

2013 - 2014



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 2013/14 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.

During this period the DGCA represented the Authority at the bi-annual Overseas Territories Safety and Performance Council (OTSPC) held in Crawley, UK in November 2013. The OTSPC was established by the UK Department for Transport (DfT) in May of 2013 as a component of a new governance structure for the regulatory oversight of civil aviation in the UK Overseas Territories. The other component is the Aviation Policy Consultative Conference (APCC) established at the same time, which will meet annually

and will be attended by Governors and OT Ministers with responsibility for civil aviation in each of their respective territories.

During the OTSPC, discussions were held regarding changes to the oversight of aviation security in the OTs. This function was previously carried out by TRANSEC, a specialty DfT department that was disbanded during UK Government's austerity measures budgetary cuts. Oversight responsibility for security will be assigned to Air Safety Support International (ASSI). Discussions are ongoing regarding the implementation of these arrangements which comes into effect April 2015.

Continuing into the 2013-2014 year the CAACI appealed the Chief Justice's (CJ) ruling from the 2012 Judicial Review concerning the GT Heliport. The appeal was heard on 18 – 20 November 2013 by the Cayman Islands Court of Appeal. The appeal was upheld and the Court ruled that the CAACI did not act unreasonably in certifying the GT Heliport. This was quite a milestone and success not only for the CAACI, as the CJ's ruling would have had far reaching implications for all the other UK OT Aviation Authorities as well. The CAACI was also awarded costs for both the Appeal and the initial Judicial Review at a hearing on the 14 April 2014, heard by the Appeals Court Justices. This sequence of events has served to reinforce that the CAACI is a credible regulator by adhering to sound regulatory standards and appropriate decision-making.

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 functions of the Authority are established in the Civil Aviation Authority Law 2005 (Revision). The Authority is headed by P. H. Richard Smith, MBE FRAeS and there are four regulatory divisions –

- The **Air Safety Regulation (ASR)** division oversees the technical and safety regulation of all aircraft on the Cayman Islands Aircraft Registry which operate locally and globally.
- The **Air Navigation Services Regulation (ANSR)** division is responsible for the certification and licensing of aerodromes throughout the territory. They are: Owen Roberts International Airport (ORIA), the Charles Kirkconnell International Airport (CKIA) -formerly the Gerrard-Smith International Airport on 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 International Civil Aviation Organisation (ICAO) for airport operators;
- The **Finance & Compliance** division, ensures prudent financial management and compliance with the relevant local and international legislation for financial and client due diligence matters.

The CAACI has full designation for safety oversight as a UK Overseas Territory Aviation Authority (OTAA). In addition, the Cayman Islands are 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) – a special arm of the United Nations and the governing agency that sets global standards for aviation.

The Authority regulates in a collaborative manner with the aviation industry and key stakeholders with an aim to optimizing safety and protecting the aviation consumer.

The Authority is self-funding with revenues generated from regulatory activities and the registration of aircraft (private and corporate) on the Cayman Islands Aircraft Registry. The Authority is also the custodian of the Aircraft Mortgage Registry which also provides a source of revenue.

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 characterize our work and daily activities:

- i. **Safety**: first and foremost safety should characterize the reason that we are in business, thereby 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

Following the resignation of the Chairman of the Board and majority of directors, a new Chairman and Directors were appointed in September 2013.

The newly appointed board consists of the following:

Mr. Ian Pairaudeau, Chairman

Mr. Randy Merren, Deputy Chairman

Ms. Shamar Ennis, Member

Mrs. Anna McLean, Member

Ms. Christine Rose-Smyth, Member

Ms. Anthonia Spencer, Member (resigned 10 Jan 2014 – moved off island)

Mr. William McTaggart, Member

In addition two public servants continue to serve:

Mr. Eric Bush, Chief Officer in the Home & Community Affairs Portfolio

Mr. Ronnie Dunn, Director of Budget & Management, Ministry of Finance & Economic Development.

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).

Message from the Board of Directors:

“Since being appointed in September 2013, the Board of directors has embraced its obligations and responsibilities enthusiastically and is committed to ensuring that good governance of the Civil Aviation Authority of the Cayman Islands (CAACI) is carried out in a transparent manner at all times. The Board also recognises that safe, efficient and regular air transport is vital to supporting the main pillars of the Cayman Islands’ economy, i.e. our tourism and financial industries, and must therefore ensure that the Authority is appropriately resourced in all areas.

The Board is pleased to report a very amicable and professional working relationship with the management of the CAACI. We note that the Authority is financially independent and contributes to the revenues of the Government rather than being financially subsidised by Government. We also note the CAACI’s designation for safety regulatory oversight for all functional areas of the Islands’ aviation industries granted by the Governor, as recommended by the UK’s governing body for aviation in the Overseas Territories, Air Safety Support International (ASSI). This level of confidence is an affirmation of the capabilities of the Authority’s management and staff and the Board is anxious to contribute to its continued success.”

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 [AN(OT)O] and delegated to the CAACI through the Director-General of Civil Aviation. The Authority currently holds unconditional designation for the regulation of all functional areas of civil aviation, as provided for by the UK Secretary of State's directions. The Civil Aviation Authority falls within the Portfolio of the Civil Service under the Deputy Governor's Office.

Also adding to the changes, was the appointment of the first ever female Governor, Mrs. Helen Kilpatrick, who arrived to take up her post in September 2013. On 9 October, Her Excellency Mrs. Kilpatrick made her first official visit to the CAACI offices to meet the Director-General and staff.

Year in Review

Administration

Human Resources

The staff complement at 30 June 2014 was 19. 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 on-going for the post of Manager Flight Operations and a Flight Operations Inspector to support the growing aircraft registry. It is envisioned that this post will be filled in the first quarter of the new financial year.

Of particular significance during this period was that the post of Director of Air Safety Regulation (DASR) was filled for the first time ever by a Caymanian with the confirmation of Capt. Steve Scott to the post effective 4 March 2014. Also, the confirmation of Taron Smith to the post of Dangerous Goods Inspector after taking on expanded responsibilities for Dangerous Goods Regulation. He attained this by completing a comprehensive training programme which included formal courses and secondments with the Federal Aviation Authority (FAA) in the USA as a part of on-the-job training requirements to demonstrate proficiency.

Training

Staff from all divisions completed 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 that traditionally sees the gathering of surveyors on island was re-branded as the "Annual Safety Seminar" and the scope expanded to include Flight Operations and other regulatory disciplines. This first Annual Safety Seminar took place in May in Grand Cayman with the contracted surveyors that are based in the UK, Europe and North America travelling to island to meet with CAACI head-office personnel and other pertinent industry partners.

As a precursor to the Annual Safety Seminar the CAACI and ASSI jointly sponsored a one day workshop focusing on "Air Law & Enforcement" which took place on Monday, 12th May with ASSI providing the CAACI with two of their legal staff to conduct the training. Topical matters included a review of the Chicago Convention, an overview of (ICAO) roles and responsibilities, Annexes which contain the standards and recommended practices; regulation in the UK Overseas Territories, local requirements vis a vis the Overseas Territories Aviation Requirements (OTARs) and enforcement of the regulations. In addition to CAACI staff and contracted surveyors, invited attendees included members of the legal community (who work very close with the CAACI on registration of aircraft) including the Attorney General's Chamber, and members of the local air transport industry - Cayman Airways, Cayman Express, Cayman Helicopters, Mosquito Research & Control Unit (MRCU), the Royal Cayman Islands Police Service (RCIPs), the Fire Department and the Cayman Islands Airports Authority (CIAA).

