

# 2011 - 2012



## **ANNUAL REPORT OF THE CIVIL AVIATION AUTHORITY OF THE CAYMAN ISLANDS**

## 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 legislation for financial and compliance matters.

The CAACI has full designation for safety oversight as a UK Overseas Territory. In addition, the Cayman Islands is classified as a Category 1 country 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.



CAACI Senior Management Team from left to right:- Jane Panton, Director of Finance & Compliance; Alastair Robertson, Director of Air Navigation Services Regulation; P. H. Richard Smith, Director-General; David Biehn, Director of Air Safety Regulation Services and Nicoela McCoy, Deputy Director-General Economic Regulation & Administration

## 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 member, 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.

Remarks by the Director-General, P. H. Richard  
Smith, MBE FRAeS



The 2011/12 financial year was another challenging but financially successful year for the CAACI. The prolonged depressed global economy continues to have a negative impact on the business aviation industry, which provides the main sources of revenues for the Authority. The Authority also faces new economic challenges through the introduction of annual fees imposed on all UK Overseas Territories by the UK Government to provide funding for Air Safety Support International (ASSI). Nevertheless, the Authority has continued on its steadfast path of demonstrating efficiency and a high calibre of regulatory oversight that is compliant with all international standards and recommended practices, which also make the Cayman Islands an attractive jurisdiction for aircraft registration. This has allowed the Authority to maintain a fair market share of the business aviation industry and effect growth of the register. Prudent management of the Authority's finances is also a key element of the positive achievements realised. In this regard, the Authority has been able to meet its regulatory obligations and pay dividends to the C.I. Government.



## **Governance Report**

### Board of Directors Report

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

- Sheridan Brooks-Hurst, Chairperson
- Kirkland Nixon, Deputy Chairperson
- Christopher Bodden
- William McTaggart
- Morris Garcia

The Board of Directors are responsible for the policy and general administration of the affairs and business of the Authority as per the Civil Aviation Authority Law 2005.

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

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 Director-General, who is considered the most senior aviation official in the territory. The Authority also retained its status of 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

Staff complement at the end of the fiscal period was 22.

During the year the Board directed that two deputy DGCA posts be created that would provide for the identification of succession planning for the DGCA post. In this regard, the organisational structure of the Authority was amended to reflect the two new posts, one being Deputy Director-General (Technical Regulation) and the other being Deputy Director-General (Economic Regulation & Administration). Mrs. Nicoela McCoy was appointed to the Deputy DG (ER&A) post effective 1 January 2012. The other deputy post remains vacant at this time. The new organisational structure is shown in Appendix 'B' attached.

The Authority is in the final stages of implementation of the electronic human resources management system, Performance Path. This web based system is hosted in-house on CAACI servers to ensure confidentiality and security of employee's personnel data. The system will allow efficient management of employee performance information on a year-round basis that will facilitate the generation of objective annual staff appraisals, coaching and development of the Authority's human capital asset base.

#### Information Technology Systems

The Authority launched Phase I of its electronic data management system for the aircraft registry, VP-C Online, in May 2012. Other phases of the system (Phases 2 and 3) are still

undergoing development and it is anticipated to complete those by the second and third quarter 2012/13, respectively. Feedback from aircraft operators on the register has been positive and enhanced efficiencies realised by the Authority. The system is being developed by Brac Informatics Centre (BIC) headquartered on the Sister Island Cayman Brac and is hosted at [www.vp-online.com](http://www.vp-online.com) website.

### Business Development & Promotional Activities

The CAACI exhibited at the 64<sup>th</sup> annual National Business Aviation Association (NBAA) tradeshow in Las Vegas, NV in October 2011. The tradeshow closed with 26,077 attendees – 7% more than 2010 and a total of 1,106 exhibitors; 101 aircraft on display.

The Director-General attended the Asian Business Aviation Conference & Exhibition (ABACE) 2012 in Shanghai, China on the premiere of this tradeshow. It is deemed the most successful business aviation event in the Asian region.

With the largest delegation to date as joint exhibitors, the CAACI lead the exhibition at the 12<sup>th</sup> annual European Business Aviation Conference & Exhibition in Geneva, Switzerland in May 2012. With partners representing the main legal and financial organizations in the Cayman Islands, as well as MLA Moses Kirkconnell to give his support and review opportunities for the Cayman Islands associated with the CI Aircraft Registry, this was judged to be a highly successful exhibition.

