2012 - 2013

CIVIL AVIATION AUTHORITY
OF THE CAYMAN ISLANDS







ANNUAL REPORT OF

THE CIVIL AVIATION AUTHORITY

OF THE CAYMAN ISLANDS



Director-General of Civil Aviation, P. H. Richard Smith, MBE FRAeS

The 2012/13 financial year was another successful year for the Authority that culminated in the highest net income ever realised. This result is testament to prudent management of the Authority's finances and the commitment and dedication of its employees. While there are many factors beyond the control of the Authority that could influence its financial performance, management has been diligent in its approach to ensure that efficiencies and service levels are optimised through training, IT implementation and upgrades, adherence to sound regulatory standards, and appropriate staff recognition and incentives.

The biennial assessment of the CAACI by the UK Government's Overseas Territories' aviation watchdog, Air Safety Support International (ASSI), was another positive outcome for the Authority. This assessment resulted in the Authority retaining its 'Full Designation' status to regulate all aspects of aviation in the Cayman Islands and aircraft entered on the C.I. Aircraft Registry, wherever they are operated. The assessment also highlighted some

areas of concern including recruitment of additional technically qualified staff and appropriate office accommodations, which are fervently being addressed.

During the period the CAACI was also subject to a judicial review regarding certification of the heliport in George Town. This resulted in a judgement unfavourable to the CAACI, which was a major disappointment and has caused the Authority to reassess its processes and legal authority in certain areas. Notwithstanding the judgment, the Authority is convinced that it adhered to the legal requirements and standards for certification and has filed an appeal to be heard by the Cayman Islands Courts of Appeal.

Overall, the CAACI is on sound footing to carry out its safety regulatory oversight functions and to maintain its financial self-sustainability.

CAACI Overview

The Civil Aviation Authority of the Cayman Islands (CAACI) is the statutory authority responsible for aviation regulatory (technical/safety & economic) oversight throughout the Cayman Islands and for aircraft registered in the Cayman Islands. The organization is headed by P. H. Richard Smith, MBE FRAeS and there are four regulatory divisions –

- The **Air Safety Regulation** division oversees the technical regulation of all aircraft on the Cayman Islands Aircraft Registry which operate both locally and globally.
- The **Air Navigation Services** division is responsible for the certification and licensing of aerodromes throughout the territory including Owen Roberts International Airport and the Charles Kirkconnell International Airport (formerly the Gerrard-Smith International Airport in Cayman Brac) and the Edward Bodden Airstrip (unlicensed aerodrome) in Little Cayman.
- The **Economic Regulatory & Administration** division provides economic regulatory oversight for air transport providers (licensing of scheduled and non-scheduled operators) and guidance in accordance with ICAO for airport operators;
- The **Finance & Compliance** division, ensures prudent financial management and compliance with the relevant local and international legislation for financial and compliance matters.

The CAACI has full designation for safety oversight as a UK Overseas Territory Aviation Authority (OTAA). In addition, the Cayman Islands is classified as Category 1 by the USA Federal Aviation Administration under their "International Aviation Safety Assessments" Programme that evaluates a country's civil aviation authority's ability to effectively regulate its aviation industry. The requirement for such rating lies with the CAACI being assessed as having technically qualified and appropriate administrative staff to effectively oversee the aviation industry in accordance with established standards and recommended practices of the International Civil Aviation

Organization (ICAO) – which is a special arm of the United Nations and the governing agency that sets the global standards for aviation.

Strategic Statements

Vision: Enhancing Aviation Safety through Regulatory Excellence

Mission statement: Through commitment to safety and partnerships the CAACI will provide sustainable regulatory oversight of the aviation industry to meet international standards.

Values that will characterize our work and daily activities:

i. **Safety:** first and foremost safety should characterize the reason that we are in business, enhancing safety in the aviation industry.
ii. **Excellence:** to be characteristic of everything that the CAACI undertakes;
iii. **Regulatory Objectivity:** to conduct the primary responsibility with objectivity and impartiality;
iv. **Partnerships:** strive to develop positive beneficial partnerships both internal to the organization (internal customers, staff members, board of directors, to each other); and external to the organization (with clientele, operators, associates, colleagues, etc) in an atmosphere of teambuilding and respect.
v. **Integrity:** should be an underlying value for all our activities, conduct of staff at all times should reflect integrity.
vi. **Leadership:** to build and promote a shared commitment to the strategic direction of the organization and the achievement of the goals and objectives towards full realization of the mission and vision, while inspiring others to succeed and share information, knowledge, and ideas proactively.

Governance Report

Board of Directors Report

For this period the Board was comprised of the following directors:-

- ✈ Ms. Sheridan Brooks-Hurst, Chairman
- ✈ Mr. Kirkland Nixon, MBE, QFSM, JP, Deputy Chairman
- ✈ Mr. Christopher Bodden
- ✈ Mr. William McTaggart
- ✈ Mr. Morris Garcia
- ✈ Mr. Ronnie Dunn
- ✈ Mr. Eric Bush

The Board of Directors is responsible for governance and overseeing the effective performance of the Authority as per the Civil Aviation Authority Law (2005 Revision).

Cayman Islands Government Interaction (Governor's Office or Deputy Governor's Office)

Safety regulatory oversight matters are carried out in accordance with the powers conferred on the Governor through the Air Navigation (Overseas Territories) Order and delegated to the CAACI through the Director-General of Civil Aviation. The Authority currently holds unconditional designation for the regulation of all areas of civil aviation, as provided for by the UK Secretary of State directions. The Civil Aviation Authority falls within the Portfolio of Internal/External Affairs (the Deputy Governor's Office).

Year in Review

Administration

Human Resources

The staff compliment at 30 June 2013 was 20. During the period there were 2 staff changes, one resignation and one immigration term limit expiry, of which only one staff member was replaced. At the end of the period, recruitment was also on-going for an additional airworthiness surveyor to support the growing aircraft registry. It is envisioned that this post will be filled in the first quarter of the new financial year.

Training

Staff from all divisions underwent necessary training as per defined training plans. Technical staff participated in various group training initiatives staged by ASSI as required to maintain their technical competencies. ASSI also in this period introduced training 'webinars' to take advantage of e-training opportunities with staff from ASSI in the UK and staff from the OT Aviation Authorities. Administrative staff took advantage of local training initiatives offered by the Chamber of Commerce or other local providers. The annual airworthiness surveyors' conference took place in February 2013, in the UK where the Cayman based staff met with the surveyors that are based in the UK, Europe and North America.

The CAACI in conjunction with the University College of the Cayman Islands (UCCI) hosted the first International Air Transport Association (IATA) accredited course on island, with 20 students (maximum

attendance) enrolling in "Aviation Law for Managers" for the week of 29 April – 3 May 2013. Participants from Cayman Airways, the Cayman Islands Airports Authority (CIAA), Air Agencies (ground handler) and the CAACI attended this milestone course led by an IATA appointed instructor. The CAACI spearheaded the offering of this course as it is a foundation course for any aviation professional in either a regulatory role or management service provision role.