The CAACI continued its support for local training of the aviation industry with specific support to the "Introduction to Air Transport

Management” course 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 ICAO, 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 the International Air Transport Association (IATA) and may attract attendees from the Caribbean and Central/Latin American regions.

Worthy of mention also was the attendance at the International Civil Aviation Organization (ICAO) 38th Assembly held in Montreal, Canada, in September 2013, by the Director-General and Deputy Director-General for Economic Regulation & Admin. Also, as a precursor to this important regulatory gathering of global aviation minds, ICAO staged the McGill Pre-conference meeting to discuss air transport issues. This was attended by the Director-General of Civil Aviation, the Deputy Director-General for Economic Regulation & Admin and the Air Carrier Licensing Officer.

Information Technology Systems

The VP-C Online electronic data management portal - members of the Air Safety Regulation (ASR) Division continue their liaison with the Brac Informatics Centre (BIC) team. They continue together to refine VP-C

Online and plan for development of further phases which are aimed at fully integrating this electronic initiative which will enhance efficiencies in managing the aircraft registry process and provide greater efficiencies with key processes in Finance and Compliance.

Continued contractual relations with IT management firm 'Fiderus' in providing on-going daily support for all information systems administration has been very productive and beneficial for the Authority's IT operations.

Business Development & Promotional Activities

The Authority implements an annual integrated communications programme as a component of its Business Development activities, aimed at creating greater awareness of the Cayman Islands Aircraft Registry globally; greater awareness of our credible regulatory regime with the ultimate goal of increasing the subscribers to the aircraft registry and creating sustainable financial streams for the Authority. An overview of initiatives and opportunities for the 2013-2014 period include the following:-

Corporate Jet Investor Miami Conference – September 2013 the Director-General, Mr. Richard Smith, and Director of Finance & Compliance, Mrs. Jane Panton, attended the two-day conference which took place in Miami, Florida. The conference focused on the opportunities and threats in business jet transactions in North, Central and South America which included key topics such as signs of recovery, state of the market for offshore-registrations, aircraft financing, and the effects of regulatory authorities on the industry. CAACI was a sponsored speaker at the event where the Director-General, Mr. Richard Smith, was included in a panel discussion that gave insight to offshore registration matters.

NBAA 2013 – The CAACI exhibited at the 66th annual National Business Aviation Association (NBAA) tradeshow, held at the Las Vegas Convention Center (LVCC) in Las Vegas, Nevada on 22-24 October 2013. There were over 25,000 attendees and 1,000 exhibitors displaying the latest products and services in the aviation industry. The majority of the attendees that this show attracts have high influence in the purchasing budgets and decisions for business aircraft operators and industry leaders.

The delegation of Cayman Islands' business attendees jointly exhibiting with the CAACI at NBAA included legal and financial representatives Maples & Calder, as well as Island Air (local fixed base operator (FBO) and ground handler). Department of Tourism (DOT) takes part every year by kindly donating giveaways and tourism materials to have on hand at the booth.

International Corporate Jet Finance Conference, London 2014 – The Director-General, Mr. Richard Smith attended the 4th annual conference which was held in London on 4-6, February 2014. The global business jet market was covered extensively with speakers from aircraft manufacturers, banks and financing institutions, legal services and aviation consulting firms. There was a record attendance of 450 people.

Island Air Luxury Event – the CAACI partnered with local handling agency Island Air at its premier event on Grand Cayman, 21 February 2014. This event is designed to feature all things related to luxury including corporate and private aircraft.

Each year this event attracts upward of 1500 persons networking and perusing products and service offerings available on island and through local providers. This audience fits well with the target market for the Aircraft Registry as the affluent, sophisticated aircraft owner/operator.



Caption: CAACI staff at the Island Air Event in their open lounge booth featuring Cayman Islands Aircraft Registry signage and branding.

ABACE 2014 – The third annual Asian Business Aviation Convention & Exhibit (ABACE) was held in Shanghai, China on 15-17, April 2014. The CAACI exhibited for the first time and was represented by Director-General, Mr. Richard Smith along with Director of Air Safety Regulation, Capt. Steve Scott and Airworthiness Manager, Mr. Guy Healey. ABACE 2014 attracted a record-breaking 187 exhibitors and 38 static-display aircraft, with 73 of the exhibiting firms hailing from Asia itself, representing a 92-percent increase from ABACE 2012.

EBACE 2014 – CAACI exhibited at the 14th annual European Business Aviation Convention & Exhibition (EBACE) tradeshow, which is held annually at the Palexpo Centre in Geneva, Switzerland. As EBACE concluded on 22nd May, show organizers reported that there were a total of over 13,000 attendees and 320 Exhibitors that visited during the three day event. The static aircraft display was sold out with a total of 55 aircraft on the ramp. EBACE provides CAACI with the appropriate

audience to reach its target market because the majority of aircraft registered are located in the European region, however attendance includes delegates from the Middle East, Asia and other growing and emerging regions. CAACI partnered with Maples and Calder, which provided legal and fiduciary advice and information to potential registrants on matters associated with the registration of companies and aircraft.



CAACI delegates with business partner Dale Crowley of Maples and Calder during EBACE 2014 in Geneva, Switzerland.

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. A few of these are: Acquisition International, The European, World Commerce Review, Cayman Finance Magazine, and Corporate Jet Investor. These articles are distributed internationally at conferences,

business aviation tradeshows, airports on private jets, and in business lounges.

CAACI recently re-designed the promotional brochure that provides information about the Authority and the Aircraft Registry. The redesigned piece provides an interchangeable format that enables information to be easily updated when required. The brochure will be distributed at aviation tradeshows and conferences the CAACI attends globally each year.

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). This covers all aircraft operations 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, the Division consists of the Director ASR, Manager of Airworthiness and two Airworthiness Surveyors, Manager of Flight Ops (vacant) and 1 contract Flight Ops Inspector. In addition, there are 1 Personnel Licensing Officer, 1 Technical Administrator & Dangerous Goods Inspector and 1 Technical Administration Officer.

To complement the ASR team in airworthiness activities, there are 4 contracted airworthiness surveyors in the UK, 2 in the USA, 1 in Germany and 1 in Switzerland who carry out the required airworthiness oversight functions in support of required aircraft surveys and maintenance facility inspections globally.

The Flight Operations oversight activities are performed by the Director ASR and 1 contract Flight Operations Inspector (fixed wing) in Canada and 1 contract Flight Operations Inspector (helicopter) in the UK. The ASR Flight Operations staff members perform the following: VP-C Online help desk support to approximately 60 Operators and their management, technical coordinators, pilots and administrative assistants. They also carry out technical safety audits and flight crew proficiency checks of local AOC holders, operational audits for OTAR Part 125 operators and the issuing of numerous regulatory approvals required for aircraft operations internationally.

Other Notable Developments/Events:

- i. The CAACI customised electronic data management portal, VP-C Online, was expanded in functionality to include the issuing of yearly flight crew licence validations (01 August 2013).
- ii. Implementation of the AN(OT)O 2013 (effective 1 Jan 2014).
- iii. The biennial audit of Cayman Airways Ltd. was carried out in June 2014. The audit included an in-depth review of the airline's flight operations, aircraft airworthiness, crew training, maintenance facilities and procedures, cargo operations, dangerous goods handling and Safety Management System functional areas.
- iv. The Director-General and Manager Airworthiness attended an FAA sponsored airworthiness informational exchange meeting at the FAA's Field Office in Miramar, FL, USA in May 2014. The meeting was called to bring aviation authorities together to promote collaboration, identify areas of mutual concern, and share best practices in the interest of aviation safety. The meeting was

attended by representatives from numerous aviation authorities from the Caribbean and South American regions.

