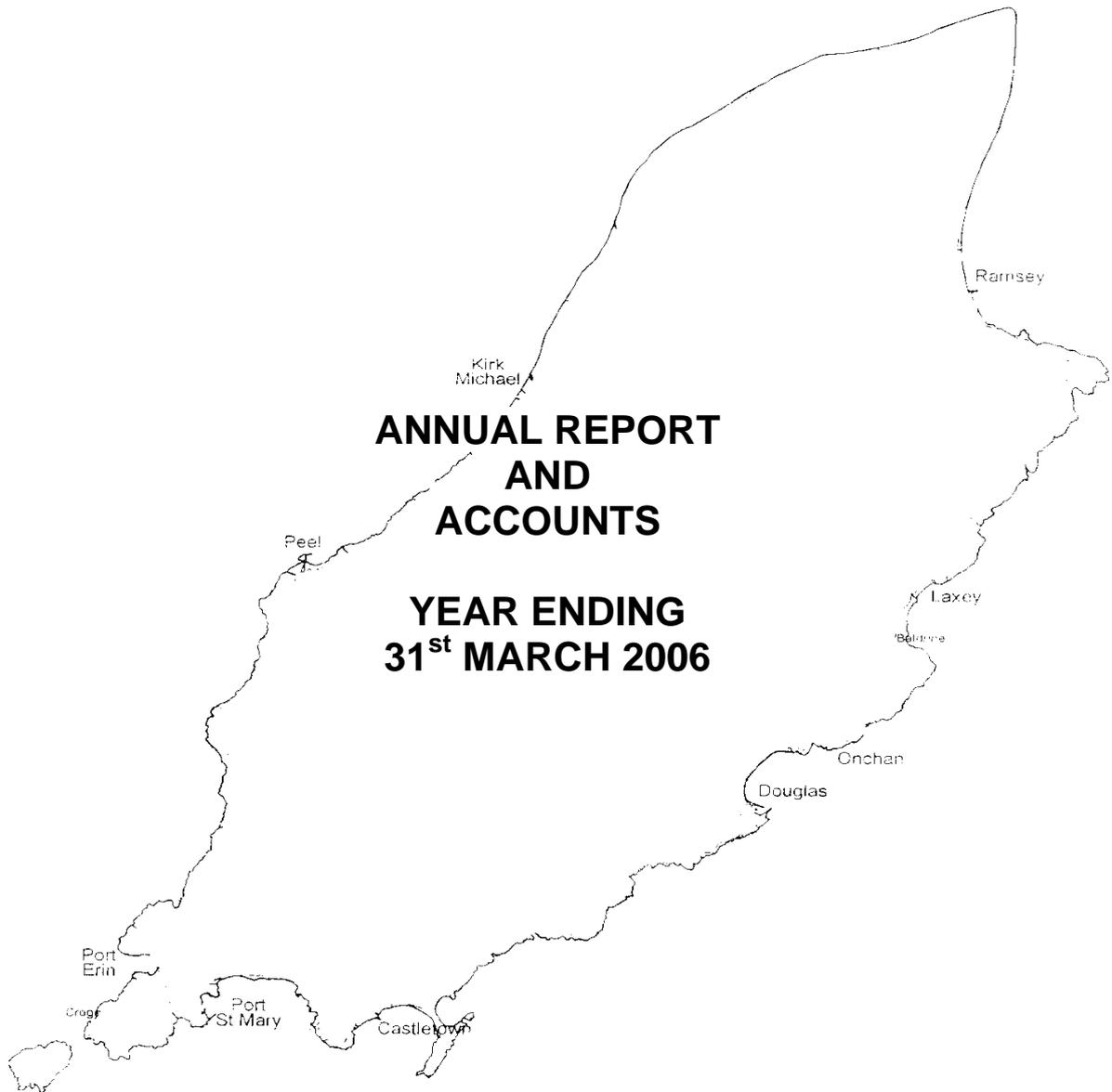


ISLE OF MAN LOCAL GOVERNMENT PENSION SCHEME



ADMINISTERED BY:



**BOROUGH OF
DOUGLAS**

CAPITA HARTSHEAD

 **Merrill Lynch** Investment Managers

 **Hymans Robertson**

Being a public service pension scheme as defined by the Pension Schemes Act 1993 (an Act of UK Parliament), the Isle of Man Local Government Pension Scheme is statutorily exempt from the overriding provisions relating to the issue and content of a pension scheme's annual report; nevertheless, every effort has been made to ensure that this Report meets the major requirements imposed on other schemes, allowing for the differences between statutory schemes and those operating under trust. Furthermore, the financial statements have been prepared in accordance with the guidelines set out in the Statement of Recommended Practice, "Financial Reports of Pension Schemes" (Revised November 2002), ("the SORP") as far as is practicable.

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ISLE OF MAN LOCAL GOVERNMENT PENSION SCHEME

ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED
31 MARCH 2006

Administering Authority

Mayor, Aldermen and Burgesses of the Borough of Douglas

Town Clerk and Chief Executive

Mr D R King, LL.B. F.I.Mgt.