In addition the CAACI continues to distribute its quarterly newsletter “CAACI Aviation Times” to all stakeholders and interested



persons/parties; participate in relevant high impact international media buys and integrated communications campaigns that highlight the CI Aircraft Registry, and support local promotional initiatives such as the Island Air Luxury Party, Cayman Islands Government and private sector initiatives as appropriate.

### **Finance & Due Diligence**

The Authority is financed through fees charged for its regulatory activities in accordance with the Air Navigation (Fees) Regulation. The main revenue streams are fees charged for the certification and licensing of aerodromes, aircraft registration and certification of air transport operators. The Authority remains financially sustainable and is currently not dependent upon any Government subsidy.

Financial statements for the year ending 30 June 2012 were signed off on 29 October 2012 in advance of the 31 October deadline.

Compliance and due diligence matters for the Authority continue to be handled in accordance with the Cayman Islands Anti-Money Laundering Regulations and best practice suggestions.

## **Regulatory Disciplines**

Air Safety Regulation 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.

Statistics for the CI Aircraft Registry at 30 June 2012:

- ➔ 191 aircraft entered on the register;
- ➔ 18 de-registrations occurred within the period;
- ➔ 32 aircraft registrations during the period;
- ➔ Net growth of 14 aircraft since 30 June 2011.

Air Operator Certificate holders:

- ➔ Cayman Airways Ltd.
- ➔ Cayman Airways Express
- ➔ Cayman Island Helicopters
- ➔ CHC Global Operations Inc.
- ➔ Mosquito Research Control Unit (MRCU)
- ➔ Royal Cayman Islands Police (helicopter)

The ASR division conducted regulatory oversight audits on all local AOC holders in keeping with the Authority's regulatory obligations. Additionally, random safety assessments of foreign aircraft operating into the Territory are carried out to ensure compliance with international standards and recommended practices.

Airworthiness surveys are carried out on all aircraft operated on the CI aircraft registry wherever in the world they are based and operated. This presents unique challenges for the Authority and requires the ASR division to maintain effective liaison and coordination with the Authority's designated inspectors based overseas to ensure these tasks are carried out. The majority of aircraft on the register are operated throughout Europe and the

Middle East. However, increased operations in the Asian region are noted.



Cayman Airways Boeing 737-300

The annual Airworthiness Surveyors Conference held in April 2012, brought CAACI designated surveyors based overseas to the island for annual recurrent training meetings with head-office staff and to strategize operational plans to enhance efficiencies in conducting aircraft inspections and improving overall client service.



Air Navigation Services Regulation (ANSR) Division – is charged with the certification and licensing of the aerodromes throughout the jurisdiction. During this period the ANSR division continued oversight with the Cayman Islands Airports Authority (CIAA) to address findings from previous audits of Owen Roberts International Airport and Gerrard-Smith International Airport and to provide guidance and regulatory input into the continued development of CIAA's safety management systems.

The ANSR team was also instrumental in the certification of the George Town Heliport as developed by Cayman Islands Helicopters (November 2011) which allowed commercial air transport operations to commence from that site.

Annual certification of CIAA's air traffic controllers was completed in June 2012.



Economic Regulation Division – this division is responsible for the licensing of all foreign registered air transport operations both scheduled and non-scheduled which operate for commercial purposes into/out of the jurisdiction. Much of this activity is closely tied to the Cayman tourism industry, the global economic situations as these operations are mainly driven by business and leisure travellers and their demand for air services to the Cayman Islands.

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

Scheduled carriers are licensed seasonally to operate from designated international points in countries that have bilateral agreements with the United Kingdom; issued permits to operate scheduled services during this period included:

- ➔ Aerogaviota
- ➔ Aerolineas Sosa
- ➔ Air Canada
- ➔ American Airlines
- ➔ United/Continental Airlines
- ➔ IBC
- ➔ Delta Airlines
- ➔ US Airways
- ➔ WestJet

**Appendices**

Appendix A

Financial Statements





**Civil Aviation Authority of the  
Cayman Islands  
Financial Statements  
For the year ended June 30, 2012**



### CIVIL AVIATION AUTHORITY OF THE CAYMAN ISLANDS

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**STATEMENT OF RESPONSIBILITIES**  
**30 June 2012**

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 (2010 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 (2010 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, financial performance, and cash flows of the Civil Aviation Authority of the Cayman Islands for the financial year ended 30 June 2012.

