



Annual Report July 1, 2007 through June 30, 2008

Introduction

The Civil Aviation Authority of the Cayman Islands (CAACI) is a statutory authority governed by the Civil Aviation Authority Law (2005 Revision). The primary function of the Authority is to maintain effective regulatory oversight of all aviation activities within the Cayman Islands to ensure the safety of air navigation and aircraft in accordance with the standards and recommended practices of the International Civil Aviation Organisation. This includes registration of aircraft, the regulation of air traffic services, the certification of operators of aircraft and licensing of air crews, the licensing of air transport services, and the certification and licensing of airports.

The Authority is governed by a board of directors that is responsible for the policy and general administration of the affairs and business of the Authority. 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 Authority.

The Authority is financed through fees charged for its regulatory activities in accordance with the Air Navigation (Fees) Regulations 2006. The main revenue streams are fees charged for the certification and licensing of aerodromes, aircraft registration and certification of air transport operators. The Authority is financially sustainable and is currently not dependent upon any Government subsidy. The healthy financial state of the Authority can be attributed to the stewardship of the Director-General, an effective management team, dedicated employees and a supportive Board of Directors.

Board of Directors

Appointees to the Board are:

Ms. Sheridan Brooks-Hurst	Chairman
Mr. Kirkland Nixon	Deputy Chairman
Mrs. Satina DaCosta-Cottam	Director
Mr. Christopher Bodden	Director
Mr. Morris Garcia	Director
Mr. William McTaggart	Director

Meetings of the Board

The Board held regular meetings on the following dates:

- i) 23 July 2007
- ii) 24 August 2007
- iii) 23 November 2007
- iv) 12 March 2008
- v) 19 June 2008

Board Decisions and Policies

- i. Confirmation and implementation of a new "Staff Handbook and Office Policies Manual" for the CAACI.

- ii. Approval of the expansion of the current CAACI office space at Grand Harbour.
- iii. Approval and implementation of new salary scales (resultant from HR consultancy commenced in 2006 to refine HR issues).
- iv. Board Resolution: approval to open Bank of Butterfield account in order to facilitate electronic payments to the CAACI
- v. Board Resolution: to add Mary Chandler Allen and Jennifer Dilbert of the CIG London Office to the existing CAACI Natwest accounts to facilitate expense payment associated with the CAACI UK office
- vi. Directive given by the CAACI Board to pursue collection of outstanding accounts receivable through the Financial Secretary's Office, these debts are associated with airport operations that were assigned to the CAACI by Cabinet as part of the restructuring in 2004.
- vii. Decision taken that the CAACI should pursue alternative arrangements, including purchase, of suitable office accommodations other than that proposed by CIG.
- viii. The Performance Incentive Module (3rd and final component of the HR refinement efforts) was approved and implemented.

Personnel & Administrative Matters

Staffing – some changes to the staff compliment for the period of July 1, 2007 – June 30, 2008 as follows:

Staff complement at July 2007 - 16
 Staff resigned – 1
 Staff hired during July 2007 – June 2008 - 4
 Staff complement at June 2008 – 19

This brings us to full capacity with no vacant posts at this time as well as full capacity for the current office accommodations.

Various training sessions for both technical and administrative staff were conducted during the course of the year to ensure that technical staff maintained competences and received required regulatory training as needed and administrative staff training was conducted to improve skill sets and increase productivity and efficiency.

Completion of refinement to the CAACI's HR tools was also a major accomplishment with the design and implementation of the Performance Incentive Module being the third component. Previously a refined Staff Handbook and Office Policies Manual and revised salary scales were implemented and together with an optional pension plan and good health insurance plan rounded out the employee benefits plan.

IT matters – installation of the Citrix remote software to allow secured access for staff whilst in the field and to ensure business continuity.

