

2014 - 2015



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

I am pleased to present the annual report for the financial year ending 30 June 2015. The year has not been without challenges for the Authority but the end result has been a successful one whereby the Authority's regulatory obligations were met and its financial performance exceeded budgeted expectations.

Safe and reliable air transport is a cornerstone for the development and sustainability of the Cayman Islands economy, the major industries being tourism and international finance. This puts the local aviation industries at the forefront in ensuring that the necessary infrastructure and services are provided to facilitate safe, efficient and reliable air transport to/from and within the islands. It also requires a competent regulatory oversight authority to ensure safety is maintained through implementation of internationally mandated standards and recommended practices.

During the period, the Authority was significantly challenged in recruiting and retaining suitably qualified personnel for oversight of some of the technical disciplines associated with aircraft operations. The global demand for such personnel both within industry and regulatory authorities has made recruitment quite competitive. These challenges are also inherent from local industry, as more lucrative compensation and benefits are being offered

locally. This situation has highlighted the need for the Authority to review its status of employment compensation and benefits in order to recruit personnel with the technical qualifications and experience required. This exercise will be undertaken in the ensuing year.

A major portion of the Authority's revenues are realised from aircraft entered on the Cayman Islands Aircraft Registry ("the Registry"). The Registry is a registry of choice amongst high net-worth individuals and corporations; however, over the past few years other jurisdictions have established aircraft registers as a means of attracting business from this aviation sector to their respective jurisdictions. Following the deep recession of 2008 – 2010, the business aviation industry has rebounded globally but there is also much competition from the newly established registers vying for this lucrative source of revenue. As custodians of the Registry, the CAACI continues to be innovative in developing its information technology capabilities that allows 24/7/365 access to its registry services. Such initiatives are crucial to the continued success of the Registry.

The local aviation industry is robust and is expanding with the latest technological innovations. The operation of Small Unmanned Aircraft (SUA) has now become very popular amongst recreational aviation enthusiasts as well as being used for aerial work. During the period, the CAACI granted the first SUA aerial work 'permission' for an operator to engage in commercial surveillance and photography. This latest addition to the industry also brings its own challenges in ensuring the safe operation of SUAs and 'manned aircraft' in the local airspace. In this regard, the CAACI is committed to keeping abreast of the evolution of SUA technology and operation, and applying appropriate regulatory processes in collaboration with the relevant air traffic control units and local law enforcement agencies.

Overall, the CAACI has again demonstrated commitment to address whatever challenges it faces and to succeed in meeting its regulatory obligations. The results of this annual report is testament to dedicated and competent management and staff, and a supportive Board of Directors.

Overview of the CAACI's Structure and Functions

The Civil Aviation Authority of the Cayman Islands (CAACI) is the statutory authority responsible for safety and economic regulatory oversight of the Cayman Islands' aviation industry and for aircraft registered in the Cayman Islands wherever they are based and operated. The functions of the Authority are established in the Civil Aviation Authority Law (2005 Revision). These functions are carried out through the Director-General of Civil Aviation.

The CAACI is structured into four divisions that covers its obligations in respect of general administration and economic regulation, financial management and compliance, aerodrome and air navigation services regulation, and flight operations and airworthiness oversight, as described below.

- The **Economic Regulatory & Administration** division provides economic regulatory oversight for commercial air transport operations to/from the territory, including scheduled and non-scheduled operations, and oversees that airport operations are conducted within economic guidelines of the International Civil Aviation Organisation (ICAO);
- The **Finance & Compliance** division manages the CAACI's finances in accordance with local legislative requirements and international accounting standards, and ensures relevant due diligence is carried out on beneficial owners of aircraft applying for registration to the Cayman Islands Aircraft Register.
- The **Air Navigation Services Regulation (ANSR)** division is responsible for the certification and licensing of aerodromes, air traffic control and air navigation services provided within the territory.
- The **Air Safety Regulation (ASR)** division oversees the technical and safety regulation of all aircraft on the Cayman Islands Aircraft Registry that operate locally and globally.

As a UK Overseas Territory (OT), the statutory instrument for safety regulatory oversight is the Air Navigation (Overseas Territories) Order, as amended (“the Order”). Accordingly, safety regulatory oversight is carried out in accordance with the powers conferred on the Governor by the UK Secretary of State for Transport under the Order. The Governor in turn designates the OT Aviation Authority, as appropriate, to carry out the Governor’s obligations. The CAACI holds unconditional designation for aviation safety oversight in all functional areas in the Cayman Islands. Additionally, 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 personnel, appropriate administrative staffing levels and funding to effectively regulate the aviation industry in accordance with established standards and recommended practices of ICAO.