- v. The annual meeting in support of the ICAO Article 83 *bis* Agreement between the CAACI and Saudi Arabia's General Authority of Civil Aviation (GACA) was held in Jeddah, Saudi Arabia, in February 2014. This meeting allows both aviation authorities to review and plan oversight activities of Saudi airline, National Air Services (NAS), which operates aircraft registered in the Cayman Islands. The CAACI was represented by the Director-General, Director ASR and the Manager of Airworthiness. The CAACI and GACA agreed to expand the scope of the agreement to also include other Cayman registered aircraft based and operated in Saudi Arabia.



Statistics for the CI Aircraft Registry at 30 June 2014:

- ➔ Total aircraft entered on the register = 221
- ➔ De-registrations occurred during the period = 22
- ➔ New aircraft registrations during the period = 42
- ➔ Net growth of aircraft since 30 June 2013 = 20
- ➔ Maintenance organization approvals (AMOs) issued = 134
- ➔ Continued Airworthiness Management organization approvals (CAMOs) issued = 69

Air Operator Certificate (AOC) holders:

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

Trends show that the CI Aircraft Registry is attracting larger and more complex aircraft. Aircraft types on the register ranging from helicopters and smaller jets to larger aircraft include:-

Airbus (A318, 320 and 340)

Augusta (A139)

Bell Helicopter

Boeing (B-727, 737 and the 777 models)

Bombardier Global

Cessna Citation (C680)

Dassault-Falcon (DA-7X)

Embraer (135)

Gulfstream (G650)

Hawker (HS125)

Pilatus (PC12)

Sikorsky (SK66)

Air Navigation Services Regulation (ANSR) Division

During the period the ANSR division carried out its responsibilities for the safety oversight of the aviation infrastructure on all three islands.

For most of the reporting period considerable divisional resource had to be applied to the preparation of the Authority's appeal against the Judgment emanating from the Judicial Review (JR) of its decision to certify the George Town Heliport. The appeal was heard on 18-19th November 2013 and was successful with the Judgment in the Authority's favour being handed down on 26th March 2014.

Subsequent to that decision and the major changes to related regulations introduced in November 2013, the guidance material for aerodrome certification has been updated and published on the CAACI website. In addition, there has been further and ongoing divisional activity in the oversight of the re-activation of the George Town Heliport operation.



In March 2014, ANSR divisional personnel carried out the review of the competency of the CIAA's Air Traffic Control Officers (ATCOs) for the issuance of annual certificates of competence for each controller.

Other activities carried out by ANSR during the period included:

- i. Continuing to work closely with CIAA to address the outstanding findings and observations arising from the both the 2010 and 2012 audits. The publically reported organisational difficulties within the CIAA have made this a very slow and unsatisfactory process.
- ii. Developing documentation to support the approval of Small Unmanned Aircraft (SUA/UAV) for commercial operations (Aerial Work) in the Cayman Islands. A number of interested parties have been interviewed and briefed on the application process and two formal applications for permission were received.



Example of an unmanned aircraft/drone

- iii. Co-ordinating the CAACI's annual response to the extensive State Aviation Activity Questionnaire designed to produce an international database for ICAO's Universal Safety Oversight Audit Programme (USOAP).
- iv. Implementation of the Access Database to manage the processing of Mandatory Occurrence Reporting (MOR). The new database now provides an inter-active system enabling all CAACI staff to interrogate and update current MORs. Work is now in progress to link/share the information with the international safety database.
- v. ANSR personnel represent the Cayman Islands on the Overseas Territories Safety and Performance Council sub-group, contributing to the development documentation in support of both the All-Overseas Territories Safety Plan and the Cayman Islands Safety Plan.
- vi. Carrying out the annual review of the Camana Bay (certified) Heliport.
- vii. Providing regulatory guidance interpretation and comments as requested.

Economic Regulation

Economic Regulation 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-scheduled 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	2011 - 2012	2012-2013	2013-2014
Non-scheduled/charter	475	552	478

The movement in activity of non-scheduled/charter arrivals is closely tied to the recovering tourism and the stay-over sector of the tourism market. This figure has gone down since last year due to a decline in the number of flights operated by Netjets a US based non-scheduled charter operator.

There was no change in seasonal scheduled operating permits issued. Permits were issued to:-

- Aerolineas Sosa
- Air Canada
- American Airlines
- IBC (cargo only)
- Delta Airlines
- JetBlue
- United Airlines
- US Airways
- West Jet

The Deputy Director-General and Air Carrier Licensing Officer also continues to administratively support the Air Transport Licensing Authority (ATLA) – the independent board appointed to process applications for economic licenses of local commercial air transport operators.

CAACI 2013/14 Strategic Goals and Objectives

1. Amend the Air Navigation (Fees) Regulations 2010

The proposal to amend the fees was deferred to accommodate proposed changes to the Mortgaging of Aircraft Regulations, which was not accomplished during the period.

2. Amend Air Transport (Licensing of Air Services) Regulations

While the CAACI has a vested interest in seeing these 1977 Regulations updated, the issue of licensing air transport operators is a national air transportation policy matter which should receive collaborative input from other government departments. It was envisioned that the exercise initiated some years ago to accomplish this would continue but was not. Update of the regulations is still pending.

3. Mortgaging of Aircraft Regulations

This exercise was deferred to await proposed amendments to the Air Navigation (Overseas Territories) Order in respect of mortgaging of aircraft to accommodate UK ratification of the Cape Town Convention. The UK has committed to ratify the said Convention by the end of 2014.

4. Implement new OTARs and amendments

There were no new OTARs developed during the period. All amendments to existing OTARs were appropriately observed and implemented where necessary.

5. Promote development of Little Cayman's aviation infrastructure

Presentation made to the new Cabinet in July 2013 included comments on the need to have a certificated aerodrome on Little Cayman. This matter was also reiterated in subsequent meeting with the Ministry concerned.

6. Issue aerodrome safety certification for Edward Bodden Airfield (EBA) Little Cayman

Cayman Airways Express was granted an exemption from the Order to conduct commercial air transport operations into Little Cayman, based on an acceptable level of safety being maintained.

7. CI Aircraft Registry

The targeted increase of 5% for aircraft entered on the Registry was achieved and exceeded. The resulting increase was 11%.

Finance & Compliance

Financial Summary

Net Income (operating) - The year ended June 30, 2014 yielded an audited operating net income of CI\$3,034,092 which is 42% over the budgeted net income of \$2,150,078. This resulting net income is mainly due to the increase in revenues from a steady increase in aircraft entered on the register over the past 4 years and significant savings in expenses under the budgeted amounts. The savings in expenses occurred in most areas, the largest portion being in personnel and business development costs.

Net income (comprehensive) – the overall (comprehensive) audited Net Income for the year was reduced by an adjustment of \$222,000 to the Pension Liability for the Defined Benefit Plan administered by the Public Service Pension Board (PSPB). This results in a comprehensive net income of \$2,812,092. The Pension Liability is the unfunded portion of the Plan that the Authority would be responsible for paying to the plan participants upon retirement. Details of this adjustment and of both pension plans of the Authority administered by the Public Service Pension Board (PSPB) are in the notes to the Financial Statements (notes 4 and 9).