Technical report

Air Safety Regulation Division

The Air Safety Regulation (ASR) Division is responsible for the technical/safety regulation of the local and international air operator certificate holders and all aircraft on the Cayman Islands Aircraft Registry. 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 and 1 in the US market which support the required inspections and airworthiness surveys across the globe.

→ Safety Oversight Audits Conducted

- Cayman Airways Ltd.
 - Cayman Airways Express
 - Cayman Island Helicopters
 - MRCU
- Aircraft Register
- Aircraft Registered as of July 1/07 139
 - Aircraft Registered as of June 30/08 151
 - Aircraft deregistered during that period 16
- Significant Achievements
- 83bis agreement (aircraft regulatory oversight agreement signed between aviation authorities) signed with Saudi Arabia that enables Cayman Registered aircraft to be operated commercially in that jurisdiction.
 - Similar agreement in final stages with Spain.

The ASR division provides key resources for the aviation tradeshows with senior technical personnel in attendance to speak to aircraft registration and on-going airworthiness and flight operations issues.

Air Navigation Services Regulation Division

- A newly built heliport on the northeast coast of Grand Cayman was inspected in August '07 to ascertain compliance with applicable regulations.
- An assessment of air traffic service personnel licensing and ratings competency training program was carried out in October '07 to ensure that personnel competency requirements were met before issuing relevant certificates of competence to qualified air traffic controllers performing air traffic control duties at Gerrard-Smith and Owen Roberts International Airports, Cayman Brac and Grand Cayman, respectively.
- A safety oversight program to ensure that the use of laser lights, search lights, pyrotechnics and balloon activities are regulated was implemented in October '07.
- An audit of ANSR Division aerodrome and air traffic service safety oversight activities was carried out by ASSI 19 – 22 November '07 to ensure that the Authority was carrying out effective regulatory oversight of these functional areas.
- 1 minor aircraft accident and 23 aircraft incident occurrence reports were investigated for remedial action during the 6 month period of July – December 07.
- Regular safety oversight visits to Gerrard-Smith and Owen Roberts International Airports were carried out between July and December '07 to determine the status of corrective action plans resulting from past audit and inspection regulatory non-compliance findings. A significant number of audit and inspection findings were observed as corrected and closed throughout the period. Development of ORIA and GSIA aerodrome manuals were assessed on a regular basis to ensure compliance with safety standards. Aerodrome safety oversight activity included assessment of Rescue and Fire Fighting Services, Aeronautical Telecommunications Services, Air Traffic Services and design of Instrument Approach Procedures.
- Safety Oversight of Aircraft Accidents and Serious Incidents – for the period of January – June 30 '08, 8 investigated and closed and 5 under investigation and open for the period.
- Certification of Aerodromes – in June '08 both Owen Roberts International and Gerrard-Smith International Airports were issued licenses with on-going monitoring and corrective actions outlined.

Commercial Affairs Regulation & Administration (CARA) Division

The Commercial Affairs Regulatory division is responsible for the implementation and maintenance of appropriate economic regulatory policies and the associated procedures and processes for the Cayman Islands aviation industry. One of the main procedures of this division is the processing of air transport operating permits for foreign registered aircraft under the

delegation of the UK Secretary of State. As such all scheduled and non-scheduled commercial air transport operations are legally required as per the Air Navigation (Overseas Territory) Order 2007 to be duly licensed.

In the period of July 1, 2007 to June 30, 2008, the CARA division granted 242 non-scheduled operating permits to foreign carriers for varying purposes such as executive charters and air ambulance operations. Also granted on a seasonal basis (winter and summer) were 7 operating permits for foreign registered carriers. Also, continuation work with the Cayman Islands Airports Authority (CIAA) for monitoring of these air transport operations under a related MOU between the two authorities.