Borough Treasurer

Mr G M Bolt, C.P.F.A

Auditors

Moore Stephens
PO Box 25
26-28 Athol Street
Douglas
Isle of Man. IM99 1BD

Scheme Administrator

Capita Hartshead
257 Ecclesall Road
Sheffield. S11 8NX

Bankers

Isle of Man Bank
Athol Street
Douglas
Isle of Man. IM99 1AN

Investment Manager

Merrill Lynch Investment Managers*
Belgravia House
34/44 Circular Road
Douglas
Isle of Man. IM1 1QW

Consulting Actuary

Hymans Robertson LLP
Central Exchange
20 Waterloo Street
Glasgow. G2 6DB

Custodian of Securities

RBSI Custody Bank Limited

AVC Provider

Norwich Union
Rose Lane Business Centre
Norwich. NR1 1BB

* with effect from 2 October 2006 Merrill Lynch Investment Managers merged with BlackRock to become BlackRock

REPORT BY THE MAYOR, ALDERMEN AND BURGESSES OF THE BOROUGH OF DOUGLAS

INTRODUCTION

The Isle of Man Local Government Pension Scheme (“the Scheme”) is a statutory public service pension scheme (as defined by the Pension Schemes Act 1993, an Act of UK Parliament) under the Isle of Man Local Government Superannuation Scheme Regulations 2003 (“the 2003 Scheme”) which provides retirement and dependants’ benefits for employees of Local Government employers (including resolution bodies) and Admitted Bodies on the Isle of Man.

The Scheme is contracted-out of the State Second Pension Scheme (“S2P”) and is exempt approved for the purposes of the Income Tax (Retirement Benefit Schemes) Act 1978 and Part I of the Income Tax Act 1989 (Acts of Tynwald). Full tax relief is granted on members and the employers’ contributions paid to the Scheme and on all investment income.

MANAGEMENT

The Administering Authority’s Responsibilities

The Mayor, Aldermen and Burgesses of the Borough of Douglas are the administering authority for the Isle of Man Local Government Pension Scheme. They are responsible for preparing audited financial statements for each financial year which give a true and fair view of the financial transactions of the Scheme and the disposition of its assets and liabilities at the year end. In preparing the financial statements the Administering Authority has:

- selected suitable accounting policies and then applied them consistently;
- made judgments and estimates that are reasonable and prudent; and
- followed applicable accounting standards, in particular the Statement of Recommended Practice, “Financial Reports of Pension Schemes” (Revised November 2002), subject to any material departures described in the financial statements.

The Administering Authority is responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the Scheme.

The Administering Authority is also responsible for keeping records of contributions received in respect of active members of the Scheme and for ensuring that contributions are made to the Scheme in accordance with the recommendations of the Consulting Actuary.

In addition, the Administering Authority is responsible for safeguarding the assets of the Scheme and hence for taking reasonable steps for the prevention and detection of error, fraud and other irregularities.

The Borough as the Administering Authority delegates some day to day monitoring responsibilities to the Pensions Committee. This Committee, which comprises Members of the Council and one independent observer, meets regularly to consider administrative and investment matters. All minutes and resolutions of the Pensions Committee are subject to approval at the Borough’s full Council meetings.

REPORT BY THE MAYOR, ALDERMEN AND BURGESSES OF THE BOROUGH OF DOUGLAS – continued

MANAGEMENT (continued)

General

Responsibility for managing the Scheme's investments has been delegated to Merrill Lynch Investment Managers ("Merrill Lynch").

The Administering Authority has a contractual arrangement with Capita Hartshead, a trading division of Capita Business Services Limited, to undertake the day to day administration of the Scheme.

The Administering Authority has appointed Norwich Union to provide an AVC arrangement for members.

ADMINISTRATION

The Regulations Affecting the Scheme

The Isle of Man Local Government Superannuation Scheme Regulations 2003, apply to individuals who were contributing members of the Scheme on 1 April 2003 or who have since joined the Scheme. The Scheme is based on the regulations that applied to England and Wales with effect from 1 April 1998, and some provisions are effective from that date.

The Scheme Rules and Benefits are set out later, and the full details are shown in the Guide available to all members on the Douglas Borough Council website (www.douglas.gov.im).

Pensions Increase

Pensions in payment and preserved benefits are subject to annual review under the Pensions (Increase) Act 1974 (an Act of Tynwald). The Pensions Increase (Review) Order 2006 required an increase of 2.7% (2005: 3.1%) (reduced proportionately for pensions in payment for less than 12 months) to be awarded from 10 April 2006 (2005: 11 April 2005). This corresponds to the increase applied to State retirement pensions and pensions paid by other public service pension schemes on the Island, being the rise in the UK's Retail Prices Index during the 12 months ended 30 September 2005 (2005: 30 September 2004).

REPORT BY THE MAYOR, ALDERMEN AND BURGESSES OF THE BOROUGH OF DOUGLAS – continued

ADMINISTRATION (continued)

Code of Best Practice

The recommendations resulting from the review undertaken by Mr Paul Myners' entitled "Institutional Investment in the UK" had been acknowledged by the Pensions Committee as constituting a code of best practice. In particular the Scheme's investment practices are considered against the following 10 Best Practice principles:-

- Effective decision making
- Setting clear objectives for the Fund
- Focusing on strategic asset allocation investment decisions
- Receiving expert advice
- Having explicit mandates for investment management contracts
- Taking an active approach relative to corporate governance
- Establishing appropriate benchmarks for investment returns
- Measuring investment performance and that of other service providers
- Ensuring transparency
- Reporting to Scheme members

A document entitled "Isle of Man Local Government Pension Scheme: Myners Code Adherence Document and Statement of Investment Principles" is in force. It is available to members on the Douglas Borough Council Website (www.douglas.gov.im). The Pensions Committee, working together with the Investment Consultant, will monitor and review these procedures and update the Document as required.