The CAACI continued its support for the "Introduction to Air Transport Management" course that is offered at UCCI each year. The course can be used as an elective for Associate or Bachelor degree seeking students or as an independent certificate course for professionals in the aviation/air transport industry. It seeks to provide for the attendee a complete overview of the air transport industry including the historical perspective of the establishment of the International Civil Aviation Organization, the global standards and recommended practices observed by all signatories to the Convention on Aviation, the legislative framework that dictates local regulations, and general overviews of the operational areas such as ramp control, security, dangerous goods management, airport operations, marketing and commercial considerations, etc. It is envisioned that over time this course can be accredited by IATA and can attract attendees from the Caribbean and Central/Latin American regions.

Information Technology Systems

Following on from a successful launch of phase 1 of VP-C Online (CAACI's customised electronic data management portal) in May of 2012, this phase has been refined over the period and development work

commenced on phase 2. This new phase will focus on added functionality associated with the aircraft registry processes including due diligence/compliance, personnel licensing, approval of maintenance organizations globally, deregistration of aircraft, and statistics and audit reporting. CAACI will continue working with the Brac Informatics Centre (BIC) team to fully integrate this electronic initiative that will enhance efficiencies in managing the aircraft registry processes.

During the period, the CAACI commissioned local firm Fiderus to conduct an IT audit to verify current IT policies and processes were within best industry practise standards and to identify any significant problems. Some minor issues were identified and system refinement recommendations have been undertaken. As a result of the resignation of the IT Administrator, the CAACI contracted Fiderus through an open 'bid and tender' process to fulfil the Authority's day-to-day IT requirements. The CAACI has seen the benefit of such an arrangement since the award of this contract, as they have staff with varying levels of knowledge and capabilities and high level IT business solution capabilities and experience.

Business Development & Promotional Activities

NBAA 2012 – The CAACI exhibited at the 65th annual National Business Aviation Association (NBAA) tradeshow, held at the Orange County Convention Centre (OCCC) in Orlando, Florida on October 30th - 1st November, 2012. There were 1,073 exhibitors occupying 4,361 booth spaces and the show closed with 25,150 registered attendees. NBAA 2012 also featured 105 aircraft on two separate static displays. Exhibiting along with the CAACI were legal and financial firm Appleby

Global and Thorp Alberga, Caledonian Global Financial Services, local ground handler and fixed base operator (FBO) Island Air, and Budget Rental Car agency representing the Cayman Islands Tourism Association (CITA This was the largest delegation of Cayman Islands' businesses jointly exhibiting with the CAACI at any tradeshow to date. The Department of Tourism (DOT) donated giveaways and tourism materials.

International Corporate Jet Finance Conference, London 2013 – the Director-General and Director of Finance & Compliance attended the 3rd annual event. The conference focused on key subject areas such as business jet finance options, forecasting trends of key markets globally, taxes on business aviation operations, trends in the large aircraft market and options for aircraft registration. Of particular note was the panel discussion that focused on the wide range of jurisdictions that now offer aircraft registration services, the value that the registry brings to these jurisdiction, and the key differences and similarities of the respective registries. The DGCA was an invited speaker on the panel to this lively and robust discussion, which allowed the C I Aircraft Registry to be highlighted as a preferred choice for registration. The panel was moderated by Richard de Basto, Partner at the Cayman office of Mourant Ozannes, a well-known international law firm. Other participants on the panel included representatives from the Aruba, Bermuda, San Marino and Isle of Man aircraft registries.



Director-General Richard Smith &
Director of Finance and Compliance

ABACE 2013 – The second annual Asian Business Aviation Convention & Exhibit (ABACE) was held in Shanghai, China in April. The Asian region is an important emerging market for business aviation that currently generates 20% of the Authority's revenues in aircraft registration. ABACE 2013 saw the number of exhibitors grow by 15% and the static display of aircraft by 25%. The Director-General attended this record breaking event for the second consecutive year and concluded that the CAACI will exhibit there in 2014.

EBACE 2013 – the CAACI exhibited at the 13th Annual European Business Aviation Convention & Exhibition (EBACE) tradeshow, which is held annually at the PalExpo in Geneva, Switzerland during the month of May. Show organizers reported a total of 12,353 delegates that attended the event, 460 exhibitors making it the third highest number in the event's 13 year history. The static was sold out with a waiting list bringing the number of aircraft on display to 52. On this occasion, law firm Maples and Calder exhibited with the CAACI allowing their representative to answer questions on company registration, legal and fiduciary services offered, and other related matters. As always, the CAACI had representation materials from the Cayman Islands Dept. of

Tourism, information on the C I Shipping Registry and the Dept. of Commerce and Investment as well as Cayman Airways for commercial air travel.



CAACI with business partners during NBAA 2013 in Orlando, Florida

In addition to relevant tradeshow exhibitions, the CAACI worked with local and international media houses on initiatives designed to increase the awareness of specific target audiences to the C I Aircraft Registry, such as China Offshore and Arabian Aerospace that are credible publications in two emerging markets.

Regulatory Disciplines

Air Safety Regulation (ASR) Division – is responsible for the regulation and compliance of airworthiness and flight operations standards in accordance with the Overseas Territories Aviation Requirements (OTARs) for all aircraft on the Cayman Islands Aircraft Registry including the local Air Operator Certificate (AOC) holders.

Lead by the ASR team at head office in Grand Cayman, there are also 3 contracted airworthiness surveyors located in the UK, 2 in Germany, 1 in Switzerland and 1 in Canada. The contracted surveyors support the required aircraft airworthiness surveys and maintenance facility inspections globally. ASR Flight Operations staff conducted various audits and proficiency checks of flight crews for local AOC holders.

Statistics for the CI Aircraft Registry at 30 June 2013:

- ✈ Total of 201 aircraft entered on the register
- ✈ 25 de-registrations occurred during the period
- ✈ 35 new aircraft registrations during the period
- ✈ Net growth of 10 aircraft since 30 June 2012
- ✈ 789 pilot license validations issued during the period
- ✈ 81 maintenance organization approvals issued

Air Operator Certificate (AOC) holders:

- ✈ Cayman Airways, Ltd
- ✈ Cayman Airways Express
- ✈ Cayman Islands Helicopters
- ✈ MRCU
- ✈ Royal Cayman Islands Police Service
- ✈ CHC Global Operations, Inc.

Significant developments in Airworthiness and Flight Operations

Airworthiness Product Audits (the programme used to identify how an organisation responsible for ensuring the aircraft it manages is maintained in an airworthy condition) were conducted for Cayman Airways and Cayman Airways Express. In addition, the airworthiness inspectors engaged in various continuing airworthiness management meetings with the local AOC holders.