Revenues

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 increase 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 increased from 201 at June 30, 2013 to 221 at June 30, 2014, an increase of 10% during the fiscal year.



A factor influencing the increase in revenue is the heavier aircraft being entered on the register, as fees for the largest revenue stream (airworthiness certificates) are determined by Maximum Take-off Weight (MTOW) of the aircraft. The increase in the number in 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.

Aerodrome certification and licensing revenues are derived from charges for the certification, licensing, inspection and regulatory oversight of airport, 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 regulatory oversight of the Owen Roberts International Airport's and Charles Kirkconnell International Airport's activities and agrees the same fee until June 30, 2015.



Air operator permit approvals are issued to scheduled and non- scheduled commercial foreign registered aircraft flying into the Cayman Islands. This revenue stream had been growing steadily at an average growth of 9% over the past two years ending June 2013. However, permit applications experienced a decrease during the period resulting in a of 6% decrease in revenue from CI\$256,700 to CI\$241,500

Expenses - Total expense incurred in the period was \$248,526 below the budgeted amount. Savings in most expense categories were attained with the largest being in personnel costs due to some posts not being filled or only partially filled during the year. Business development travel costs also came in under budget due to careful attention being paid to planning and booking travel well in advance to take advantage of lower costs to attend and exhibit at aviation industry shows. Air Accident Investigation Insurance was \$42,000 less than what was budgeted as the insurance policy was commissioned for much less than anticipated.

Capital Expenditure was expected to be \$426,153 but only \$118,873 was spent due to several planned projects not being completed as scheduled.

New CAACI Office Accommodation

In January 2013 the Board gave approval for the DGCA to begin talks with the CIAA on the redevelopment of the former Cayman Airways Limited (CAL) Building on Airport Road as future office accommodation for the CAA. In April 2013, the Board approved expenditure of \$250,000 in the 2013-14 budget, which would cover initial structural and engineering assessments as well as bring the building to a point where the main construction phase could begin. The Authority has so far expended only \$4,523 on structural and engineering assessments during the financial year 2012-13. A strategic overview was developed and presented to the Board of Directors. A sub-committee made up of two Board members and three of the Authority's staff was formed to oversee the project.

Developed Computer Software

The CAACI's online aircraft registry, VP-C Online, is progressing and Phase I and II are being fully utilised but Phase III was not completed in the year ending June 30, 2014 as planned.

A portion of the budget also included the final payment for the CAACI's Aviation Safety Plan which was also planned for completion before June 30, 2014. However, this had also not been completed by the developer by the end of the period.

Looking forward to the period 2014 – 2015

The ensuing 12 – 24 months are forecasted to continue on a growth track with the Aircraft Registry expected to continue its conservative positive growth. Specifically the CAACI has identified the following key objectives and associated goals and strategies as priorities for the next 12 – 24 months.

- ❖ To retain full designation by ASSI with a positive assessment in the Fall 2014 biennial review.
- ❖ To enhance aviation safety through collaborative efforts with industry and key stakeholders. Priority goal:
 - In addition as identified in the Ownership Agreement with CI Government, the CAACI will promote the development of a certifiable airport in Little Cayman to enhance safety of air transport operations on that island.
- ❖ To maintain financial independence and increase revenue year over year. The following aim plays a supportive role in this goal:

- Will pursue the revision and amendment of local aviation regulations for (i) Air Navigation (Fees) Regulation and (ii) Mortgaging of Aircraft Regulations.
- ❖ To maintain a minimum 5% growth year over year for subscriptions to the Aircraft Registry
- ❖ To continue to increase the local and global awareness of the CAACI's credible regulatory regime and the benefits of registering aircraft in the Cayman Islands.
- ❖ Will pursue the development of permanent office accommodations (corporate headquarters) for the Authority.

Appendix A



Financial Statements

30 June 2014



CIVIL AVIATION AUTHORITY OF THE CAYMAN ISLANDS

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STATEMENT OF RESPONSIBILITIES 30 June 2014

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 (2013 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 (2013 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 on the comparability of the current periods figures and the corresponding figures of the matter discussed in Basis for Qualified Opinion paragraph of the Office of the Auditor General's opinion, fairly present the financial position as at 30 June 2014 and its comprehensive income and cash flows of the Civil Aviation Authority of the Cayman Islands for the financial year ended 30 June 2014.

To the best of our knowledge we represent that these financial statements, except for the effects on the comparability of the current periods figures and the corresponding figures of the matter discussed in Basis for Qualified Opinion paragraph of the Office of the Auditor General's opinion:

- a) Completely and reliably reflect the financial transactions of Civil Aviation Authority of the Cayman Islands for the year ended 30 June 2014;
- b) Fairly reflect the financial position as at 30th June 2014 and its comprehensive income for the year ended 30th June 2014;
- 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 and its agent has been provided access to all the information necessary to conduct an audit in accordance with International Standards of Auditing.


Nicoela McCoy (Mrs.)
Acting Director-General
Date: 6 November 2014


Jane Panton (Mrs.)
Director of Finance and Compliance
Date: 6 November 2014



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AUDITOR GENERAL'S REPORT

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

I have audited the accompanying financial statements of Civil Aviation Authority of the Cayman Islands (the "Authority") which comprise the statement of financial position as at June 30, 2014, and the statements of comprehensive income, cash flows, and changes in equity for the year then ended and a summary of significant accounting policies and other explanatory information as set out on pages 4 to 25 in accordance with the Section 60(a)(i) of the *Public Management and Finance Law (2013 Revision)*.

Management's Responsibility for the Consolidated 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.

Auditors' Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated 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 we have obtained is sufficient and appropriate to provide a basis for my audit opinion. In rendering my audit opinion on the financial statements of the Authority, I have relied on the work carried out on my behalf by a public accounting firm who performed their work in accordance with International Standards on Auditing.

AUDITOR GENERAL'S REPORT (continued)

Basis for qualified opinion

As discussed in Note 4, the certain elements of the actuarial valuation of the defined benefit obligation as at June 30, 2012 (the "Previous Actuarial Valuation") are being disputed by management of the Authority and as a result management have not restated the defined benefit pension liability as of June 30, 2012 in accordance with IAS 8 – Accounting policies, changes in accounting estimates and errors. We have been unable to satisfy ourselves as to the reasonableness, or otherwise, of the Previous Actuarial Valuation as at June 30, 2012 by other auditing procedures. Since the June 30, 2012 balances as per the Previous Actuarial Valuation affect the determination of the re-measurement of post-employment benefit obligation recorded in the Statement of Comprehensive Income for the year ended June 30, 2013, we were unable to determine whether any adjustments might be necessary with respect to other comprehensive income for the year ended June 30, 2013 and the opening balance of Equity at July 1, 2012. Our opinion on the current period's financial statements is modified because of the effect, if any, of this matter on the comparability of the current period's figures and the corresponding figures.

Opinion

In my opinion, except for the effects on the corresponding figures of the matter described in the Basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Civil Aviation Authority of the Cayman Islands as at 30 June 2014 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.