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 2012;
- b) Except for the effects of the defined pension liability, fairly reflect the financial position as at 30th June 2012 and performance 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: 29 Oct 2012

Jane Panton (Mrs.)  
Director of Finance

Date: Oct 29, 2012



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## AUDITOR GENERAL'S REPORT

### To the Board of Directors of the Civil Aviation Authority

I have audited the accompanying financial statements of Civil Aviation Authority of the Cayman Islands (the "Authority"), which comprise of the statement of financial position as at 30 June 2012, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory notes as set out on pages 4 to 18 in accordance with the Section 60(1)(a) of the Public Management and Finance Law (2012 Revision).

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and 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 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 upon 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 comprehensive understanding of the details supporting the June 30, 2011 valuation recommended by the appointed Actuary. Management is not confident with regards to the integrity of the supporting information used within the report and as such has opted not to record the recommended liability of \$1,020,000 until the issue has been resolved. The impact of such an increase would effectively reduce profits and equity reported by \$387,543 and allow for a corresponding increase in the pension liabilities in the Statement of Financial Position.

As a result of the above mentioned issues, I am also unable to determine whether the net worth at 30 June 2012 is fairly stated.

International Accounting Standards (IAS 24) requires the identification and disclosure of related party transactions and outstanding balances in the financial statements. This is to ensure that the entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and financial performance may have been affected by the existence of related parties and by transactions and outstanding balances of such parties. I was unable to determine the Authority's compliance with this standard due to the absence of related party representations from the Board of Directors.

**Qualified Opinion**

In my opinion, except for the possible effects described above, these financial statements present fairly, in all material respects, the financial position of the Civil Aviation Authority of the Cayman Islands as at June 30, 2012 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



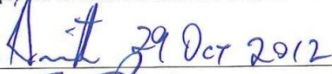
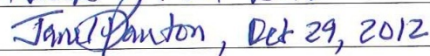
Alastair Swarbrick, MA (Hons), CPFA  
Auditor General

October 30, 2012  
Cayman Islands

**Civil Aviation Authority of the Cayman Islands**  
**Statement of Financial Position**  
**As at June 30, 2012**  
**Stated in Cayman Islands dollars**

	Note	2012	2011
<b>Assets</b>			
Current assets			
Cash and cash equivalents	3(a)	1,576,822	1,243,670
Short term investments	3(b)	6,547,736	5,676,291
Trade and other receivables (net)	4	1,134,090	1,320,944
<b>Total Current Assets</b>		<u>9,258,648</u>	<u>8,240,905</u>
Capital assets (Net of accumulated depreciation)	5	<u>162,629</u>	<u>139,710</u>
<b>Total Assets</b>		<u><u>9,421,277</u></u>	<u><u>8,380,615</u></u>
<b>Equity and Liabilities</b>			
Current liabilities			
Accounts payable and accrued liabilities	6(a)	777,688	550,354
Dividend payable to Cayman Islands Government	6(b)	1,532,583	1,000,000
<b>Total Current Liabilities</b>		<u>2,310,271</u>	<u>1,550,354</u>
Defined benefit pension liability	7	<u>632,458</u>	<u>454,458</u>
		632,458	454,458
<b>Total Liabilities</b>		<u>2,942,729</u>	<u>2,004,812</u>
Equity		<u>6,478,548</u>	<u>6,375,803</u>
<b>Total Equity and Liabilities</b>		<u><u>9,421,277</u></u>	<u><u>8,380,615</u></u>

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

 29 Oct 2012 Director General  
 29 Oct 2012 Chief Financial Officer



*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, 2012  
Stated in Cayman Islands dollars