The Flight Operations inspectors conducted proficiency checks of flight crews of the local AOC holders. Other regulatory activities included cabin safety inspections, flight test simulator (SIM) monitor rides, Safety Management Systems (SMS) meetings, and safety inspections of foreign aircraft operating to the jurisdiction to ensure compliance with regulatory and safety requirements. In addition to this, various overseas safety regulatory meetings with operators on the C I Aircraft Registry were held.

On 31 August 2012, Cayman Airways was granted approval to use Electronic Flight Bags on board all Cayman Airways' B737 aircraft. This is the first EFB approval issued to a Cayman air transport operator.

An Electronic Flight Bag (EFB) is an IT management device that helps flight crew members perform flight management tasks more easily and efficiently with less paper. It is a general purpose computing platform, in this case an Apple IPad, that replaces much of the paper-based reference material often found in the pilot's carry-on flight bag. The Aircraft Flight Manual, Company Operations Manual, Minimum

Equipment List and navigation charts are just some of the documents now carried in the EFB.

The EFB enhances safety by allowing the pilots to access information more easily. Documents are easier to update than traditional paper manuals thus ensuring pilots always have the most up-to-date information at hand. EFB's also save weight which results in fuel savings for the operator.



Flight Operations Manager (designate) Steve Scott and Director-General Richard Smith hand over the approval to Cayman Airways representatives to use Electronic Flight Bag (EFB) Sept 2012

The DGCA and ASR team also attended the annual meeting with the General Authority of Civil Aviation (GACA), Saudi Arabia, conducted in February in Jeddah, Saudi Arabia. This meeting is a crucial component of the Article 83bis agreement between the CAACI and GACA that governs the arrangements for regulatory responsibilities for Cayman Islands registered aircraft operating commercially within Saudi Arabia. National Air Service (NAS) is a commercial airline based in Riyadh, Saudi Arabia

that operates Cayman Islands registered aircraft. The annual meeting with both the operator and Saudi Arabian regulator, NAS and GACA, is required to ensure that all regulatory requirements are met and to assess the delegation of regulatory responsibilities between the CAACI and GACA and address any matters arising.

Air Navigation Services Regulation (ANSR) Division

During the period the ANSR division carried out its responsibilities with the safety oversight of the islands' aviation infrastructure on all three islands. The workload was significantly higher this year as a result of the legal challenge to the certification of the George Town Heliport on 10th November 2011. This challenge eventually led to a Judicial Review (JR) of the CAA's decision to certify the site, which resulted in a judgment unfavourable to the CAACI. An appeal against the judgment has been filed and is expected to be heard by the Cayman Courts of Appeal in late 2013.

In November 2012, ANSR, supported by an overseas contract inspector, conducted the bi-ennial audit of the CIAA's organisational structure, processes and procedures at both the Owen Roberts International Airport (ORIA) and the Charles Kirkconnell International Airport (CKIA). Subsequent to the audit, the CAACI maintains close liaison with the CIAA in addressing the findings and observations through an agreed Corrective Action Plan.

In February 2013, ANSR divisional personnel also carried out a review of the competency of the CIAA's Air Traffic Control Officers (ATCOs) for the issuance of annual certificates of competence for each controller. Also during the period, three Student ATCO licences were issued and three

ORIA ATCOs were validated at CKIA tower in order to provide for sick and holiday cover to the depleted resources there.

Other activities carried out by ANSR during the period included:

i) Working with the CIAA to address the outstanding findings and observations arising from the 2010 audit.

ii) Developing a policy to accept by way of validation, US registered home built experimental aircraft together with an allied proposal to exempt the same aircraft from the requirement to carry a 406MHz Emergency Locator Transmitter) whilst flying in Cayman Islands airspace; this exemption was made on the basis that the aircraft carry an acceptable alternative emergency beacon. The combined effect of these decisions will be that the Cayman Islands would become an attractive leisure destination for the owners of such aircraft previously excluded from Cayman Airspace, with no degradation in safety of operation.

iii) The development of a policy for the operation of unmanned aerial vehicles (UAV) in Cayman Islands airspace as recently permitted by the AN(OT)O. The draft policy document was referred to the Attorney General's Chambers for a legal opinion and has subsequently been forward to the CIAA (as the airspace users) for consultation on operating restrictions.

iv) Co-ordinating the CIAA's response to the extensive State Aviation Activity Questionnaire designed to produce an international database for ICAO's Universal Safety Oversight Audit Programme (USOAP).

v) The development of an Access based database to manage the processing of Mandatory Occurrence Reporting. The new

database will provide a flexible system which can be interrogated to provide trend analysis and reports.

Economic Regulation Division– this division is responsible for the oversight and issuance of required permits for all foreign registered aircraft that operate to/from the islands for commercial purposes, including scheduled and non-scheduled operations. Seasonal operating permits are issued to the scheduled airlines and some air ambulance operators, whereas on demand permits are issued for ad-hoc charter operations and other non-schedule operations. Much of this activity is closely tied to the Cayman tourism industry and is influenced by the global economic condition, as many of these operations are provided for high net worth business and leisure travellers.

Type of permit	2010 – 2011	2011 - 2012	2012-2013
Non-scheduled/charter	446	475	535

The increase in non-scheduled/charter arrivals is closely tied to the recovering tourism and the stay-over sector of the tourism market.

There was little change in seasonal scheduled operating permits issued, with the exception of the addition of service by JetBlue from New York (JFK) and Boston, Massachusetts, the discontinuation of the Aero Gaviota flights from Cuba and the amalgamation of United and Continental into one company (only listed as United below). Permits were issued to:-

- Aerolineas Sosa
- Air Canada
- American Airlines
- IBC (cargo only)
- Delta Airlines
- JetBlue
- United Airlines

- US Airways
- West Jet

Finance & Due Diligence

Financial Summary

1.1 **Net Income:** the year ended June 30, 2013 yielded an audited net income of CI$2,802k which is $1,103k (or 65%) over the budgeted net income of $1,699k. This growth in net income is mainly due to the increase in revenues from an increase of larger aircraft on the register and a 7% and 5% increase in aircraft on register in the past two years. The increase in net income is also due to significant savings in expenses under the budgeted amounts. These savings in expenses occurred in most areas, the largest portion being in personnel and travel and subsistence costs.

Revenues

2.1 **Aircraft registry income** includes aircraft registration and airworthiness certification fees, aircraft mortgage registration fees, Air Operator's Certificate Fees (local and foreign based aircraft), flight crew and maintenance personnel licensing fees, and certification fees for Approved Maintenance Organisations and Continuing Airworthiness Maintenance Organisations.