Other noteworthy CARA activities during the period:

- Logistical coordination of the first OT's Directors of Civil Aviation Conference held in Cayman in July 2007
- Attendance at aviation industry tradeshows focused on raising global awareness of the Cayman Islands Aircraft Registry profile in key regions to targeted audiences. The events included a) the European Business Aviation Conference and Exhibition (EBACE) in May 2007; b) the National Business Aviation Association (NBAA) show in Sept 2007; and c) the Dubai Airshow in November 2007.
- Partnership with the Maritime Authority of the Cayman Islands (MACI)/ Cayman Islands Shipping Registry (CISR) at their yachting industry tradeshows to capitalize on the synergy between target markets.
- Staged the first local industry training day session for business partners (legal, financial, corporate) wishing to better understand the aircraft registration process.
- Participated with relevant CIG officials in phase I of the renegotiation of the Bermuda II bilateral agreement between the US and the UK OT's.

Financial report

See Appendix A

Financial Summary

CAACI realized a net income of 140% over the budgeted amount for the year ended June 30, 2008. This is due in a large part to the significant increase of (44%) in Aircraft Certification and Licensing fee revenue over the budgeted amount. This increase in revenue is mainly attributed to the implementation of The Air Navigation (Fees) Regulations in December 2006. Budgeted amounts had been conservative as the new fees had just recently been implemented when the budget was being developed. The increased net income is also due in part on savings in some expense areas such as personnel. The financial results for the year ending June 30, 2008 with comparisons with the related budget and the coming year's budget are detailed in the attached appendix.

Summary

For the period July 1, 2007 through to June 30, 2008 the CAACI has seen growth in its regulatory areas and growth in the aircraft registry. The Authority have refined its administrative policies, procedures and processes and remains committed to its regulatory obligations and in promoting efficiencies for safe aviation operations in the territory.

APPENDIX A

CIVIL AVIATION AUTHORITY OF THE CAYMAN ISLANDS

Comparison of 2007/08 budget with actual 12 months to June 30, 2008 and further comparison with 2008/09 Budget

2007/08 Budget \$'000	2007/08Actual 12mths	Over/ (under)	REVENUE CLASSIFICATION	2008/09 Budget \$'000	Remarks
Revenues					
2,415	3,489	1,074	Aircraft certification, licensing	3,159	Increased aircraft registration activity.
155	155	0	Regulatory oversight of local operators	195	
150	151	1	Air operator permit approval	166	Estimated increased activity.
1,000	1,000	0	Aerodrome certification and licensing	1,000	MoU between CAACI and CIAA re oversight charges.
12	54	42	Bank interest	42	
3,732	4,849	1,117	Total revenue	4,562	
EXPENSE CLASSIFICATION					
2007/08 Budget \$'000	2007/08Actual 12 mths \$'000	Over/ (under)	EXPENSE CLASSIFICATION	2008/09 Budget \$'000	Remarks
Recurrent Expenditure					
1,938	1,770	-168	Personnel costs	2,270	Salaries, bonus, pension, health, training
101	139	38	Travel costs-Admin & Marketing	172	Travel Costs for administration and marketing of the registry
55	53	-2	Contracted services	79	IT, Office Cleaning and technical contracts

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Appendix A Cont'd					
2007/08 Budget \$'000	2007/08 Actual 12 mths \$'000	Over/ (under)	EXPENSE CLASSIFICATION	2008/09 Budget \$'000	Remarks
Recurrent Expenditure					

65	65	0	Utilities	68	Telephone, water & electricity
50	37	-13	Insurance	50	Indemnity, property, liability & vehicle
15	39	24	Legal fees	40	Fees paid to attorneys for representation
25	40	15	Professional fees, licenses dues and subscriptions	45	Audit fees, actuarial fees, prof dues and subscriptions

34	45	11	Work Permit fees	46	Annual work permit fees
6	12	6	Bank charges	6	Variable bank charges – cheque processing, wire tfr charges, ccard fees
134	123	-11	Office rental, maintenance, etc	136	Grand Cayman Office rental & Maintenance
50	43	-7	UK office rent, maint& supplies	56	UK office costs
290	357	67	UK - full time contractors fees	215	Overlap of D Clutton and J Warrington; M Cowlard/Goodliffe