Alastair Swarbrick, MA(Hons), CPFA
Auditor General

November 6, 2014
Cayman Islands

**Civil Aviation Authority of the Cayman Islands
Statement of Financial Position
As at June 30, 2014
Stated in Cayman Islands Dollars**

	Note	June 30, 2014	June 30, 2013 (Restated – Note 4)	July 1, 2012
Assets				
Current assets				
Cash and cash equivalents	5(a)	2,966,595	1,923,757	1,576,822
Short term deposits	5(b)	4,985,922	6,994,954	6,547,736
Trade and other receivables	6	1,764,708	1,758,374	1,134,090
Total current assets		<u>9,717,225</u>	<u>10,677,085</u>	<u>9,258,648</u>
Non-current assets				
Capital assets	7	236,316	179,544	162,629
Total non-current assets		<u>236,316</u>	<u>179,544</u>	<u>162,629</u>
Total Assets		<u>9,953,541</u>	<u>10,856,629</u>	<u>9,421,277</u>
Liabilities and Equity				
Current liabilities				
Accounts payable and accrued liabilities	8(a)	1,089,008	990,811	777,688
Dividend payable to Cayman Islands Government	8(b)	2,543,937	4,068,127	1,532,583
Total current liabilities		<u>3,632,945</u>	<u>5,058,938</u>	<u>2,310,271</u>
Non-current liabilities				
Defined benefit pension liability	9(b)	1,429,750	1,175,000	632,458
Total non-current liabilities		<u>1,429,750</u>	<u>1,175,000</u>	<u>632,458</u>
Total Liabilities		<u>5,062,695</u>	<u>6,233,938</u>	<u>2,942,729</u>
Equity		<u>4,890,846</u>	<u>4,622,691</u>	<u>6,478,548</u>
Total Liabilities and Equity		<u>9,953,541</u>	<u>10,856,629</u>	<u>9,421,277</u>

Approved for issuance on behalf of Civil Aviation Authority's Management on October 29, 2014

 Director General

 Director of Finance & Compliance



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, 2014
Stated in Cayman Islands Dollars

	Note	Year ended June 30, 2014	Year ended June 30, 2013 (Restated – Note 4)
Revenue			
Air safety regulation and certification fees	11 (a)	4,661,656	4,116,912
Aerodrome oversight fees	11 (b)	1,000,000	1,000,000
Surveyor fees and net reimbursable expenses	11 (c)	960,865	852,121
Aircraft operating permits	11 (d)	241,500	256,700
Other income	11 (e)	60,246	60,791
Total revenue		6,924,267	6,286,524
Expenses			
Personnel costs	12 (a)	2,302,248	2,309,936
Office administration and business development	12 (b)	612,204	536,543
Professional and licensing fees	12 (c)	772,692	619,266
Travel – official, training and administrative	12 (d)	130,475	114,320
Depreciation expense	7	62,101	37,420
Bad debt expense	6	10,455	8,167
Total expenses		3,890,175	3,625,652
Operating net income for the year		3,034,092	2,660,872
Other comprehensive (loss) income			
Re-measurement of post-employment benefit obligation	4, 9	(222,000)	(448,542)
Total comprehensive income for the year		2,812,092	2,212,330

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, 2014
Stated in Cayman Islands Dollars

	2014	2013 (Restated – Note 4)
Cash flows from operating activities		
Operating net income for the year	3,034,092	2,660,872
Adjustments for:		
Prior year difference in equity	-	(60)
Depreciation expense	62,101	37,420
Increase in accounts receivable	(6,334)	(624,284)
Increase in accounts payables and accrued liabilities	98,197	213,123
Net adjustment for defined pension service and interest costs	32,750	94,000
Net cash from operating activities	3,220,806	2,381,071
Cash flows from investing activities		
Decrease / (Increase) in short term deposits	2,009,032	(447,218)
Purchase of capital assets	(118,873)	(54,335)
Net cash provided by / (used in) investing activities	1,890,159	(501,553)
Cash flows used in financing activities		
Dividends paid*	(4,068,127)	(1,532,583)
Net cash used in financing activities	(4,068,127)	(1,532,583)
Net increase in cash and cash equivalents	1,042,838	346,935
Cash and cash equivalents at beginning of the year	1,923,757	1,576,822
Cash and cash equivalents at end of the year	2,966,595	1,923,757

*The June 30, 2013 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, 2014
Stated in Cayman Islands Dollars

	Note	2014	2013 (Restated – Note 4)
Balance at beginning of year*		4,622,691	6,478,548
Operating net income for the year		3,034,092	2,660,872
Other comprehensive loss	4, 9	(222,000)	(448,542)
Adjustment for prior year		-	(60)
Dividends	8(b)	(2,543,937)	(4,068,127)
Balance at end of year		<u>4,890,846</u>	<u>4,622,691</u>

* The opening balance at July 1, 2012 has not been restated. See Note 4.

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, 2014
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 19 employees as at June 30, 2014 (2013: 20).

2. Significant Accounting Policies

Basis of Presentation

The financial statements of the Authority are prepared under the historic cost convention as modified by the revaluation of land and buildings, financial assets and financial liabilities at fair value through profit and loss, in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (IASB) and interpretations issued by the IFRS Interpretations Committee.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Authority's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

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

**Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
For the year ended June 30, 2014
Stated in Cayman Islands Dollars**

2. Significant Accounting Policies (continued)

a) New standards and amendments adopted by the Authority

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. The new standard did not have any impact on the Authority's financial position, performance or disclosures.

IFRS 7, 'Financial instruments: Disclosures' amendment effective for annual periods beginning on or after January 1, 2013, and has been retrospectively applied. These new IFRS 7 disclosures are intended to facilitate comparison between IFRS and US GAAP preparers. The disclosures focus on quantitative information about recognized financial instruments that are offset in the statement of financial position, as well as those recognized financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset. The new standard did not have any impact on the Authority's financial position, performance or disclosures.

IAS 19, 'Employee benefits' was revised in June 2011 and became effective for annual periods beginning on or after January 1, 2013. The changes on the Authority's accounting policies has been as follows: to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). See Note 4 for the impact on the financial statements.

b) New standards, amendments and interpretations issued but not effective for the financial year beginning July 1, 2013 and not early adopted

IFRS 9, 'Financial instruments', specifies how an entity should classify and measure financial assets and liabilities, including some hybrid contracts, along with providing amended guidance for hedge accounting. The standard improves and simplifies the approach for classification and measurement of financial assets compared with the requirements of IAS 39. The standard applies a consistent approach to classifying financial assets and replaces the numerous categories of financial assets in IAS 39, each of which had its own classification criteria. The Authority is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 upon the standard's mandatory effective date. The effective date for IFRS 9 is for periods beginning January 1, 2018, as the standard setters continue to work on other phases of IFRS 9, including new expected guidance for impairment accounting. The new standard is not currently expected to have any impact on the Authority's financial position, performance or disclosures.

There were no other such standards, interpretations or amendments to existing standards that are expected to have a significant impact on the Authority.

c) Depreciation

Capital assets (property, plant and equipment) are recorded at their historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is calculated using the straight-line method at the following rates estimated to allocate the cost of the assets over their estimated useful lives:

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other income' in the statement of comprehensive income.

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
For the year ended June 30, 2014
Stated in Cayman Islands Dollars

2. Significant Accounting Policies (continued)

d) Foreign currency translation

- i) Functional and presentation currency - Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Cayman Islands dollars, which is the entity's presentation currency.
- ii) 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 date.

e) 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.

f) Short-term deposits

Short-term deposits principally represent term deposits with banks with original maturities of greater than three months but less than twelve months.

g) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for the sale of goods and services stated net of discounts. The Authority recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Authority's activities described in Note 11.

h) 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 deposits.

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 dividends payable and accrued liabilities and accounts payable.

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 rights 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 instruments are measured at their estimated fair value.

**Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
For the year ended June 30, 2014
Stated in Cayman Islands Dollars**

2. Significant Accounting Policies (continued)

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.

i) 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.

j) Lease of premises - The lease expense of premises under an operating lease is recognised over the period of the lease.

k) Employee benefits

The Authority operates various post-employment schemes, including both defined benefit and defined contribution pension plans.

(i) Pension obligations

A defined contribution plan is a pension plan under which the Authority pays fixed contributions into a separate entity. The Authority has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Authority pays contributions to publicly administered pension insurance plans on a mandatory, contractual or voluntary basis. The Authority has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated United States Dollars (USD), a currency pegged to in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in income.

**Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
For the year ended June 30, 2014
Stated in Cayman Islands Dollars**

3. Critical Accounting Estimates and Judgments

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

The actuary makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

i) Pension benefits

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Authority determines the appropriate discount rate at the end of each year in conjunction with the actuary. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Authority in conjunction with the actuary considers the interest rates of high-quality corporate bonds that are denominated in the United States Dollars (USD), a currency pegged to the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 9.

4. Restatement

The financial statements have been prepared in accordance with International Financial Reporting Standards. The basis is consistent with the prior year except for the policies reflected below.

Defined Benefit Pension Obligation

Historically, management of the CAA has not accepted the results of actuarial valuation reports provided by the Public Sector Pensions Board ("PSPB") (the "Previous Actuarial Valuation") as some elements of the basis of the valuation were disputed.

During the financial year an actuarial valuation was completed in respect of the defined benefit pension obligation as of June 30, 2013 and June 30, 2014 (the "Current Actuarial Valuation") and management are in agreement with those conclusions. As a result of the prior dispute management had not previously accounted for the defined benefit obligation in accordance with IAS 19 – Employee Benefits (or Revised).

Adoption of IAS 19 - Revised

In addition, to the matter above, the adoption of IAS 19 Revised required management to make certain conforming changes to the prior year's presentation of the Statement of Changes in Comprehensive income related to the recognition of service, interest and administrative costs in net income and actuarial re-measurements in other comprehensive income.

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
For the year ended June 30, 2014
Stated in Cayman Islands Dollars

4. Restatement (continued)

The aggregate effect of the restatements on the financial statements for the year ended 30 June 2013 is summarized below. There were no restatements to the opening statement of financial position as at July 1, 2012 (Note (a) below). Other than adjustment to net operating income for the year ended June 30, 2013, for the service, interest and administrative costs there was no cash flow impact.

Statement of Financial Position	June 30, 2013 \$'000
i) Defined benefit pension obligation:	
Previously stated (see note (a) below)	585
Adjustment to opening obligation (see note (a) below)	1,878
Re-measurement due to actuarial assumptions	(1,368)
Service, interest and administrative costs	141
Employer contributions	<u>(61)</u>
Restated balance	<u>1,175</u>
ii) Retained Earnings / Equity:	
Previously stated (see note (a) below)	5,212
Restatement of defined benefit pension obligation	<u>(590)</u>
Restated balance	<u>4,622</u>
	June 30, 2013
Statement of Comprehensive Income	\$'000
i) Personnel costs:	
Previously stated	2,465
Service, interest and administrative costs	141
Reclassification adjustment (Note (b))	<u>(297)</u>
Restated balance	<u>2,309</u>
ii) Re-measurement of post-employment benefit obligation:	
Previously stated	-
Re-measurement due to actuarial assumptions	1,368
Adjustment to opening obligation (see note (a) below)	(1,878)
Employer contributions	<u>61</u>
Restated Balance	<u>(449)</u>

Note (a) – The Current Actuarial Valuation was prepared using opening July 1, 2012 asset values and accrued benefit and the funded position of the plan as reported in the Previous Actuarial Valuation. As discussed above, some elements of the Previous Actuarial Valuation were disputed by management. In order to restate the defined benefit pension obligation as at June 30, 2013 and 2014 based on the Current Actuarial Valuation, management has recorded an adjustment to other comprehensive income for the year ended June 30, 2013 to account for the difference in the opening July 1, 2012 obligation.

Note (b) – The prior year Contractors fees – overseas (Note 12) has been reclassified from Personnel costs to Professional & licensing fees, to be consistent with the current year presentation.

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
For the year ended June 30, 2014
Stated in Cayman Islands Dollars

5. Cash and short term investments		
a) Cash and cash equivalents	June 30, 2014	June 30, 2013
Cash on hand	477	481
Current and call accounts	<u>2,966,118</u>	<u>1,923,276</u>
Total cash and cash equivalents	<u>2,966,595</u>	<u>1,923,757</u>
b) Short term deposits		
Fixed Deposits	<u>4,985,922</u>	<u>6,994,954</u>

All fixed deposits are held with Cayman National Bank and have maturity dates over 90 days but within 365 days. See Note 13.

6. Trade and other receivables	June 30, 2014	June 30, 2013
Accounts receivables - Trade	1,654,576	1,699,924
Other receivables	120,587	66,617
Allowance for doubtful accounts	(10,455)	(8,167)
Trade and other receivables (net)	<u>\$1,764,708</u>	<u>\$1,758,374</u>

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 \$10,455 for 2014 (2013: \$8,167) represents amounts owed that were over a year old and thus provided for in the allowance for doubtful accounts for the year. There were no amounts past due that have not been provided for in accordance with the Authority's policy.

Of the total accounts receivable outstanding at June 30, 2014, \$250,100 (2013: \$250,000) was due from the Cayman Islands Airports Authority ("CIAA") for the quarterly fee due for Regulatory services under the Memorandum of Understanding (MOU) referred to in Note 11b), \$112,352 (2013: \$243,979) was due from Cayman Airways Limited and \$611,035 (2013: \$515,957) from National Air Services for various services. The CIAA and Cayman Airways Limited are related parties of the Authority.

The total Trade Receivables below represents the net between Accounts Receivables – Trade Receivables of \$1,654,576 (2013: \$1,699,924) and Allowance for doubtful accounts of (\$10,455) (2013: (\$8,167)).

Aging Profile of Trade Receivables

Period Outstanding (Days)	June 30, 2014	June 30, 2013
1-30	819,358	834,795
30-90	599,845	532,038
Over 90	224,918	324,924
Total	1,644,121	1,691,757

**Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
For the year ended June 30, 2014
Stated in Cayman Islands Dollars**

6. Trade and other receivables (continued)

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

	June 30, 2014	June 30, 2013
Opening Allowance	8,167	24,459
Bad debts provided for during the year	10,455	8,167
Less recoveries	(4,038)	(5,067)
Write off against accounts previously provided for (Including CFC concession of \$2,250)	<u>(4,129)</u>	<u>(19,392)</u>
Closing Allowance	<u>\$10,455</u>	<u>\$8,167</u>

7. Capital Assets

	Leasehold Improvements	Furniture & Fixtures	Computer Hardware	Computer Software	Office Equipment	Future Office Building	Vehicles	Aviation Safety Plan	Total
Historical									
Cost of Assets:									
Cost 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
Purchases during 13/14	13,772	1,746	10,463	9,216	-	-	71,754	11,922	118,873
Disposal 13/14	-	-	-	-	-	-	(24,312)	-	(24,312)
As at June 30, 2014	144,793	117,455	132,064	139,970	36,947	4,523	97,754	11,922	685,428
Accumulated Depreciation:									
Brought 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
As at June 30, 2013	122,077	68,636	113,185	28,502	28,611	-	50,312	-	411,323
Charge for year 13/14	7,572	9,147	5,977	26,469	4,246	-	8,690	-	62,101
Disposal 13/14	-	-	-	-	-	-	(24,312)	-	(24,312)
As at June 30, 2014	129,649	77,783	119,162	54,971	32,857	-	34,690	-	449,112
Net Book Value as at June 30, 2013	8,944	47,073	8,416	102,252	8,336	4,523	-	-	179,544
Net Book Value as at June 30, 2014	15,144	39,672	12,902	84,999	4,090	4,523	63,064	11,922	236,316