The revenues continue to grow due to the managed growth in the number of aircraft on the register in the past two years. The number of aircraft on the register has grown from 177 at June 30, 2011 to 201 at June 30, 2013, an increase of 13.6%. This growth aligns with the Strategic Plan of the Authority which projects and plans for a 5-8% growth each year. A portion of the increase in revenue is also due to heavier private aircraft being registered.

The growth in the number of aircraft is accompanied by an increase in Cayman Islands Approved Maintenance Organisations throughout the world servicing Cayman registered aircraft. The certification of these organisations provides another source of revenue for the Authority.

2.2 **Aerodrome certification and licensing revenues** are derived from charges for the certification, licensing, inspection and regulatory oversight of airports, air traffic control and air navigation services. A Memorandum of Understanding (MoU) signed between the CAACI and CIAA provides for the CIAA to pay the CAACI a fixed annual sum of $1M for safety regulatory oversight of these facilities.

2.3 **Air operator permit approvals** are issued to scheduled and non-scheduled commercial foreign registered aircraft flying into the Cayman Islands and provide a source of revenue. This revenue stream has been growing steadily at an average growth of 9% over the past two years.

Expenses

3.1 Total recurrent expenditure was $227k below budgeted amount for the year ended June 30, 2013. Savings in most expense categories was attained with the largest being in personnel costs. The largest variances from budgeted expenses are explained as follows:

- Personnel costs - $166k below budget: A budgeted Safety Officer Post for the Aerodrome Division has not yet been filled. Also, budgeted salary scale increases and performance incentive awards for all staff was not fully realised
- Training - $35k below budgeted amount. Some training for the Air Safety Division was postponed until the 2013-14 year and some planned training for the other Divisions did not occur during the period.
- Travel costs – Business Development ($51k below budgeted amount): Planned travel to Middle East Business Aviation (MEBA) tradeshow did

not occur in December 2012 as planned. Cost of the NBAA show in October 2012 was lower than budgeted due to the show being in closer proximity than the year before. Also, CAACI exhibition at the Asian Business Aviation Conference Expo (ABACE) in Shanghai did not occur. Instead, one CAACI representative travelled to Shanghai to establish contacts and make further assessment to determine the CAA's level of exhibition in 2013-14.

- Air Safety Support International (ASSI) annual fee of £114k has been accrued at CI$143k. This fee is based on a policy directive from the Department for Transport in the UK to the Cayman Islands Government (CIG)signed by both parties in November 2011.
- Accrual for Professional Fees was increased due to an increase in audit fees for the audit year 2011-12.
- Legal fees are over the budgeted amount by $26k. All legal fees expended in this fiscal year relate to the judicial review concerning the George Town heliport, which was unbudgeted for this financial year. The Professional Indemnity insurance deductible is US$50k and was fully absorbed by the end of the financial year.

4.1 **Capital Expenditure** is below budget due to the Human resources software development project – Performance Path - not being completed in the time frame anticipated, therefore instalments on final phases of the project will be made in the latter half of 2013. Leasehold Improvement expenditure is a special project to expand the office space at Grand Harbour to include another rental unit. This project was approved by the Board in February 2013 and was completed in August 2013.

In February 2013 the Board also approved for the DGCA to negotiate with the CIAA on acquiring the former Cayman Airways Limited (CAL) headquarters building on Airport Road for redevelopment as future office accommodation for the CAACI. The Board approved expenditure of $250,000 in the 2013-14 budget to cover initial structural and engineering assessments as well as bring the building to a point where the main construction phase could begin. The

Authority expended $4,523 on structural and engineering assessments during the financial year 2012-13.

Appendix A

CIVIL AVIATION AUTHORITY
OF THE CAYMAN ISLANDS

Financial Statements

30 June 2013

CIVIL AVIATION AUTHORITY
OF THE CAYMAN ISLANDS

CIVIL AVIATION AUTHORITY OF THE CAYMAN ISLANDS

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CIVIL AVIATION AUTHORITY
OF THE CAYMAN ISLANDS

STATEMENT OF RESPONSIBILITIES
30 June 2013

These financial statements have been prepared by the Civil Aviation Authority of the Cayman Islands in accordance with the provisions of the Public Management and Finance Law (2012 Revision).

We accept responsibility for the accuracy and integrity of the financial information in these financial statements and their compliance with the Public Management and Finance Law (2012 Revision).

As Director-General, I am responsible for establishing and have established and maintain a system of internal controls designed to provide reasonable assurance that the transactions recorded in the financial statements are authorised by law, and properly record the financial transactions of the Civil Aviation Authority of the Cayman Islands.

As Director-General and Director of Finance, we are responsible for the preparation of the Civil Aviation Authority of the Cayman Islands financial statements and for the judgements made in them.

The financial statements except for the effects of the defined pension liability fairly present the financial position as at 30 June 2013 and its comprehensive income and cash flows of the Civil Aviation Authority of the Cayman Islands for the financial year ended 30 June 2013.

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

a) Except for the effects of the defined pension liability, completely and reliably reflect the financial transactions of Civil Aviation Authority of the Cayman Islands for the year ended 30 June 2013;
b) Except for the effects of the defined pension liability, fairly reflect the financial position as at 30th June 2013 and its comprehensive income for the year ended 30th June 2012;
c) Comply with International Financial Reporting Standards under the responsibility of the International Accounting Standards Board.

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

P.H. Richard Smith (Mr.)
Director-General
Date: 28 Oct. 2013

Jane Panton (Mrs)
Director of Finance and Compliance
Date: Oct 28, 2013

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AUDITOR GENERAL'S REPORT

To the Board of Directors of the Civil Aviation Authority of the Cayman Islands

I have audited the accompanying financial statements of the Civil Aviation Authority of the Cayman Islands (the "Authority"), which comprise the statement of financial position as at 30 June 2013 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 4 to 19 in accordance with the provisions of Section 60(1)(a) of the *Public Management and Finance Law (2012 Revision)*.

Management's Responsibilities for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion

As disclosed in Note 7 of the financial statements, pension contributions for eligible employees of the Authority are paid to the Public Services Pension Fund which is administered by the Public Service Pensions Board. The management of the Authority is currently in discussions with the Public Sector Pensions Board in order to obtain a revaluation as of June 2004. The revaluation is a result of some of the original elements of the basis of valuation being changed.

As a result of the above mentioned issues, I am also unable to determine whether the net worth at 30 June 2013 is fairly stated.