REPORT BY THE MAYOR, ALDERMEN AND BURGESSES OF THE BOROUGH OF DOUGLAS – continued

MEMBERSHIP AND BENEFICIARIES

	2006	2005
	No.	No.
Active Membership		
At 1 April 2005	402	409
Late adjustments (new starters)	11	-
<i>Add:</i>		
Entrants - new starters	37	34
	<hr/>	<hr/>
	450	443
	<hr/>	<hr/>
Exits		
- options pending	(2)	(3)
- new retirement pensions	(12)	(11)
- deaths in service	-	(1)
- preserved benefits	(12)	(15)
- refunds of contributions/transfers	(9)	(8)
- Leavers from previous reporting period	(7)	(3)
	<hr/>	<hr/>
	(42)	(41)
	<hr/>	<hr/>
At 31 March 2006	408	402
	<hr/>	<hr/>

REPORT BY THE MAYOR, ALDERMEN AND BURGESSES OF THE BOROUGH OF DOUGLAS – continued

MEMBERSHIP AND BENEFICIARIES - continued

Membership as at 31 March 2006

	Active	Deferred	Pensioners	2006 Total	2005 Total
Local Authorities					
Borough of Douglas	220	78	111	409	398
Castletown Commissioners	13	2	7	22	18
Onchan District Commissioners	47	14	20	81	77
Peel Town Commissioners	17	5	6	28	28
Port Erin Commissioners	16	7	2	25	24
Port St Mary Commissioners	8	10	4	22	21
Ramsey Town Commissioners	37	11	13	61	63
Resolution Bodies					
(a) Parish Districts					
Braddan Parish Commissioners	5	-	-	5	4
Bride Commissioners	1	-	-	1	1
Michael Commissioners	1	-	-	1	1
Malew Parish Commissioners	6	3	1	10	9
(b) Joint Boards					
Marashen Crescent Housing Committee	4	1	-	5	5
Northern Local Authorities Swimming Pool Board	7	1	1	9	8
Peel & Western District Housing Committee	-	-	1	1	1
Ramsey & Northern District Housing Committee	6	1	1	8	8
Southern Civic Amenity Site Board	3	1	-	4	3
Southern Local Authorities Swimming Pool Board	6	4	4	14	14
Department of Tourism & Leisure – Villa Marina	-	1	1	2	2
Admitted Bodies					
Crossroads Caring for Carers	1	3	-	4	4
Leonard Cheshire Foundation	1	2	2	5	6
Manx Blind Welfare	-	1	-	1	1
Manx Foundation for Physically Disabled	1	1	-	2	2
Manx Churches Adoption & Welfare Society	5	2	1	8	7
Vicars and Wardens of Braddan Church	2	1	-	3	3
The Vicars and Wardens of St Peters Church Onchan	1	-	-	1	1

REPORT BY THE MAYOR, ALDERMEN AND BURGESSES OF THE BOROUGH OF DOUGLAS – continued

MEMBERSHIP AND BENEFICIARIES - continued

Membership as at 31 March 2006 (continued)

	Active	Deferred	Pensioners Total	2006 Total	2005
Bodies with no Members					
Andreas Commissioners	-	-	-	-	-
Arbory Commissioners	-	-	-	-	-
Ballaugh Commissioners	-	-	-	-	-
Castletown & Malew Elderly Persons	-	-	-	-	-
Housing Board	-	-	-	-	-
Cooil Roi Housing Authority	-	-	-	-	-
German Commissioners	-	-	-	-	-
Jurby Commissioners	-	-	-	-	-
Laxey Commissioners	-	-	-	-	-
Lezayre Commissioners	-	-	-	-	-
Lonan Commissioners	-	-	-	-	-
Marown Commissioners	-	-	-	-	-
Maughold commissioners	-	-	-	-	-
Northern Parishes Refuse Collection Board	-	-	-	-	-
Patrick Commissioners	-	-	-	-	-
Rushen commissioners	-	-	-	-	-
Santon Commissioners	-	-	-	-	-
Western Swimming Pool Board	-	-	-	-	-
Total	408	149	175	732	709

ACTUARIAL VALUATION

The 2003 Scheme requires an actuarial valuation of the Scheme to be carried out every three years. The purpose of a valuation is to review the funding position and determine an appropriate level of employers' contributions.

In accordance with the 2003 Scheme, a valuation of the Scheme was made as at 31 March 2004 which showed that it continued to be in deficit. The next valuation is due to be carried out as at 31 March 2007.

The Actuarial Statement from the 2004 valuation is reproduced on page 15 of the Annual Report.

REPORT BY THE MAYOR, ALDERMEN AND BURGESSES OF THE BOROUGH OF DOUGLAS – continued

REGISTRATION UNDER THE DATA PROTECTION ACT 2002 (An Act of Tynwald)

The data provided by members on their starter's forms is processed using computers, with records held in both electronic and paper format. The use of the data is registered under the Data Protection Act 2002 for the purposes of pensions administration by the Borough and of personnel/employee administration by the employers.

D W CHRISTIAN JP
Chairman
Policy and Resources Committee
Borough of Douglas

27 June 2006

G M BOLT, CPFA
Borough Treasurer
Borough of Douglas

27 June 2006

INVESTMENTS

INVESTMENT LIMITS

The Isle of Man Local Government Superannuation Scheme Regulations 2003 require the Administering Authority to immediately invest any monies not needed to make payments from the Scheme. In doing so, it prescribes the limits on the type and extent of investments which the Administering Authority may pursue.

Although they may vary the types of investment adopted the Scheme's investment policy must be formulated with a view to:

- the advisability of investing Scheme money in a wide variety of investments; and
- the suitability of particular types of investments.