	Note	2012	2011
<b>Revenue</b>			
Air Safety Regulation and Certification fees	9 (b)	3,410,149	2,755,630
Aerodrome oversight fees	9 (a)	1,000,000	1,000,000
Surveyor fees and net reimbursable expenses	9 (c)	766,113	686,336
Aircraft operating permits	9 (d)	234,250	214,150
Other income	9 (e)	195,903	152,235
<b>Total Revenue</b>		<b>5,606,415</b>	<b>4,808,351</b>
<b>Expense</b>			
Personnel costs	10 (a)	2,811,947	2,197,312
Office administration and business development	10 (b)	438,475	397,993
Professional and licensing fees	10 (c)	180,381	154,515
Travel – Official, training and administrative	10 (d)	100,252	138,140
Depreciation	5	37,879	38,203
Bad Debt Expense	4	4,153	18,141
<b>Total Expenses</b>		<b>3,573,087</b>	<b>2,944,304</b>
<b>Net income</b>		<b>2,033,328</b>	<b>1,864,047</b>

Civil Aviation Authority of the Cayman Islands  
Statement of Cash Flows  
For the year ended June 30, 2012  
Stated in Cayman Islands dollars

	2012	2011
<b>Cash flows from operating activities</b>		
Net income for year	2,033,328	1,864,047
Adjustments for:		
Depreciation expense	37,879	38,203
Decrease in accounts receivable	186,854	128,198
Increase in accounts payables and accrued liabilities	227,335	109,348
Increase / (Decrease) in defined pension liability	178,000	(47,690)
Net cash from operating activities	2,663,396	2,092,106
<b>Cash flows used in investing activities</b>		
(Increase) in short term investments	(871,445)	(1,673,532)
Purchase of capital assets	(60,799)	(68,694)
Net cash used in investing activities	(932,244)	(1,742,226)
<b>Cash flows used in financing activities</b>		
Dividends Paid	(1,398,000)	-
Net cash used in financing activities	(1,398,000)	-
<b>Increase in cash and cash equivalents</b>	333,152	349,880
<b>Cash and cash equivalents at beginning of the year</b>	1,243,670	893,790
<b>Cash and cash equivalents at end of the year</b>	1,576,822	1,243,670

*\*The current year dividend has not been paid as at June 30, 2012 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, 2012  
Stated in Cayman Islands dollars

	Note	2012	2011
Balance, beginning of year		6,375,803	5,511,756
Net income for the year		2,033,328	1,864,047
Dividend Paid	6(b)	(398,000)	
Dividend Payable	6(b)	(1,532,583)	(1,000,000)
Balance, end of year		<u>6,478,548</u>	<u>6,375,803</u>

**Civil Aviation Authority of the Cayman Islands**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2012**  
**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.

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 22 employees as at June 30, 2012 (2011:19).

**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 equipment	3 years
Office equipment, vehicles and leasehold improvements	5 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, 2012  
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, 2012  
Stated in Cayman Islands dollars

**3. Cash and short term investments**

a) Cash and cash equivalents	2012	2011
Cash on hand	4,301	4,299
Current and call accounts	<u>1,572,521</u>	<u>1,239,371</u>
Total cash and cash equivalents	<u>1,576,822</u>	<u>1,243,670</u>
b) Short term investments		
Fixed Deposits	<u>6,547,736</u>	<u>5,676,291</u>

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**

	2012	2011
Accounts receivables - Trade	1,087,370	1,442,213
Other receivables	71,179	43,494
Allowance for doubtful accounts	<u>(24,459)</u>	<u>(164,763)</u>
Trade and other receivables (net)	<u>\$1,134,090</u>	<u>\$1,320,944</u>

A bad debt policy was approved in the Board of Director's Meeting of March 28, 2012. The Policy included 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 \$4,153 for 2012 represents amounts owed that were over a year old or due from certain related parties and thus provided for in the allowance for doubtful accounts for the year.

Of the total accounts receivable outstanding at June 30, 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 \$66,924 was due from Cayman Airways for various services.

The total Trade Receivables below represents the net between Accounts Receivables – Trade (1,087,370) and Allowance for doubtful accounts (24,459).