Appendix A Cont'd					
2007/08 Budget \$'000	2007/08 Actua l 12 mths \$'000	Over/ (under)	EXPENSE CLASSIFICATION	2008/09 Budget \$'000	Remarks
Recurrent Expenditure					

75	76	1	UK - part time contractors fees	125	H Weiser, M Moehle, J McBeth, Cowlard (to part time)
20	18	-2	Office supplies	35	Printing, stationery & Consumables
32	27	-5	Other general & admin costs	40	Advertising, computer and website costs – unexpected website upgrade charges
15	15	0	Vehicle operation	20	Operation, maintenance & upkeep
45	15	-30	Marketing & promotion supplies/materials	100	C.I. aircraft registry – booths, brochures, promotional items
20	20	0	Partner relations and staff socials	35	DGCA client/partner relations (\$5,000), Christmas party, special meetings and staff events.
6	8	2	CAA Board	9	Member Stipend, meeting supplies
2,976	2,902	-74	Total recurrent expenditure	3,547	
756	1,947	1,191	Net Cash Inflows	820	

2007/08 Budget \$'000	2007/08Actual 12 mths \$'000	Over/ (under)	EXPENSE CLASSIFICATION (Non Cash)	2008/09 Budget \$'000	Remarks
16	87	54	Depreciation	75	Depreciation on Furniture, Fixtures, Computers, Office equipment & Leasehold Improvements. Budget was largely understated
0	78	78	Bad debt expense		Adjustment to bad debt provision
740	1,782	1,059	Net Income	745	
2007/08 Budget \$'000	2007/08Actual 12 mths \$'000	Over/ (under)	Capital Expenditure	2008/09 Budget \$'000	Remarks
0	9	9	Vehicle purchase		
10	33	23	Furniture & equipment - Board Room and DGCA	20	Promotional equipment and furniture for additional staff.
0	15	15	Leasehold improvements - new office space :Grand Harbour		
10	20	10	Computers & software- Server upgrade and Citrix ;addtl staff computers	20	Server Upgrades, Citrix and additional staff computers
20	77	57	Total capital expenditure	40	
3,012	3,144	115	Total expenditure including depreciation, bad debts provision and Fixed Assets expenditure	3,662	

Explanatory Notes to Financials

REVENUES

- **Aircraft certification and licensing** – this includes all registration fees, certification, licensing and surveyor fees of all aircraft registered with the CAACI. The revenue of \$3.489 million represents a 44% increase over the projected revenue for that period. The growth in revenue represents a combination of net increase in actual aircraft on the register and the results of the implementation of the new fee schedule in December 2006. There was a net increase of 29 aircraft registered during the year ended June 30, 2008 compared to 27 in the prior year. This indicates that a large part of the revenue growth is due to the implementation of the new fee regulations. We have also been attracting larger aircraft on the register in the past year. As a result of the new fee schedule, the fees for the Certificate of Airworthiness are now better correlated to the weight of the aircraft.
- **Regulatory oversight of local operators** – this represents regulatory oversight charges for all local operators such as Cayman Airways, Cayman Express, MRCU and Cayman Islands Helicopters. This amount is fixed per year as per the 2006 fee regulations.
- **Air Operator Permit Approval** – this represents permits issued for all scheduled and non-scheduled charter flights into and out of the Cayman Islands. This amount equals what was budgeted for the year.
- **Aerodrome Certification and Licensing** – this represents charges for the certification, licensing, inspection and regulatory oversight of airport, air traffic control and air navigation services. An MoU signed between the CAACI and CIAA provides for the CIAA to pay the CAACI a fixed annual sum of \$1M for regulatory oversight of the ORIA and GSIA activities. The MoU is effective from 1 July 2006 for a period of three years after which time it will be reviewed.
- **Bank interest** – represents interest on fixed deposits held for the year. Budgeted amounts are conservative due to the uncertainty of the continued holding period of these deposits and future interest rates.