However, of the total value of the Scheme's investments no more than the percentages shown below can be invested in the form of investment described:

- **1%** - a single sub-underwriting contract, i.e. a contract with a person who is underwriting a share issue to acquire the shares from him if that's what he requires, but with the total value of all sub-underwriting contracts not exceeding 15%;
- **2%** - as a limited partner in any single partnership (but not exceeding more than a total of 5% in such partnerships);
- **10%** - loans made to other than the Government of the Isle of Man, or Her Majesty's Government;
 - total investments in unlisted securities, i.e. securities not quoted on a recognised stock exchange;
 - total deposits with any single bank, or similar institution except the National Savings Bank; and
 - any single holding unless the investment is made by an external investment manager in a unit trust scheme;
- **35%** - all investments in unit trust schemes;
 - all investments in open-ended investment companies where the collective investment schemes constituted by the companies are managed by any one body;
 - all investments in unit trust schemes and open-ended investment companies where the unit trust schemes and the collective investment schemes constituted by those companies are managed by any one body;
 - the total value of all insurance contracts; and
 - all securities (shares, stocks, debentures, etc) which the Administering Authority transfers or agrees to transfer under stock lending arrangements.

INVESTMENTS - continued

INVESTMENT STRATEGY AND MANAGEMENT

The investment strategy developed by the Administering Authority aims to maximise the return of the Scheme by diversifying its investments throughout world markets. It is applied by their investment manager, Merrill Lynch, which has full discretion in the management of the portfolio subject to complying with the statutory limits and the ranges of asset distribution defined by the Administering Authority.

INVESTMENT PERFORMANCE

Portfolio	+28.94%
Benchmark	+23.40%
Value of Portfolio as at 31 March 2005	£18,291,942
Value of Portfolio as at 31 March 2006	£24,856,669

Benchmark

The benchmark is used as a reference point to compare the performance of the portfolio. It allows the overall performance of the Fund Manager to be compared with the overall performance of the various indices. Any divergence between the benchmark and the Scheme's return is due to the preferences of the Fund manager.

INVESTMENT MANAGER'S REPORT

Summary

The portfolio increase in value by £6,564,727 over the year. This equates to a rise of 28.9% over the period which was ahead of the benchmark which rose 23.4%. Apart from US equities, where there was a significant underweight position, the fund benefited from strong outperformance across all other assets classes.

UK Equities

Within the UK, the fund returned 34.4% compared to the benchmark rise of 28.0%. The fund benefited from having exposure to the mining and oil sectors of the market during the period. These shares were in demand as oil and commodity prices rose significantly on the back of increased demand from the ever growing Chinese economy, amongst other things. Elsewhere the fund benefited from holding a number of companies which were for the subject of takeover bids.

INVESTMENTS - continued

INVESTMENT MANAGER'S REPORT (continued)

Overseas Equities

Performance within Overseas Equities was above the relevant benchmark over the year. This was aided by the strong performance seen in both the Japanese and Pacific Basin markets where the fund was significantly overweight throughout the entire period. Additionally, in August exposure to Latin America was introduced on a tactical basis and it was subsequently sold making a 40% return. The fund was underweight the US market during the period, on valuation grounds. This proved fruitful as despite making a positive return, the region underperformed all other regions during the period.

Bonds

Bond markets produced positive returns during the period, yet somewhat lower than equity markets. This benefited the fund as it had an underweight position in bonds, relative to the strategic benchmark, and corresponding overweight position in equities.

Property

Property had another good year, rising 22.8% compared to a benchmark rise of 21.9%. This asset class has benefited from high demand from both institutional investors and private clients.

Change in Strategic Benchmark

During the year there was an agreed change to the long term strategic benchmark for the fund. The target equity exposure remains at 60%, but there was a switch out of UK equities towards Overseas equity markets. Additionally, the strategic weighting to property was increased at the expense of cash.

Inflation – View of Merrill Lynch

The buoyancy in global economic activity has persisted, becoming increasingly more synchronised and less dependent on the US. Growth in Japan and Asia is continuing, while Europe appears to be gaining momentum. Despite this growth and the substantial increase in oil prices over the past year, core inflation has generally remained subdued across all major economies. In addition, there is little or no sign of any increase in wage inflation.

Going forward we are of the view that ex-oil, inflation rates are expected to be stable, with slight upside risks in the US, while Japan is expected to move from deflation to a very slight positive inflation rate. In general therefore, our view is that widespread inflation risk remains low.

INVESTMENTS - continued

CUSTODIAL ARRANGEMENTS

The Administering Authority has appointed RBSI Custody Bank Limited, Isle of Man Branch, (part of the RBS Group and not an Associate of Merrill Lynch) as its custodian.

The reasonable costs of transferring assets of the portfolio to the custodian (or where applicable, its sub-custodians) are normally borne by the portfolio.

A nominee company, normally Nutraco Nominees Limited, a UK-based associate of the custodian, is registered as the holder of the portfolio's UK securities (other than UK bearer securities which are held in safe custody and securities relating to In-House Schemes and Connected Investment Trusts). Securities relating to investments of the portfolio's In-House Schemes and Connected Investment Trusts are normally registered in the name of Bath Street Nominees Limited, a Jersey-based associate of the custodian. Any securities registered in the name of a nominee company are pooled with those of other clients of the custodian. The custodian cannot pool such securities with its own property except when settling transactions.

Where the Scheme investments are held collectively in a pool, its entitlements may not be identifiable by separate certificates or other physical documents of title and, should the custodian default, any shortfall in investments belonging to the Scheme and other customers of the custodian may be shared pro-rata among all customers whose investments are so held.