Qualified Opinion

In my opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion the financial statements present fairly, in all material respects, the financial position of Civil Aviation Authority of the Cayman Islands (the "Authority") as at 30 June 2013 and its comprehensive income and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Alastair Swarbrick, MA (Hons), CPFA
Auditor General

28 October 2013
Cayman Islands

Civil Aviation Authority of the Cayman Islands
Statement of Financial Position
As at June 30, 2013
Stated in Cayman Islands dollars

	Note	2013	2012
Assets			
Current assets			
Cash and cash equivalents	3(a)	1,923,757	1,576,822
Short term investments	3(b)	6,994,954	6,547,736
Trade and other receivables (net)	4	1,758,374	1,134,090
Total current assets		10,677,085	9,258,648
Non-current assets			
Capital assets (Net of accumulated depreciation)	5	179,544	162,629
Total non-current assets		179,544	162,629
Total Assets		10,856,629	9,421,277
Liabilities and Equity			
Current liabilities			
Accounts payable and accrued liabilities	6(a)	990,811	777,688
Dividend payable to Cayman Islands Government	6(b)	4,068,127	1,532,583
Total current liabilities		5,058,938	2,310,271
Non-current liabilities			
Defined benefit pension liability	7	585,458	632,458
Total non-current liabilities		585,458	632,458
Total Liabilities		5,644,396	2,942,729
Equity		5,212,233	6,478,548
Total Liabilities and Equity		10,856,629	9,421,277

Approved for issuance on behalf of Civil Aviation Authority's Management on

28 Oct. 2013 Director General

Janet Fenton Oct 28, 2013 Director of Finance & Compliance

CIVIL AVIATION AUTHORITY OF THE CAYMAN ISLANDS

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

Civil Aviation Authority of the Cayman Islands
Statement of Comprehensive Income
For the year ended June 30, 2013
Stated in Cayman Islands dollars

	Note	2013	2012
Revenue			
Air Safety Regulation and certification fees	9 (b)	4,116,912	3,410,149
Aerodrome oversight fees	9 (a)	1,000,000	1,000,000
Surveyor fees and net reimbursable expenses	9 (c)	852,121	766,113
Aircraft operating permits	9 (d)	256,700	234,250
Other income	9 (e)	60,791	195,903
Total revenue		**6,286,524**	**5,606,415**
Expense			
Personnel costs	10 (a)	2,465,790	2,811,947
Office administration and business development	10 (b)	536,543	438,475
Professional and licensing fees	10 (c)	322,412	180,381
Travel – official, training and administrative	10 (d)	114,320	100,252
Depreciation	5	37,420	37,879
Bad debt expense	4	8,167	4,153
Total expenses		**3,484,652**	**3,573,087**
Net income		**2,801,872**	**2,033,328**

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

Civil Aviation Authority of the Cayman Islands
Statement of Cash Flows
For the year ended June 30, 2013
Stated in Cayman Islands dollars

	2013	2012
Cash flows from operating activities		
Net income for year	2,801,872	2,033,328
Adjustments for:		
Prior year difference in equity	(60)	-
Depreciation expense	37,420	37,879
(Increase) / Decrease in accounts receivable	(624,284)	186,854
Increase in accounts payables and accrued liabilities	213,123	227,335
(Decrease)/Increase in defined pension liability	(47,000)	178,000
Net cash from operating activities	2,381,071	2,663,396
Cash flows used in investing activities		
(Increase) in short term investments	(447,218)	(871,445)
Purchase of capital assets	(54,335)	(60,799)
Net cash used in investing activities	(501,553)	(932,244)
Cash flows used in financing activities		
Dividends paid*	(1,532,583)	(1,398,000)
Net cash used in financing activities	(1,532,583)	(1,398,000)
Increase in cash and cash equivalents	346,935	333,152
Cash and cash equivalents at beginning of the year	1,576,822	1,243,670
Cash and cash equivalents at end of the year	1,923,757	1,576,822

**The current year dividend has not been paid as at June 30, 2013 and has not been included in the cash flow.*

The accompanying notes form an integral part of these financial statements

Civil Aviation Authority of the Cayman Islands
Statement of Changes in Equity
For the year ended June 30, 2013
Stated in Cayman Islands dollars

	Note	2013	2012
Balance at beginning of year		6,478,548	6,375,803
Net income for the year		2,801,872	2,033,328
Adjustment for prior year		(60)	-
Dividend Paid	6(b)	-	(398,000)
Dividend Payable	6(b)	(4,068,127)	(1,532,583)
Balance at end of year		5,212,233	6,478,548

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

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
For the year ended June 30, 2013
Stated in Cayman Islands dollars

1. Background information

The Civil Aviation Authority of the Cayman Islands ("the Civil Aviation Authority", "the Authority", or "CAA") is a statutory body established under the Civil Aviation Authority Law of 2004. The Authority is wholly owned by the Cayman Islands Government (CIG).

The Authority's primary responsibility is the safety and economic regulatory oversight of the Cayman Islands' aviation industry. As such, the Authority regulates the operation of aircraft, aerodromes, air traffic control and air navigation services within the Cayman Islands and ensures economic regulatory oversight of airlines and aerodrome providers serving the jurisdiction. The Authority is also responsible for maintaining the Cayman Islands Aircraft Registry and for regulating the operation of aircraft entered therein wherever they are operated globally.

The statutory instrument providing enabling legislation is the Air Navigation (Overseas Territories) Order [AN(OT)O] 2007 (the Order), as amended. The Governor has promulgated the Overseas Territories Aviation Requirements (OTARs) as a means of compliance with the Order. The Air Navigation (Fees) Regulation, 2010 (Amendment) governs the fees structure of the Authority.

The registered address of the Civil Aviation Authority is P.O. Box 10277 APO, Grand Cayman, Cayman Islands and is located at Cayman Grand Harbour. The Civil Aviation Authority has 20 employees as at June 30, 2013 (2012:22).

2. Significant Accounting Policies

Basis of Presentation

The financial statements of the Authority are prepared on the accrual basis under the historic cost convention in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and interpretations issued by the Standing Interpretations Committee of the International Accounting Standards Committee (IASC). The reporting currency is Cayman Islands dollars.

The significant accounting policies adopted by the Authority in these financial statements are as follows:

a) Depreciation

Capital assets are recorded at their historical cost less accumulated depreciation. Depreciation is calculated using the straight-line method at the following rates estimated to write off the cost of the assets over their expected useful lives:

Computer hardware and licensed software	3 years
Office equipment, vehicles and leasehold improvements	5 years
Developed computer software	6 years
Furniture and fixtures	10 years

b) Foreign currency translation

Foreign currency transactions are recorded at the exchange rates prevailing on the date of the transactions. Assets and liabilities recorded in currencies other than Cayman Islands dollars are translated at exchange rates in effect at the statement of financial position.

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
For the year ended June 30, 2013
Stated in Cayman Islands dollars

2. Significant Accounting Policies (continued)

c) Cash and cash equivalents

Cash and cash equivalents include cash held on demand and on short notice and all deposits with an original maturity date of three months or less.

d) Revenue recognition

Fees charged for services rendered during the year are non-refundable and are recognised as revenue in the income statement in the period in which these are earned.

e) Financial Assets and Liabilities

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

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

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

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

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

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

f) Use of estimates

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

- reported amounts of assets and liabilities
- disclosure of contingent assets and liabilities at the date of the financial statements
- the reported amounts of revenue and expenses during the reporting period.