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8. Liabilities and Related party transactions

a) Accounts payable and accrued liabilities

	June 30, 2014	June 30, 2013
Unearned income	427,567	319,035
Employee incentive awards accrued	196,003	214,527
Accrued expenses	222,356	321,672
Accounts payable	241,950	123,486
Unidentified deposits and unresolved issues	<u>1,132</u>	<u>12,091</u>
Total Accounts payable / Accrued liabilities	<u>1,089,008</u>	<u>990,811</u>

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

	June 30, 2014	June 30, 2013
Dividend payable to Cayman Islands Government	<u>2,543,937</u>	<u>4,068,127</u>

The Authority also has a transaction through a standard employment contract with a family member of key management personnel. The contract relates to a non-managerial position which forms part of the organizational structure of the Authority. For the financial year 2014 the salary and benefits totaled \$ 41,328 (2013: \$42,404). The amount represents essential administrative and support services during the period.

The Authority's Register of Interests signed by all of its Managing/Divisional Directors indicates no other related party transactions with key management personnel. Registers 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.

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8. Liabilities and related party transactions (continued)

(c) 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 2014 were \$868,533 (2013: \$849,646). 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 2013 performance incentive award in June and July 2014 was \$64,770. 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 including running costs, insurance and maintenance. Under the medical coverage program, as is for all staff, any approved claims not covered by insurance are fully subsidized by the Authority. For the year ended June 30, 2014 this amounted to \$11,739 (2013: \$8,202) for all key employees.

	June 30, 2014	June 30, 2013
Base salary	659,739	651,372
Pension	52,713	53,089
Medical coverage	98,675	78,962
Fuel allowance	2,488	2,895
Performance incentive award (estimated)	<u>54,918</u>	<u>63,378</u>
Total key employee benefits	<u>868,533</u>	<u>849,646</u>

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

Accrued expenses include professional fees of \$36,804 (2013: \$185,398) 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.

9. 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.

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, except that surpluses or deficits related to the Authority's Plan are not available to offset or be set off against other plan participants' deficits or surpluses. 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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9. Employee pensions (continued)

a) Defined contribution plan

In accordance with the Cayman Islands National Pensions Law, 1996 (the "Law") the employees of the Authority that participate in the defined contribution pension plan are required to contribute an amount of 5% of their annual salaries to the plan during the year and the Authority matches such contributions up to 5%. The pension contributions paid by the Authority under these plans are expensed as incurred in the statement of comprehensive income. For June 30, 2014 the amount of \$42,345 (2013: \$41,473) was contributed by the Authority.

b) Defined benefit plan

Certain participants are reimbursed for their contributions. The defined benefit plan is a final salary pension plan which provides benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' length of service and their salary in the final years leading up to retirement.

The defined benefit portion of the Fund has been valued by an Actuary engaged by 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 table below outlines where the Authority's post-employment amounts and activity are included in the financial statements.

	June 30, 2014 \$'000	June 30, 2013 \$'000 (Restated)
Statement of financial position liability:		
Defined benefit obligation at end of year	3,937	3,431
Fair value of plan assets at end of year	<u>(2,507)</u>	<u>(2,256)</u>
Liability in the statement of financial position	<u>1,430</u>	<u>1,175</u>
Income statement charge included in operating profit for the year:		
Defined pension benefits	82	141
Re-measurements for:		
Defined pension benefits	(222)	1,368*

* Refer to Note 4

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9. Employee pensions (continued)

The movement in the defined benefit obligation over the year is as follows:

	Present value of obligation '000's	Fair value of asset plan '000's	Net liability/ (asset) '000's
At July 1, 2012 (see Note (a) below)	4,397	(1,934)	2,463
Current service cost	8	-	8
Interest expense/(income)	231	(104)	127
	239	(104)	135
Remeasurements:			
Return on plan assets	-	(146)	(146)
Gain/(loss) from change in demographic assumptions	352	-	352
Gain/(loss) from change in financial assumptions	53	-	53
Experience (gains)/losses	(1,627)	-	(1,627)
	(1,222)	(146)	(1,368)
Contributions:			
Employers	-	(61)	(61)
Plan participants	17	(17)	-
Payments from plan:			
Benefit payments	-	-	-
Administrative expenses	-	6	6
At June 30, 2013	3,431	(2,256)	1,175

Note (a) – As further discussed in note 4, the above opening balances are based on amounts reported in the Previous Actuarial Valuation.

	Present value of obligation '000's	Fair value of asset plan '000's	Net liability/ (asset) '000's
At July 1, 2013	3,431	(2,256)	1,175
Current service cost	22	-	22
Interest expense/(income)	173	(113)	60
	195	(113)	82
Remeasurements:			
Return on plan assets	-	(277)	(277)
Gain/(loss) from change in financial assumptions	499	-	499
	499	(277)	222
Contributions:			
Employers	-	(49)	(49)
Plan participants	12	(12)	-
Payments from plan:			
Benefit payments	(200)	200	-
Administrative expenses	-	-	-
At June 30, 2014	3,937	(2,507)	1,430

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9. Employee pensions (continued)

The principal actuarial assumptions at the date of valuation

	2014	2013
	%	%
1. Discount Rate	4.50	5.20
2. Rate of salary increase	3.50	3.50
3. Rate of price inflation	2.50	2.50
4. Rate of pension increases	2.50	2.50
5. Post-retirement mortality table - UP-94 projected on a generational basis using Scale BB		

Other Assumptions regarding future mortality are based on actuarial advice in accordance with published statistics and experience in each territory. The sensitivity of the defined benefit obligation at June 30, 2014 to changes in the weighted principal assumptions is:

	Impact on defined benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.25%	Decrease by 4.8%	Increase by 5.1%
Inflation rate	0.25%	Increase by 3.9%	Decrease by 3.7%
Mortality*	10%	Decrease by 1.9%	Increase by 2.0%

* The assumed life expectancy of a person retiring today at age 57 is 29.93. An increase/decrease of 10% in the mortality rates reduces/increases the assumed life expectancy of a person retiring today at age 57 by 0.87 and 0.97 years, respectively.

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The significant plan assets, are comprised of:

	2014	2013
	%	%
Global Equities	79%	66%
Fixed Income	20%	27%
Real estate equities	0%	3%
Cash	1%	4%
	<u>100%</u>	<u>100%</u>

Through its defined benefit pension plan the Authority is exposed to a number of risks, the most significant of which are detailed below:

Asset Volatility

The defined benefit obligation is calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield, this will increase the defined benefit pension obligation. The plan holds a significant proportion of equities, which are expected to outperform corporate bonds in the long-term while providing volatility and risk in the short-term.

The plan is managed on behalf of the Authority by PSPB with the aim of long term growth through diversification and within the constraints of the Law. The long term bias towards equities is in place to achieve these long term growth goals.

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9. Employee pensions (continued)

Changes in bond yields

A decrease in corporate bond yields will increase the defined benefit obligation, although this will be partially offset by an increase in the fair value of the plans' bond holdings.