Non-UK securities are normally held by sub-custodians appointed by or on behalf of the custodian in separate accounts designated "RBSI Custody Bank Limited – Client Account". This arrangement also applies for securities held in Euroclear.

INVESTMENT ACCOUNTING AND BANKING ARRANGEMENTS

The Administering Authority has authorised monies to be held on the Scheme's behalf on the following basis:

- In investment and income accounts with the custodian in the Administering Authority's or the Scheme's name. The Administering Authority has authorised Merrill Lynch to give the custodian instructions regarding such accounts on the Scheme's behalf.
- In Merrill Lynch Investment Managers (IOM) Designated Client Bank Accounts (as defined in the Financial Supervision Commission (Clients' Money) Regulatory Code 1993 (the "Code") with those institutions being Recognised Banks (as defined by the Code) which meet the minimum short-term credit rating of A1/P1 and which may include the custodian or any of its associates. Such monies are pooled with those of other clients but such designated client bank accounts do not hold monies beneficially owned by Merrill Lynch.

INVESTMENTS - continued

INVESTMENT ACCOUNTING AND BANKING ARRANGEMENTS (continued)

Monies held awaiting delayed settlement are held by the custodian in a pooled settlement account.

Interest is paid on the investment and income accounts, and balances on the income accounts are dealt with on the basis set out below;

Interest period: Quarterly on all accounts

Interest Rate: A commercial rate appropriate to the balances standing to the credit of the above accounts. The custodian benefits from the provision of banking services for clients.

Accounts are maintained in the currency of account and in such other currencies as may be required from time to time.

REMUNERATION BASIS OF THE INVESTMENT MANAGER

Ordinary Portfolio

Merrill Lynch's remuneration for managing and administering the portfolio is calculated and paid in arrears on its market value (including uninvested cash) as shown in its valuations. Investments of the portfolio in In-House Funds and Connected Investment Trusts are disregarded for the purposes of calculating the fees.

Merrill Lynch's fees in respect of managing the portfolio are at the following rates between 1 April 2005 to 30 June 2005:

Market Value	Rate per annum
On the first £5,000,000	0.75%
Thereafter	0.50%

Merrill Lynch's fees in respect of managing the portfolio are at the following rates between 1 July 2005 to 31 March 2006:

Market Value	Rate per annum
On the first £5,000,000	0.75%
Thereafter	0.51%

They include those of the custodian and are settled by transfers from the portfolio on the due dates and no interest is charged if such transfers are effected after the due date.

Property Fund

Charges are 1% of the underlying net asset value per annum and 3.70% when units are purchased. A 5.75% charge was however waived on the purchase of the initial property units.

INVESTMENTS - continued

Charges Within In-House Funds and Connected Investment Trusts and Commissions

Initial (and in some cases conversion) charges are waived for investments made for the Isle of Man Local Government Pension Scheme. The price of each share or unit of certain In-House Funds and Connected Investment Trusts normally includes on both subscriptions and redemptions a 'rounding' of a maximum of one currency unit which is retained by the relevant manager or the relevant In-House Fund and Connected Investment Trusts.

Where the annual management and administration fees of the relevant In-House Fund and Connected Investment Trusts exceed the fee rates listed in the table below, Merrill Lynch procures that the portfolio receives a retrocession of the annual management and administration fees to the fee rates as set out in the table below.

	Management Fees % per annum	Transaction Commissions	Custodian/ Trustee Fees % per annum
Funds of Merrill Lynch Offshore			
Sterling Trust	Nil	Nil	Approx 0.17
Merrill Lynch International Bond Fund	Nil	Nil	0.1
Merrill Lynch Fund Managers			
UK Smaller Companies Fund	Nil	Nil	0.1
Merrill Lynch International Asian Drag	Nil	Nil	0.21

ACTUARIAL STATEMENT

Actuarial Statement for the purpose of Local Government Superannuation Scheme 2003 (Statutory Document No. 61/03).

As required by the regulations, an actuarial valuation of the Fund's assets and liabilities was carried out as at 31 March 2004.

Security of Prospective Rights

In my opinion, the resources of the Scheme are likely in the normal course of events to meet the liabilities of the Scheme, as required by the Regulations. In giving this opinion I have assumed that the following amounts will be paid to the Scheme:

Contributions paid by the members in accordance with the Local Government Superannuation Scheme 2003 (Statutory Document No. 61/03).

Contributions, for the three years commencing 1 April 2005, paid by the employers are as specified in our certificate dated March 2005 contained in our report on the valuation of the Fund as at 31 March 2004 (available on Douglas Borough Council website: www.douglas.gov.im).

Summary of Methods and Assumptions Used

The valuation method and assumptions are described fully in our valuation report dated March 2005

My opinion on the security of the prospective rights is based on the projected unit valuation method as there is an exception that new employees are likely to join the Fund. This assesses the cost of benefits accruing to existing members during the year following the valuation, allowing for future salary increases. The resulting contribution rate is adjusted to allow for any difference in the value of accrued liabilities (allowing for future salary increases) and the assessed value of assets.

The main actuarial assumptions are:-

Financial Assumptions	Nominal at March 2004 % p.a	Real at 31 March 2004 % p.a
Investment Return	6.30%	3.40%
Pay Increases	4.40%	1.50%
Price Inflation/Pension Increases	2.90%	-

Assets of £15.55m were valued at their market value. The valuation showed that the assets of the Fund as at 31 March 2004 fell short of the value of accrued liabilities by £9m, leaving 63% of accrued liabilities funded. The next actuarial valuation is due with an effective date of 31 March 2007. Stepped increases in employers contributions have been approved to attempt to address the deficit over 17 years.