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

g) Lease of premises - The lease expense of premises is recognised when incurred.

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
For the year ended June 30, 2013
Stated in Cayman Islands dollars

3. Cash and short term investments

a) **Cash and cash equivalents**	**2013**	**2012**
Cash on hand	481	4,301
Current and call accounts	1,923,276	1,572,521
Total cash and cash equivalents	1,923,757	1,576,822
b) **Short term investments**		
Fixed Deposits	6,994,954	6,547,736

All fixed deposits are held with Cayman National Bank and have maturity dates over 90 days but within 365 days. See Note 11.

4. Trade and other receivables

	2013	**2012**
Accounts receivables - Trade	1,699,924	1,087,370
Other receivables	66,617	71,179
Allowance for doubtful accounts	(8,167)	(24,459)
Trade and other receivables (net)	$1,758,374	$1,134,090

CAA currently has a bad debt policy in place that includes the approval process, those appointed to approve, the required evidence that needs to be produced, the level or maximum amount management can approve and the reporting process to the Board on those write offs. Bad debts are to be written off in the following year after provision if the account is still outstanding and determined uncollectable.

The bad debts expense recorded in the Statement of Comprehensive Income of $8,167 for 2013 (2012 - $4,153) represents amounts owed that were over a year old and thus provided for in the allowance for doubtful accounts for the year.

Of the total accounts receivable outstanding at June 30, 2013, $250,000 (2012 - $250,000) was due from the Cayman Islands Airports Authority for the quarterly fee due for Regulatory services under the Memorandum of Understanding (MOU) referred to in note 10 and $243,979 (2012 - $66,924) was due from Cayman Airways for various services.

The total Trade Receivables below represents the net between Accounts Receivables – Trade ($1,699,924) (2012 - $1,062,911) and Allowance for doubtful accounts ($8,167) (2012 - $24,459).

Aging Profile of Trade Receivables

Period Outstanding (Days)	**2013**	**2012**
1-30	834,795	863,885
30-90	532,038	206,843
Over 90	324,924	(7,817)
Total	**1,691,757**	**1,062,911**

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
For the year ended June 30, 2013
Stated in Cayman Islands dollars

4. Trade and other receivables (continued)

The movement in allowance for doubtful accounts is detailed as follows:

	2013	2012
Opening provision	24,459	164,763
Bad debts provided for during the year	8,167	4,153
Less recoveries	(5,067)	(144,457)
Write off accounts previously provided (Including CFC concession of $2,250)	(19,392)	-
Closing provision	$8,167	$24,459

5. Capital Assets

	Leasehold Improvements	Furniture & Fixtures	Computer Hardware	Computer Software	Office Equipment	Future Office Building	Vehicles	Total
Historical Cost of Assets:								
Cost as at July 1, 2012	122,077	114,940	116,258	97,981	34,962	-	50,312	536,530
Purchases during 12/13	8,944	769	5,343	32,773	1,985	4,523	-	54,337
Disposals during 12/13	-	-	-	-	-	-	-	-
As at June 30, 2013	131,021	115,709	121,601	130,754	36,947	4,523	50,312	590,867
Accumulated Depreciation:								
Balance Forward, as at July 1, 2012	122,077	59,479	108,069	11,450	24,016	-	48,812	373,903
Charge for year 12/13	-	9,157	5,116	17,052	4,595	-	1,500	37,420
Adjustments 12/13	-	-	-	-	-	-	-	-
As at June 30, 2013	122,077	68,636	113,185	28,502	28,611	-	50,312	411,323
Net Book Value 2012	-	55,461	8,189	86,532	10,946	-	1,500	162,627
Net Book Value 2013	8,944	47,073	8,416	102,252	8,336	4,523	-	179,544

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
For the year ended June 30, 2013
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6. Liabilities and related party transactions

a) Accounts payable and accrued liabilities

	2013	2012
Unearned income	319,035	407,014
Performance incentive payable	214,527	145,700
Accrued expenses	321,672	179,663
Accounts payable	123,486	34,743
Unidentified deposits and unresolved issues	12,091	10,568
Total Accounts payable / Accrued liabilities	990,811	777,688

b) Related party balances and transactions

Dividend payable to Cayman Islands Government

Under section 18(4) of *The Civil Aviation Authority Law (2005 Revision)*, the Authority is required to make an annual payment into the general revenue of the Cayman Islands Government which is to be calculated by a formula determined by the Financial Secretary. In March 2012, a directive was issued by the Financial Secretary and agreed by the Authority detailing the formula and the terms of the dividend repayment to the Cayman Islands Government. The directive indicated that the Authority would pay 75% of the annual Net Income first reported to the Office of the Auditor General within three months of the end of the financial year. A revision in the directive in July 2013 indicated that an adjustment be made in the subsequent year for any difference with the audited net income. A total dividend of $1,532,583 for the 2012 fiscal year was paid out before this financial year end. A provision at June 30, 2013 is made for the repayment of the dividend to the Government based on the established formula as well as an additional amount requested by the Minister of Finance as part of the Government's Fiscal Management Policy.

	2013	2012
Dividend payable to Cayman Islands Government	4,068,127	1,532,583

c) The Authority also has transactions through standard employment contracts with family members of key management personnel and a member of its Board of Directors. These contracts relate to non-managerial positions which already form part of the organizational structure of the Authority. For the financial year 2013 these salaries and benefits totaled $ 106,577 (2012: $52,331). Please note that the increase in the amount does not include an increase in salaries but relates to an increase in the period of employment. The two related parties were employed for a portion of 2012 but were employed for the full year 2013. The amount represents essential administrative and support services during the period. The persons are qualified for the positions they are in and management felt that they should not be disadvantaged and be excluded from employment at CAA because they are related parties.

The Authority's Register of Interests signed by all of its Managing/Divisional Directors indicates no other related party transactions with key management personnel. Register of Interests have been submitted by members of the Board of Directors (BOD) as of the issuance date of the financial statements and indicate that there are no material related party transactions involving the BOD.

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
For the year ended June 30, 2013
Stated in Cayman Islands dollars

6. Liabilities and related party transactions (continued)

(d) Key Employee Benefits

The key employees of the Civil Aviation Authority are the Director General, the Director of Air Navigation Regulation, the Deputy Director-General, Economic Regulation and Administration, the Director of Finance and Compliance and the Director of Air Safety Regulation. Total salary and employee benefits expensed in 2013 were $849,696 (2012: $868,734). Performance incentive award is estimated at the maximum amount possible under the Authority's board approved Performance Incentive Award Plan for both years. The actual amount paid out for the 2012 performance incentive award in August 2013 was $33,072. The Director General and the Deputy Director-General, Economic Regulation and Administration have the benefit of having an additional 7% of their base pay paid into their pension fund by the Authority in addition to the base 6% contribution. The Director General is provided with a vehicle and fuel allowance for business and personal use. Under the medical coverage program, any approved claims not covered by insurance are fully subsidized by the Authority. For the year ended June 30, 2013 this amounted to $8,202 (2012: $11,896).