**Aging Profile of Trade Receivables**

Period Outstanding (Days)	Amount
1-30	863,885
30-90	206,843
Over 90	(7,817)
<b>Total</b>	<b>1,062,911</b>



Civil Aviation Authority of the Cayman Islands  
Notes to the Financial Statements  
For the year ended June 30, 2012  
Stated in Cayman Islands dollars

**4. Trade and other receivables (continued)**

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

	2012	2011
Opening provision	164,763	293,445
Bad debts provided for during the year	4,153	18,141
Less recoveries	(144,457)	(118,781)
Write off accounts previously provided	-	(28,042)
Closing provision	<u>\$24,459</u>	<u>\$164,763</u>

**5. Capital Assets**

	Leasehold Improvements	Furniture & Fixtures	Computers & Equipment	Vehicles	Total
<b>Historical cost of assets:</b>					
Cost at beginning of year	122,077	104,762	198,582	50,312	475,733
Additions during the year	-	10,179	50,620		60,799
Disposals during the year	-	-			
Cost at end of year	122,077	114,941	249,202	50,312	536,532
<b>Accumulated Depreciation:</b>					
At the beginning of the year	118,427	48,659	121,926	47,012	336,024
Depreciation expense	3,650	10,820	21,609	1,800	37,879
Disposed during the year	-	-			
At end of year	122,077	59,479	143,535	48,812	373,903
<b>Net value at June 30, 2011</b>	3,650	56,103	76,657	3,300	139,710
<b>Net value at June 30, 2012</b>	0	55,462	105,667	1,500	162,629

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6. Liabilities and related party transactions

a) Accounts payable and accrued liabilities

	<u>2012</u>	<u>2011</u>
Unearned Income	407,014	198,190
Payroll Liabilities	145,700	157,550
Accrued Expenses	179,663	119,857
Accounts Payable	34,743	74,757
Unidentified deposits and unresolved issues	<u>10,568</u>	<u>-</u>
Total Accounts payable / Accrued liabilities	<u>777,688</u>	<u>550,354</u>

Related party balances and transactions

b) Dividend payable to Cayman Islands Government

This line item has been reclassified from accounts payable and accrued liabilities in 6(a) in prior year for fairer presentation.

Under section 18(4) of *The Civil Aviation Act*, 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. After the directive was issued in the current financial year, it was determined that an additional \$398,000 was payable to the Cayman Islands Government based on this formula. A total dividend of \$1,398,000 for the 2011 fiscal year was paid out before the end of this financial year end.

	<u>2012</u>	<u>2011</u>
Dividend payable to Cayman Islands Government	<u>1,532,583</u>	<u>1,000,000</u>

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 2012 these salaries totaled \$ 52,331. Contracts related to short term holiday employment of key management personnel relatives amount to \$ 2,632 during the year for a total of 26 days. The amount is considered to be immaterial and represent essential administrative and support services during the period.

d) The Authority's Register of Interests signed by all of its Managing/Divisional Directors indicates no other related party transactions with key management personnel. However, Register of Interests have not been submitted by members of the Board of Directors (BOD) as of the issuance date of the financial statements; therefore, other related party transactions involving members of the BOD are indeterminate at this time.

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6. Liabilities and related party transactions (continued)

e) 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 2012 were \$868,734 (2011: \$780,526). 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 for business and personal use and fuel allowance. Both the Director-General and the Deputy Director General are the holders of fuel cards which can be utilized to fuel their vehicles and to also fuel CAACI vehicles that are also used in the business of the Authority. Under the medical coverage program, any approved claims not covered by insurance are fully subsidized by the Authority. For the year ended June 30, 2012 this amounted to \$11,896 (the uninsured medical coverage figure was not included in the notes for the year ended June 30, 2011).

	June 30, 2012	June 30, 2011
Base salary	670,521	626,629
Pension	54,186	50,493
Medical coverage	72,343	37,936
Fuel allowance	5,894	4,805
Bonus Incentive	<u>65,790</u>	<u>60,663</u>
Total key employee benefits	<u>\$868,734</u>	<u>\$780,526</u>

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

Accrued expenses include professional fees of \$40,803 which relates to an MOU between the Cayman Islands Government (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 130,000 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 will be reflected as an expense of the Authority and will commence on April 1, 2012 and will be 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.

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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 Director General has requested a meeting with the Managing Director of the Pensions Board and the Financial Secretary to resolve the policy issues in question. As of issue date of these Financial Statements, this meeting has not yet been set.