Peter Summers FFA

For and on behalf of Hymans Robertson LLP

17 May 2005

Independent Auditors' Report to the Mayor, Alderman and Burgesses of the Borough of Douglas as the Administering Authority of the Isle of Man Local Government Pension Scheme.

We have audited the financial statements for the year ended 31 March 2006 which are set out pages 19 to 27. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the administering authority, as a body, in accordance with the Superannuation Act 1984. Our audit work has been undertaken so that we might state to the administering authority those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the administering authority as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the administering authority and the auditors

As described in the Statement of Administering Authority Responsibilities, the administering authority are responsible for preparing financial statements which comply with applicable Isle of Man law and for making available certain information about the Scheme in the form of an Annual Report. Our responsibilities, as independent auditors, are established in the Isle of Man by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements show a true and fair view and contain the information specified in the Superannuation Act 1984. We report to you if we have not received all the information and explanations that we require for our audit.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises the Report by the Mayor, Alderman and Burgesses, the Investment Report, the Actuarial Statement, Foreword to the Financial Statements and Scheme Rules and Benefits. Our responsibilities do not extend to any other information.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by or on behalf of the administering authority in the preparation of the financial statements and of whether the accounting policies are appropriate to the Scheme's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements show a true and fair view of the financial transactions of the Scheme for the year ended 31 March 2006, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year;
- the financial statements contain the information specified in the Superannuation Act 1984; and
- the contributions payable to the Scheme during the year ended 31 March 2006 have been paid in accordance with the Scheme rules and the recommendations of the actuary.

MOORE STEPHENS
Chartered Accountants
Douglas, Isle of Man

30 November 2006

FOREWORD TO THE FINANCIAL STATEMENTS

The financial statements have been prepared on a market value basis. The net income from all transfer values received has increased by £118,339. Contributions have increased by £147,938. This has resulted in an overall increase in income in respect of Scheme members of £266,277. Retirement benefits and other payments made to or in respect of Scheme members during the year have increased by £120,495.

In overall terms the net additions from dealings with Scheme members during the year amount to £1,319,545 (2005: £1,173,763).

The net assets of the Scheme at 31 March 2006 have increased by £6.6 million (2005: increased by £3.00 million) to £25.15 million (2005: £18.55 million).

Financial Statements for the year ended 31 March 2006

	Notes	2006 £	2005 £
FUND ACCOUNT			
Contributions and Benefits			
Contributions receivable	3	2,357,659	2,209,721
Transfers in	4	255,816	137,477
		<u>2,613,475</u>	<u>2,347,198</u>
Benefits payable	5	(1,035,620)	(948,881)
Payments to and on account of leavers	6	(104,942)	(62,342)
Administrative expenses	7	(153,368)	(162,212)
		<u>(1,293,930)</u>	<u>(1,173,435)</u>
Net additions from dealings with members		<u>1,319,545</u>	<u>1,173,763</u>
Returns on investments			
Investment income	8	524,299	494,877
Change in market value of investments	9	4,858,916	1,400,731
Investment management expenditure		(104,606)	(69,171)
Net return on investments		<u>5,278,609</u>	<u>1,826,437</u>
Net increase in the Scheme during the year		<u>6,598,154</u>	<u>3,000,200</u>
Net assets of the Scheme			
At 1 April 2005		<u>18,551,480</u>	<u>15,551,280</u>
At 31 March 2006		<u>25,149,634</u>	<u>18,551,480</u>

The notes on pages 21 to 27 form part of these Financial Statements.

Financial Statements for the year ended 31 March 2006 - continued

	Notes	2006 £	2005 £
NET ASSETS STATEMENT			
Investments	9	24,856,669	18,291,942
Current assets and liabilities	11	292,966	259,538
		<hr/>	<hr/>
Net assets of the Scheme at 31 March 2006		25,149,635	18,551,480
		<hr/> <hr/>	<hr/> <hr/>

The notes on pages 21 to 27 form part of these Financial Statements.

D W CHRISTIAN JP
Chairman
Policy and Resources Committee
Borough of Douglas

27 June 2006

G M BOLT, CPFA
Borough Treasurer
Borough of Douglas

27 June 2006

Notes to the Financial Statements

1. Basis of Preparation

The financial statements have been prepared in accordance with The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 and with the guidelines set out in the Statement of Recommended Practice, "Financial Reports of Pension Schemes" (Revised November 2002), ("the SORP") as far as is practicable.

The financial statements summarise the transactions and net assets of the Scheme. Liabilities to pay pensions and other benefits which are expected to become payable after the year end of the Scheme year are not dealt with in the financial statements. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the Actuarial Statement on page 15 and these financial statements should be read in conjunction with that Statement.

2. Accounting Policies

The following principal accounting policies which have been applied consistently have been adopted in the preparation of the financial statements:

Contributions

Contributions represent the total amount receivable from Local Government employers and Admitted Bodies on the Isle of Man in respect of their own contributions and from active members. The employers' contributions are made at a rate determined by the Consulting Actuary necessary to ensure that the Scheme is able to meet its existing and prospective liabilities including indexation.

Benefits payable

Members can choose whether to take their benefits as a pension or a pension and lump sum. Pensions and lump sums are accounted for on an accruals basis from the date the option is exercised.

Transfers to and from other schemes

Transfers values represent the capital sums either receivable in respect of members from other pension schemes of previous employers or payable to the pension schemes of new employers for members who have left the scheme. They take account of transfers where the trustees of the receiving scheme have agreed to accept the liabilities in respect of transferring members before the year end, and where the amount of the transfer can be determined with reasonable certainty.