	June 30, 2013	June 30, 2012
Base salary	651,372	670,521
Pension	53,089	54,186
Medical coverage	78,962	72,343
Fuel allowance	2,895	5,894
Performance incentive award (estimated)	63,378	65,790
Total key employee benefits	$849,696	$868,734

(e) Obligation to Air Safety Support International (ASSI)

Accrued expenses include professional fees of $185,398 (2012:$40,803) which relates to an MOU between the CIG and the United Kingdom (UK) Government, signed by the Premier of the Cayman Islands in November 2011. This MOU indicates an undertaking by the CIG to pay an annual fee of GBP 114,000(revised from GBP 130,000 in 2012) for the support service for the use of the UK Aviation Safety Regulations which is regulated by ASSI, the aviation regulatory arm of the UK Government. This fee commenced on April 1, 2012 and is billed by ASSI to the Cayman Islands Government (CIG) at the end of every quarter. The amount will be paid by the CIG to ASSI and invoiced by the CIG to the Authority for reimbursement.

7. Employee pensions

Pension contributions are paid for all eligible employees on their pensionable emoluments. The majority of the employees are participants in the Public Service Pensions Plan, with a small number participating in other private plans, which are all defined contribution schemes.

Public Service Pensions Plan

Pension contributions for eligible employees of the Authority are paid to the Public Service Pensions Fund (the "Fund"). The Fund is administered by the Public Service Pensions Board (PSPB) and is operated as a multi-employer Fund. Prior to April 14, 1999 the scheme underlying the Fund was a defined benefit scheme. With effect from April 14, 1999 the Fund has both a defined benefit and a defined contribution element. Participants joining after April 14, 1999 become members of the defined contribution element.

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
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7. Employee pensions (continued)

Using the projected unit credit method of measuring costs and obligations, the actuarial assessment for the Authority assessed the minimum normal annual contribution to be 13 % in 2008. This rate included a 1% for the cost of all of the benefits that are provided over and above those related the participant's total account balance. Certain participants are reimbursed for their contributions.

The latest available actuarial valuation report was received for the 2011 year end. However, the management of the CAA has not accepted the results as some elements of the basis of the valuation are being disputed. The Managing Director of PSPB has agreed to a new valuation of the CAA's defined benefit plan assets as of June 2004. As of issue date of these Financial Statements, this new valuation has not commenced.

The defined benefit portion of the Fund has been valued by the Actuary to the PSPB. The defined contribution part of the Fund is not subject to the special actuarial valuations due to the nature of the benefits provided therein.

The latest actuarial valuation (of the defined benefit plan) recorded in the accounts of the CAA at June 30, 2008 including payments and internal adjustments through to June 30, 2013, reflects the following:

Net defined benefit obligations as at June 30, 2008 (per valuation report)	598,000
Cash payments on the DBO deficit for the year ending 2009	(47,578)
Cash payments on the DBO deficit for the year ending 2010	(48,274)
Cash payments on the DBO deficit for the year ending 2011	(47,690)
Cash payments on the DBO deficit for the year ending 2012	(47,000)
Cash payments on the DBO deficit for the year ending 2013	(47,000)
Estimated adjustment to increase defined benefit obligation (2012)	225,000
Estimated defined benefit obligations as at June 30, 2013	$585,458

The Distribution of the Plan Assets, based on the share of the total Fund allocated to the Authority was as follows:

	2008 %
Global Equities	46
Bonds	43
Property	5
Cash/other	6

The principal actuarial assumptions at the date of valuation	**2008 %**
A. Cost Method - Projected Unit Credit	
B. Economic Assumptions	
1. Discount Rate	6.25
2. Expected long-term rate of return (net of Expense)	7.00
3. Salary Increase	4.00
4. Rate of Inflation	2.50
5. Future Pension Increases	2.50

C. Other Assumptions:
1. Mortality – Standard U.S. mortality rates
2. Retirement Age – completion of age 57 and 10 years of service

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
For the year ended June 30, 2013
Stated in Cayman Islands dollars

7. Employee pensions (continued)

D. Asset Valuation –Fair (Market) Value

Subsequent valuations being challenged

The final Defined Benefit Plan valuation by the PSPB Actuary as at June 30, 2011 is as follows:

	June 30, 2011
Net present value of funded obligation	3,901,000
Fair value of plan assets	(1,753,000)
Unrecognised actuarial gains/(losses)	(1,128,000)
Net defined benefit obligations	1,020,000

The above has not been recorded in the financial statements for the year then ended. It is being challenged as the net present value of funded obligation of the plan has increased by 76% in three years with no employees joining the plan. It had been determined by the PSPB prior to the end of the 2013 year that the CAA defined benefit plan had been overvalued and required a new comprehensive actuarial valuation with revisions in the original valuation criteria. The new actuarial valuation had not been completed by the financial statement issuance date.

8. Lease of premises

The Grand Cayman office is located in Cayman Grand Harbour and is leased from Cayman Grand Harbour Shoppes Ltd. The current lease is for three years with a three month option to renew in agreement with the lessor and was signed on July 8, 2013 and expires August 15, 2016. The lease can be terminated on August 15, 2015 given six months advance notice. Total space occupied is 4,530 square feet at lease rate of $30 per square ft and additional strata fees of $6.50 per month.

Lease payments under the operating leases are charged to the income statement over the period of the lease and any associated fit-out costs are classified as a Leasehold Improvement and are depreciated over the life of the leases on a straight line basis.

The future obligations of existing lease and strata fee payments for the office lease is as follows:

	One year or less	One to Five Years
Cayman Grand Harbour, Cayman Islands	$169,514	$190,703

9. Fees

a) Aerodrome Oversight fees

These fees represent mainly the charge for regulatory oversight by the Authority to Cayman Islands Airports Authority (CIAA) on Owen Roberts International Airport (ORIA) and Charles Kirkconnell International Airport (CKIA).