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, 2012, 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)
Estimated adjustment to increase defined benefit obligation (2012)	225,000
Estimated defined benefit obligations as at June 30, 2012	<u>\$632,458</u>

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.	
C. 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

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

E. Asset Valuation –Fair (Market) Value

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7. Employee pensions (Continued)

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	<u>1,020,000</u>

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.

8. Lease of premises

The Authority currently leases offices located in Cayman Grand Harbour, Grand Cayman for its operations.

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 June 11, 2010 and expires August 15, 2013. Total space occupied is 3,530 square feet at lease rate of \$30 per square ft.

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 payments for the office lease is as follows:

	July 2012 – August 15, 2013
Cayman Grand Harbour, Cayman Islands	\$141,566

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 Gerrard Smith International Airport (GSIA).

On July 30, 2009 a Memorandum of Understanding (MOU) between CAA and CIAA was signed whereby CAA would charge the CIAA C\$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, 2009 and would be effective for a period of three years, with an agreement to review annually. See Note 13.



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9. Fees (Continued)

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 C\$250 can be charged for surveys carried out on all the aircraft on the Cayman Islands Aircraft Register. During the year ended June 30, 2012, 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, 2012	June 30, 2011
Surveyor fee billings	781,127	694,286
Survey reimbursable costs billings	447,099	341,722
Surveyor fees & reimbursable expense	<u>(462,112)</u>	<u>(349,672)</u>
Surveyor fees & reimbursable expenses (Net)	<u>\$766,113</u>	<u>\$686,336</u>

During the financial year ending 2012, 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, 2012	June 30, 2011
Bad Debt Recovery	144,457	118,781
Interest Income	<u>51,446</u>	<u>33,454</u>
Total Other Income	<u>195,903</u>	<u>152,235</u>



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10. Expenses

Operating Expenses	2012	2011
<i>a) Personnel costs</i>		
• Salaries - Cayman	1,933,216	1,560,401
• Contractors fees – overseas	296,665	311,821
• Pension	116,210	104,580
• Pension – adjustment to defined benefit liability	225,000	0
• Insurance and Medical Expenses	185,497	140,192
• Training	50,923	56,183
• Recruitment and Relocation expenses	4,436	24,137
<i>Total Personnel costs</i>	<b>2,811,947</b>	<b>2,197,314</b>
<i>b) Office administration and business development</i>		
• Rental expenses	134,094	145,682
• General office administration expenses	234,824	201,165
• Business development expenses	64,468	43,942
• Board expenses	5,089	5,110
<i>Total Office administration and business development</i>	<b>438,475</b>	<b>397,993</b>
<i>c) Professional &amp; licensing fees</i>		
• Insurance fees	27,834	35,112
• Work permit fees	68,550	61,520
• Air Safety Support International (ASSI)	40,803	-
• Audit and other professional fees	25,472	39,000
• Legal fees	8,862	11,302
• Professional dues and subscriptions	8,860	7,581
<i>Total Professional &amp; licensing fees</i>	<b>180,381</b>	<b>154,515</b>
<i>d) Travel – official, training and administrative</i>		
• Travel – Administration and Training	43,548	60,188
• Travel – Business Development	56,704	77,952
<i>Total Travel – Official, training and administrative</i>	<b>100,252</b>	<b>138,140</b>

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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 does not have any 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 0.55 and 1.1875% per annum in the year ending 2012. 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 year ending June 30, 2012, Axis International Ltd. filed a Notice of Originating Motion against the Authority to quash the decision of the CAACI to grant Aerodrome Certificate ANS14/AD/04/2011 to Cayman Islands Helicopters Ltd. (CIHL). The Attorney General's Chambers has retained aerodrome specialist counsel in the United Kingdom to assist with the defense of this motion. The case is ongoing at balance sheet date and is expected to be heard in the Grand Court of the Cayman Islands in February 2013.

A provision has not been accrued as it cannot be fairly estimated how much the defense of this case will cost. However, the Professional Indemnity Policy in place through the Risk Management Unit of the Cayman Islands Government will cover legal fees in excess of US\$50,000.

**13. Subsequent Events**

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.

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