Notes to the Financial Statements - continued

2. Accounting Policies (continued)

Other expenses

Administrative expenses and investment management expenses are accounted for on an accruals basis. Expenses are recognised net of any recoverable VAT.

Investment income

Income from equities is accounted for on the date stocks are quoted ex-dividend. Income from overseas investments is recorded net of any withholding tax where this cannot be recovered.

Income from fixed interest and index-linked securities, cash and short term deposits is accounted for on an accruals basis.

Investments

Investments are held at market value. Equities traded through the Stock Exchange Electronic Trading Service (“SETS”) are valued on the basis of the latest mid-market price. Other quoted investments are valued on the basis of the mid-market value quoted on the relevant stock market. Pooled investment vehicles are valued at the average of the bid and offer prices provided by the relevant fund managers, which reflect the market value of the underlying investments. Unquoted securities are valued by the fund managers at the year end in accordance with generally accepted guidelines. Accrued interest is excluded from the market value of fixed interest securities but is included in investment income receivable.

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value.

3. Contributions Receivable

	2006 £	2005 £
Employers		
normal	1,837,752	1,723,872
special – Ramsey Town Commissioners	11,191	11,191
Members		
normal	495,113	463,153
Scheme additional	13,603	10,955
Additional voluntary contributions	-	550
	<u>2,357,659</u>	<u>2,209,721</u>

Notes to the Financial Statements - continued

3. Contributions Receivable (continued)

Contributions breakdown

	2006			2005	
	Employees Normal £	Employers Normal £	Employees Scheme Additional £	Total £	Total £
Borough of Douglas	277,134	1,032,773	9,580	1,319,487	1,219,943
Braddan Church, Vicar & Wardens	1,688	6,586	-	8,274	5,011
Braddan Parish Commissioners	9,626	31,283	-	40,909	29,471
Bride Commissioners	193	693	-	886	781
Castletown Commissioners	17,381	65,872	-	83,253	75,802
Crossroads Caring for Carers	1,763	5,044	-	6,807	10,457
Michael Commissioners	100	358	-	458	333
Kirk Onchan St Peters Church	872	3,126	-	3,998	3,902
Leonard Cheshire Foundation	651	1,705	-	2,356	4,688
Malew Parish Commissioners	6,609	24,789	1,335	32,733	29,147
Manx Churches Adoption & Welfare	9,175	32,877	-	42,052	52,780
Manx Foundation for Physically Disabled	1,894	6,791	-	8,685	8,305
Marashen Crescent Housing Committee	3,847	15,063	-	18,910	17,923
Northern Authority Swimming Pool Board	5,571	20,190	-	25,761	20,588
Onchan District Commissioners	53,549	198,424	-	251,973	246,785
Peel Town Commissioners	21,699	79,424	-	101,123	88,518
Port Erin Commissioners	14,431	54,332	-	68,763	60,296
Port St Mary Commissioners	10,269	36,796	-	47,065	49,493
Ramsey & Northern District Housing Committee	4,171	17,914	-	22,085	22,456
Ramsey Town Commissioners	43,624	162,121	2,688	208,433	202,254
Southern Authority Swimming Pool Board	7,502	29,535	-	37,037	33,460
Southern Civic Amenity Site Board	3,364	12,056	-	15,420	15,587
	495,113	1,837,752	13,603	2,346,468	2,197,980
Ramsey Town Commissioners					
Special Contributions				11,191	11,191
Additional Voluntary Contributions				-	550
				2,357,659	2,209,721

Notes to the Financial Statements - continued

4. Transfers In

	2006 £	2005 £
Individual transfers in from other Pension Schemes and Private Sector Institutions	255,816	137,477

5. Benefits Payable

	2006 £	2005 £
Retirement and dependants' pensions	801,560	694,663
Lump sum retirement grants	227,864	198,912
Lump sum death grants	6,196	55,306
	1,035,620	948,881

The value of pensions is arrived at after netting off employers recharge of £43,750 (2005: £44,503).

6. Payments To and On Account of Leavers

	2006 £	2005 £
Refunds of contributions	5,078	7,394
Payments to S2P	9,904	7,854
Individual transfers to other schemes	89,960	47,094
	104,942	62,342

7. Administrative Expenses

	2006 £	2005 £
Administering Authority	37,527	41,301
Fund Administrator	58,456	53,769
Actuarial	13,815	23,550
Investment Advice	40,950	43,475
Legal & Professional	2,528	-
Bank charges	92	117
	153,368	162,212

Notes to the Financial Statements - continued

8. Investment Income

	2006 £	2005 £
Income from fixed interest securities	106,368	96,983
Dividends from equities	212,542	224,699
Income from pooled investment vehicles	150,260	109,333
Interest on cash deposits	20,339	29,845
Income from index-linked securities	34,790	34,017
	<u>524,299</u>	<u>494,877</u>

9. Investments

	Value at 1.04.05 £	Purchases at Cost £	Sales Proceeds £	Change in Market Value £	Value at 31.3.06 £
Fixed interest securities	1,904,511	443,963	(1,138,348)	1,267,457	2,477,583
Equities	6,699,440	2,336,689	(1,939,824)	609,835	7,706,140
Index-linked securities	1,395,119	-	-	115,851	1,510,970
Pooled investment vehicles	6,303,805	2,513,101	(1,158,842)	2,865,706	10,523,770
Cash instruments	1,400,000	1,500,000	(590,000)	-	2,310,000
AVC Investments	4,252	-	-	67	4,319
	<u>17,707,127</u>	<u>6,793,753</u>	<u>(4,827,014)</u>	<u>4,858,916</u>	<u>24,532,782</u>
Other	116,243				110,009
Cash Deposits	468,572				213,878
	<u>18,291,942</u>				<u>24,856,669</u>