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
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9. **a) Aerodrome Oversight fees (continued)**

On July 30, 2012 a Memorandum of Understanding (MOU) between CAA and CIAA was signed whereby CAA would charge the CIAA CI$1,000,000 per annum for regulatory and oversight fees of the ORIA and GSIA. The MOU stated that this fee commenced on July 1, 2012 and would be effective for a period of three years, with an agreement to review annually.

b) Air Safety Regulation and Certification fees

These fees represent the main operational revenue of the Authority, which is generated from all aircraft on the Cayman Islands Aircraft Register. Each document that is issued by the Air Safety Regulations department is associated with a fee which is governed by *Air Navigation (Fees) Regulation (2010) Amended* passed by the Legislative Assembly in November 2010. There are thirty one (31) sections in this Law which detail the various regulations and associated fees chargeable to all aircraft registered on the Cayman Islands Aircraft Registry. These regulations range from Certification of Airworthiness to Pilot Licence Validations.

c) Surveyor fees and reimbursable expenses

The Air Navigation (Fees) Regulations, November 2010 (Amended) also dictate that an hourly rate up to CI$250 can be charged for surveys carried out on all the aircraft on the Cayman Islands Aircraft Register. During the year ended June 30, 2013, a fee of $250 per hour was charged. Travel, subsistence and postage expenses associated with surveys are billed back at cost to the aircraft account. Surveyors fees are derived as follows:

	June 30, 2013	June 30, 2012
Surveyor fee billings	853,966	781,127
Survey reimbursable costs billings	561,715	447,099
Surveyor fees & reimbursable expense	(563,560)	(462,112)
Surveyor fees & reimbursable expenses (Net)	$852,121	$766,113

During the financial year ending 2013, the Surveyors' Reimbursable Travel Expenses have been offset against the Surveyor Fees and Billable expenses as the expenses have been recovered through the revenue. Showing the net amount of surveyor travel expenses billed improves the clarity of presentation.

d) Aircraft operating permits

This source of revenue is derived from the Commercial Regulation Division and represent permits granted to foreign registered air carriers in compliance with article 135 of the AN(OT)O (see note 1). These carriers provide both scheduled and non-scheduled/charter air transport to/from the territory.

e) Other income

Other income comprises interest on fixed deposits and bad debt recovery.

	June 30, 2013	June 30, 2012
Bad Debt Recovery	5,067	144,457
Interest Income	55,724	51,446
Total Other Income	60,791	195,903

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
For the year ended June 30, 2013
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10. Expenses

Operating Expenses	**2013**	**2012**
a) Personnel costs		
• Salaries/Performance incentive expenses- Cayman	1,791,927	1,933,216
• Contractors fees – overseas	296,854	296,665
• Pension	118,514	116,210
• Pension – adjustment to defined benefit liability	-	225,000
• Insurance and medical expenses	212,398	185,497
• Training	45,612	50,923
• Recruitment and relocation expenses	485	4,436
Total Personnel costs	**2,465,790**	**2,811,947**
b) Office administration and business development		
• Rental expenses	137,601	134,094
• General office administration expenses	345,712	234,824
• Business development expenses	48,278	64,468
• Board expenses	4,952	5,089
Total Office administration and business development	**536,543**	**438,475**
c) Professional & licensing fees		
• Insurance fees	39,737	27,834
• Work permit fees	43,798	68,550
• Air Safety Support International (ASSI)	143,218	40,803
• Audit and other professional fees	50,250	25,472
• Legal fees – Helipad Suit	40,777	3,979
• Legal fees	-	4,883
• Professional dues and subscriptions	4,632	8,860
Total Professional & licensing fees	**322,412**	**180,381**
d) Travel – official, training and administrative		
• Travel – Administration and Training	64,753	43,548
• Travel – Business Development	49,567	56,704
Total Travel – Official, training and administrative	**114,320**	**100,252**
Total Operating Expenses	**3,439,065**	**3,531,055**

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
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11. Financial Instruments

Credit risk
Financial assets that potentially subject the Authority to credit risk consist principally of bank current accounts, fixed deposits, accounts and other receivables. The Authority's fixed deposits are placed with accredited financial institutions and due diligence conducted on clients before they are accepted on the register. Local credit clients are sufficiently regulated. The Authority's clients with the largest outstanding balances as at June 30, 2013 are National Air Services (NAS) with approximately 21% of total outstanding balances, Cayman Airways (15%) and Cayman Islands Airports Authority (CIAA) (15%) and are considered significant concentrations of credit risk.

Interest rate risk
Cash amounts held at Cayman National Bank over CI$200,000 are placed on semi-annual and annual fixed deposits and generally earn an interest rate of between 0.65 (2012 – 0.55%) and 1.1875% (2012 – 1.1875%) per annum in the year ending 2013. There are two accounts held at NatWest Bank in the UK, an operating account and a credit card account for the surveyors operating in the Brighton office. It is required that a deposit be held on the credit card account to cover the exposure of the total credit card limits of each card held. At balance sheet date, CI $20,613 (£16,000) was held as a deposit. This deposit earns between 1% and 2% interest per annum.

Fair values
The current accounts, fixed deposits, accounts receivable and other liabilities and payables approximated their fair value due to short term maturities of these assets and liabilities. The fair values of other assets and liabilities not materially different from other carrying values.

12. Contingent Liabilities

During the period, the Chief Justice of the Cayman Islands Grand Court ruled in favour of Axis International Ltd.(Axis) and ordered the CAACI to revisit its decision to grant an Aerodrome Certificate ANS14/AD/04/2011 to Cayman Islands Helicopters Ltd. (CIHL) based on the Chief Justice's assessment of the relevant parts of the Air Navigation (Overseas Territory) Order [AN(OT)O] not being sufficiently observed by the CAACI. CAACI filed an appeal against the ruling and at the issue date of the financial statements, a court date for the appeal was set for November 18-21, 2013.

A provision has not been accrued as it cannot be fairly estimated how much the defense of this appeal will cost nor if an award of costs will be given. The Authority has professional indemnity insurance coverage in place through the Risk Management Unit of the Cayman Islands Government which will cover legal fees in excess of US$50,000 to the maximum of US$12,500,000. The full deductible of the US$50,000 had been completely depleted during the financial year ending 2013.

13. Subsequent Events

On July 8, 2013 a new lease was signed to remain at the current office location of Cayman Grand Harbour effective August 15, 2013 and expires August 15, 2016. The lease can be terminated on August 15, 2015 given six months advance notice. The total space occupied is 4,530 square feet at lease rate of $36.21 per square feet, including strata fees, for a total of $164,031 per annum.

On August 23, 2013 a total of $4,068,127 was paid to the Cayman Islands Government which comprised of the annual dividend payment of $1,903,144 and an additional capital withdrawal requested by the Cayman Islands Government of $2,164,983.

Civil Aviation Authority of the Cayman Islands
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13. Subsequent Events (continued)

On September 2, 2013 an additional $2,000,000 was placed on deposit with the Cayman Islands Government Treasury for a period of approximately 5 months with interest at an annual rate of 1%.

Effective September 19, 2013, the CIG appointed new board members to provide oversight over the Authority.

On September 27, 2013, Axis International Ltd., the complainant in the case mentioned above in note 12 applied to the Grand Court for the Authority to cover the complainant's total legal costs to date related to the case. There is no firm indication of the amount of these costs; however, they may exceed CI$1,500,000. Any order as to the costs by the Grand Court; however, may be varied or set aside by the Court of Appeal.