EXPENSES

RECURRENT EXPENDITURES

- **Personnel costs** - Personnel costs, as expected, form the largest part of the Authority's recurring costs. We actually experienced a savings on personnel costs at the end of June 30, 2008 compared with the budget for this period. This is largely due to posts that were budgeted for the full year not being filled until January and February 2008.
- **Travel costs for Administration and Marketing** – this expense item represents mainly promotional travel on behalf of the registry along with travel for training and representation at ASSI and other Aviation conferences. Surveyors travel costs pertaining to certification of aircraft are not included here and have been netted off against the certification and licensing revenue. There was a slight increase over the budget in this area due to the increased cost of travel.
- **Contracted services** – this item represents local contracts for IT and web support services, office cleaning and technical support services for the Air Navigation Services and Air Safety Regulations divisions. This expense was on target with the budget.
- **Utilities** – This represents expense for electricity, water and telephone for the year. These expenses were also on target with the budget.
- **Insurance** – this amount is the insurance premium charged by the Risk Management department of the Cayman Islands Government for professional indemnity, property, liability and vehicle insurance for the year.
- **Legal fees** – this amount represents fees paid to two different UK firms of attorneys for negotiation and settlement of severed contract of a UK based contractor.
- **Professional fees** - this amount represents fees paid to Cayman Islands Government Audit office for audit fees, Public Service Pensions Board for actuarial valuations and professional dues and subscriptions. These expenses exceeded the budget as we did not anticipate the charges for the accounting review work performed by the Auditor

General's office or the charges by the PSPB. All professional fees were paid to other governmental agencies.

- **Work permit fees** - these fees were expended for 6 local employees and contractors currently on work permit
- **Bank charges** – these are charges by banks for wire transfers overseas, monthly cheque processing charges, wire transfers in from clients and credit card commissions. The expenditure was more than anticipated due to having to write-off old customer balances where wire transfers were received short due to intermediary bank charges.
- **Office rental and Maintenance GCM** – this expense represents rent paid to Cayman Grand Harbour for the year as well as office maintenance costs. This expenditure was under the budgeted amount due to the budget being prepared before the final rent cost was negotiated.
- **Office rent and maintenance UK** – this expense represents rent paid to the Cayman Island Government Office in the UK from July 2007 through June 2008. This amount also came in under the budgeted amount due to the budget being prepared before the final rent cost was negotiated.
- **UK full time contractors' fees** – this item represents fixed fees paid to UK contractors for the year ended June 30, 2008. This amount is over budget due to an overlap of fees paid to the severed contractor and his replacement.
- **UK part time contractors' fees** – this items represents fees paid to UK contractors based on time worked. This expense was on target with budget. Next year's budget is increased due to one of the full time employees moving to part time.
- **Office supplies, vehicle operation costs and other general and admin costs** – general office operating costs. We realized a slight savings in relation to the budget on these items.
- **Partner relations and staff socials** – this line item represents expenditures to host client/partner events and quarterly and annual staff socials. This expenditure was on target with the budget.
- **CAA Board expenses** – this represents payments made to board members per meeting stipend, and cost of meeting supplies.
- **Non Cash Expenditures**
- **Depreciation** – this expense item relates to depreciation taken on Leasehold Improvements, Vehicles, Furniture, Fixtures and Computers and Office Equipment. The expense exceeds the budgeted amount as the budgeted amount was understated when it was submitted and passed by the Board.
- **Bad Debt expense** – this represents an additional allowance for possible uncollectible accounts assigned to us in the separation of assets and liabilities of the old CAA. A large part of this balance is due from Government departments and agencies. Communication is ongoing with the Financial Secretary.
- **Capital Expenditure**
- Capital Expenditure for the year ended June 30, 2008 exceeded the budget due mainly to no allowance been made for leasehold improvements and the new Citrix system and related server upgrades.