Inflation Risk

The Authority's pension obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect the plan against extreme inflation). The majority of the plan's assets are either unaffected by (fixed interest bonds) or loosely correlated with (equities) inflation, meaning that an increase in inflation will also increase the defined pension benefit obligation.

Life expectancy

The majority of the plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the defined benefit obligation.

The expected contributions to the pension benefit plan for the year ended June 30, 2015 is \$50,000. As of June 30, 2014 and June 30, 2013, the Authority has not formally agreed on a contribution plan that would aim to eliminate the pension plan deficit over the forthcoming years.

The weighted average duration of the defined benefit obligation is 20.9 years.

10. 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 and was signed on July 1, 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 not more than \$6.50 per square foot per annum (excluding sewage costs) are to be charged during first two years.

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:

	<u>To June 30, 2015</u>	<u>2015-2016</u>
Cayman Grand Harbour, Cayman Islands	\$169,514	\$190,703

11. Fees

a) 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. The fees within the regulations range from Certification of Airworthiness to Pilot Licence Validations.

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11. Fees (continued)

b) Aerodrome oversight fees

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

On July 30, 2012 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 CKIA. 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.

c) Surveyor fees and net 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, 2014, a fee of \$250 (2013: \$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:

	Year Ended June30,	
	2014	2013
Surveyor fee billings	960,002	853,966
Survey reimbursable costs billings	624,445	561,715
Surveyor fees & reimbursable expense	<u>(623,582)</u>	<u>(563,560)</u>
Surveyor fees & reimbursable expenses (Net)	<u>960,865</u>	<u>852,121</u>

During the financial years ending 2014 and 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 represents 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, bad debt recovery, gain on sale of vehicles, and write back to income of old customer accounts with credit balances (miscellaneous income).

	Year Ended June30,	
	2014	2013
Interest Income	38,660	55,724
Miscellaneous Income	11,048	-
Gain on sale of vehicles	6,500	-
Bad Debt Recovery	<u>4,038</u>	<u>5,067</u>
Total Other Income	<u>60,246</u>	<u>60,791</u>

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12. Expenses

Operating Expenses	<u>2014</u>	<u>2013</u> <u>(Restated</u> <u>Note 4)</u>
<i>a) Personnel costs</i>		
• Salaries/Performance incentive expenses		
– Cayman	1,815,742	1,791,927
• Insurance and medical expenses	258,715	212,398
• Pension	167,541	259,514
• Training	46,795	45,612
• Recruitment and relocation expenses	13,455	485
<i>Total Personnel costs</i>	<u>2,302,248</u>	<u>2,309,936</u>
<i>b) Office administration and business development</i>		
• General office administration expenses	363,441	345,712
• Rental expenses	182,832	137,601
• Business development expenses	61,322	48,278
• Board expenses	4,609	4,952
<i>Total Office administration and business development</i>	<u>612,204</u>	<u>536,543</u>
<i>c) Professional & licensing fees</i>		
• Contractors fees – overseas	417,450	296,854
• Air Safety Support International (ASSI)	162,471	143,218
• Work permit fees	81,932	43,798
• Insurance fees	57,777	39,737
• Audit and other professional fees	36,535	50,250
• Professional dues and subscriptions	6,159	4,632
• AIB Retainer Fee	5,740	-
• Legal fees	4,628	-
• Legal fees – Helipad Suit	-	40,777
<i>Total Professional & licensing fees</i>	<u>772,692</u>	<u>619,266</u>
<i>d) Travel – official, training and administrative</i>		
• Travel – Business Development	78,730	49,567
• Travel – Administration and Training	51,745	64,753
<i>Total Travel – Official, training and administrative</i>	<u>130,475</u>	<u>114,320</u>
<i>Total Operating Expenses</i>	<u>3,817,619</u>	<u>3,580,065</u>

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13. Financial Instruments Risk

Liquidity risk

Liquidity risk is the risk that the Authority is unable to meet its payment obligations associated with its financial liabilities when they fall due.

Prudent liquidity risk management implies maintaining sufficient cash at bank and funding to sustain operations of the Authority. The Authority maintains liquidity for its operations and payment of its debt through retaining sufficient available funds in the form of cash at bank and short-term deposits.

The table below presents the undiscounted cash flows payable by the Authority under financial instruments by outstanding contractual maturities at the reporting dates:

As at 30 June 2014:

	< 1 year	>1 < 5 Years	5 years +
Cash outflows			
Accounts payable and acc. expenses	1,089,008	-	-
Dividend payable	<u>2,543,937</u>	<u>-</u>	<u>-</u>
Total cash outflows	\$ 3,632,945	\$ -	\$ -

As at 30 June 2013:

	< 1 year	>1 < 5 Years	5 years +
Accounts payable and acc. expenses	990,811	-	-
Dividend payable	<u>4,068,127</u>	<u>-</u>	<u>-</u>
Total cash outflows	\$ 5,058,938	\$ -	\$ -

Credit risk

Financial assets that potentially subject the Authority to credit risk consist principally of bank current accounts, fixed deposits, accounts receivable 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 is responsible for managing and analysing the credit risk for each of their new customers before standard payment terms and conditions are offered. The Authority's clients with the largest outstanding balances as at June 30, 2014 are National Air Services (NAS) with approximately 36% (2013: 21%) of total outstanding balances, Cayman Airways 6% (2013: 15%) and Cayman Islands Airports Authority (CIAA) 15% (2013: 15%) and are considered significant concentrations of credit risk.

Interest rate risk

Cash amounts held at Cayman National Bank over CI\$200,000 (2013: CI\$200,000) are placed on semi-annual and annual fixed deposits and generally earn an interest rate of between 0.3000% (2013: 0.65%) and 1.1900% (2013: 1.1875%) per annum in the year ending 2014. There are two accounts held at NatWest Bank in the UK, an operating account and a credit card account for 4 (2013: 4) surveyors operating in the United Kingdom and Europe. 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 the statement of financial position date, £16,000 (2013: £16,000) was held as a deposit. This deposit earns between 1% and 2% interest per annum. As at June 30, 2014 (2013: \$Nil), there is also a fixed deposit held with Cayman Islands Government Treasury. The amount is CI\$2,010,695 (US\$2,449,048) for six months to a rate of 0.3000% and matures on 30 January 2015. Management believes that a reasonable possible change in interest rates would not have a direct material impact on the Authority's profit/(loss).

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13. Financial Instruments Risk (continued)

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 the carrying values. The fair values of other assets and liabilities not recognised at fair value in the statement of financial position have been determined using level 2 inputs.

14. Update on 2013 Contingent Liabilities

During the period, the Cayman Islands Court of Appeal upheld the CAA's appeal against the Chief Justice's ruling in the matter of Axis International Ltd. (Axis) vs CAA and dismissed the application for the order of certiorari to quash the decision of the CAA to grant an aerodrome certificate to Cayman Islands Helicopters Ltd. The Court of Appeal also ordered costs in favour of the CAA. The date for the hearing for costs is still awaited at the end of the period.

15. Capital management

The Authority's objectives when managing capital are to safeguard its' ability to continue as a going concern in order to fulfill its responsibilities as outlined in Note 1 for stakeholders and, as further discussed in Note 8, to make an annual payment into the general revenue of the Cayman Islands Government. The Authority is not subject to externally imposed capital requirements.

16. Subsequent Events

Subsequent to year end, the Authority has paid the dividend payable to Government.