Notes to the Financial Statements - continued

9. Investments (continued)

	2006 £	2005 £
Fixed interest securities		
UK public sector quoted	805,110	616,266
UK quoted	1,672,474	1,288,245
	<u>2,477,584</u>	<u>1,904,511</u>
Equities		
UK quoted	<u>7,706,140</u>	<u>6,699,440</u>
Index-linked securities		
UK quoted	<u>1,510,970</u>	<u>1,395,119</u>
Pooled investment vehicles		
Unit trusts - property	2,748,681	1,684,422
- UK other	347,238	131,193
- overseas other	7,427,850	4,488,190
	<u>10,523,769</u>	<u>6,303,805</u>
Cash Instruments		
Sterling	<u>2,310,000</u>	<u>1,400,000</u>
Cash deposits		
Sterling	<u>213,878</u>	<u>468,572</u>
Other		
Accrued investment income	<u>110,009</u>	<u>116,243</u>

The following assets represented more than 5% of the net assets value of the Fund.

	2006	%	2005	%
Merrill Lynch Property Fund	2,115,331	8.4	1,684,422	9.1
Merrill Lynch Cash Instrument	2,310,000	9.2	1,400,000	7.5

Notes to the Financial Statements - continued

10. AVC Investments

The Administering Authority hold assets invested separately from the Fund with Norwich Union in the form of individual building society funds securing additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in this arrangement each receive an annual statement made up to 31 March confirming the amounts held to their account and the movements in the year.

	2006 £	2005 £
Norwich Union	4,319	4,252
	<u> </u>	<u> </u>

11. Current Assets and Liabilities

	2006 £	2005 £
Debtors		
Amounts due from employers	66,275	170,540
Other	3,037	18,937
Cash	284,181	211,740
	<u> </u>	<u> </u>
	353,493	401,217
Creditors and accruals	(60,527)	(141,679)
	<u> </u>	<u> </u>
	292,966	259,538
	<u> </u>	<u> </u>

Amounts due from employers are employers' and employees' contributions of £52,027 (2005: £133,371) and £14,248 (2005: £37,169) respectively, outstanding in the normal course of collection at the year end.

12. Related Party Transactions

Douglas Borough Council administrative expenses for the Isle of Man Local Government Pension Scheme, paid during the year amounted to £37,527 (2005: £41,301). These costs are made up of direct and indirect overheads.

SCHEME RULES AND BENEFITS

SCHEME MEMBERSHIP AND INCOME

- (a) All employees of the Borough of Douglas and other local authority and admitted body employers on the Isle of Man (other than a local authority or joint board defined as a resolution body) under the age of 65 are eligible for membership of the Isle of Man Local Government Superannuation Scheme 2003. Whole-time and part-time employees, whether permanent or temporary, become members automatically with the right to opt out (back-dated to the start of their membership if made within three months). Employees of resolution bodies are eligible for membership if the authority passes a resolution to that effect. Those employed by Admitted Bodies are eligible if the admission agreement specifies them as such.

Members' contributions from pensionable pay are 6%, except for employees who were carrying out manual duties immediately before 1 April 1998. For as long as they remain on manual duties their contributions are 5% of pensionable pay.

- (b) Transfer payments for pension rights in almost any other scheme can be accepted by the Scheme to increase benefits which may eventually become payable.
- (c) The participating employers must make the balancing contribution required to keep the Scheme solvent, having regard to existing and prospective liabilities. This is usually determined as a percentage of the members' normal contributions by the Consulting Actuary following each triennial actuarial valuation of the Scheme.
- (d) Employers are now required to fund early retirements (other than ill-health) and discretionary added years by making up front payments.
- (e) Monies not immediately required for the payment of benefits and other outgoings have to be invested in accordance with the provisions of Part L of the Scheme.

BENEFITS AVAILABLE

Two or more years' membership (or a transfer from a personal pension plan has been received):

- A. Retirement pension and lump sum awarded:
1. Payable immediately on cessation of employment:
 - (i) through permanent incapacity at any age, or
 - (ii) as a result of redundancy after age 50.
 2. Preserved and payable from retirement age in any other circumstances.

SCHEME RULES AND BENEFITS - continued

BENEFITS AVAILABLE (continued)

- B. Spouses' and children's pensions and a lump sum death grant following death:
- (i) in employment,
 - (ii) in receipt of retirement pension (a lump sum may **not** always be payable),
or
 - (iii) before preserved benefits become payable.

Under two years' membership (and no transfer has been received from a personal pension plan):

- A. Retirement pension and lump sum on retirement at age 65.
- B. Lump sum payable on retirement through permanent incapacity.
- C. Spouses' limited period pensions and a tax free lump sum death grant on death in employment.
- D. Children's continuing pensions.
- E. Refund of contributions when no other benefit payable.

PENSIONS INCREASE AWARDS

Retirement and dependants' pensions in payment and preserved are increased each year by the same Retail Prices Index percentage rate as that applied to State pensions.

TRANSFERS TO OTHER SCHEMES

When benefits are not payable immediately, a transfer can usually be made to another employer's pension scheme or to a personal pension plan or to purchase an insurance annuity bond.

Any enquiries regarding this Report should be addressed to:

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