The Authority carries out its regulatory responsibilities in a collaborative manner with the aviation industry and key stakeholders with the aim of optimizing safety and protecting the aviation consumer.

The Authority is financially self-sustainable with revenues generated from its regulatory activities and the registration of aircraft entered on the Cayman Islands Aircraft Registry. The Authority is also the custodian of the Cayman Islands 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

Board of Directors for the period 2014-2015

Mr. Ian Pairaudeau, Chairman

Mr. Randy Merren, Deputy Chairman

Ms. Shamar Ennis, Member

Mrs. Anna McLean, Member

Ms. Christine Rose-Smyth, Member

Mr. William McTaggart, Member

In addition two public servants served through the 2015 fiscal year:

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 in accordance with the Civil Aviation Authority Law (2005 Revision).

Message from the Board of Directors:

The Board is pleased with the exceptional performance of the management and staff of the Civil Aviation Authority. The Authority continues to fulfil its statutory regulatory obligations for oversight of the aviation industry throughout the Cayman Islands and for aircraft entered on the C.I. Aircraft Registry that are based offshore and operated globally. In keeping with the Directions of the UK Secretary of State for Transport, the Authority was subject to an assessment by Air Safety Support International (ASSI) during the period to confirm compliance with the UK's international aviation obligations, which concluded positively in

maintaining the Governor's designation for regulatory oversight of all functional areas.

The Board also wishes to acknowledge the financial results of the Authority in achieving a record net income and an unqualified opinion from the Office of the Auditor General for the financial year 2014/15. The Authority continues to perform above expectations in the offshore Aircraft Registry sector, although facing new challenges with increased competition from other jurisdictions that have recently established aircraft registers. The Board is confident the management and staff of the Authority will embrace these industry challenges and develop solutions to continue the success of the organisation.

The Year in Review

Administration

Human Resources

The staff complement at 30 June 2015 was 20. During the period there were 2 staff changes, the Director of Air Safety Regulation (DASR) resigned effective 31 December, 2014 and the Receptionist/Administrative Assistant resigned effective 6 December, 2014. The Receptionist was replaced at the end of January with the hiring of a suitably experienced Caymanian.

Recruitment during the period resulted in the following appointments: The Director of Air Safety Regulation, effective 1 June 2015; Manager Flight Operations effective, 16 June 2015; Flight Operations Inspector, effective 3 August 2015. Having these posts filled provides a full Flight Operations staff complement, which had not been the case for several years due to challenges experienced in recruiting suitably qualified persons.

Contract renewals for the period included the following:-

- ➔ Aerodrome Safety Inspector contract renewed for a further 12 months effective February 2015.
- ➔ Manager of Airworthiness renewed for a further 24-months effective 1 June, 2015

A consultancy agreement was extended for an additional independent contractor to fill the post of Airworthiness Manager (UK) effective August 2014. This post is envisioned to be a coordination and management level post to coordinate regulatory activities in the European marketplace as

well as support for the Middle East and Asia.

Other significant developments include a transition of duties in the Air Safety Regulation (ASR) division with technical administrative staff taking on new and developing roles and responsibilities. On-the-job training was commenced in January 2015 for the Technical Administrative Officer to assume full responsibility for the quality assurance processing in the VP-C Online electronic data management portal and for the Technical Records Administrator/Dangerous Goods Inspector to assume the coordination role in development, refinement and maintenance for VP-C Online in addition to retaining his Dangerous Goods oversight responsibilities. This process was confirmed at the end of June with each officer settling well into their new defined roles.

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. This included the Director of Air Navigation Services and Aerodrome Safety Inspector attending an Aerodrome Seminar and an Aircraft Accident Response workshop in November, 2014.

On-going webinars organized by ASSI to include the UK OT HR/Training Coordinators in each territory for e-training meetings, are now embedded in the calendar as quarterly events.

The Annual Safety Seminar took place in Crawley, UK in May 2015. This gathering included the European and North American airworthiness surveyors meeting with a delegation of management and staff from CAACI head office to review the 2014-2015 year to date activities and

plan for the ensuing year. A review of technical matters, new procedures and processes, an update on development of VP-C Online and future refinement all formed agenda items. The 2-day meeting was deemed to be highly beneficial and instructive and served to bring the entire airworthiness team, who are geographically dispersed, together for a brief time to reflect, exchange learning and plan.

Other training included local seminars and workshops for staff of the Administration, Finance/Accounts divisions.

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. This initiative is also very much in keeping with the recent announcement from the Cayman Islands Government with the creation of the E-Government Unit which will focus on implementing electronic business solutions for all public service entities with a view to enhancing customer service, reducing cost and to improve the perception and competitiveness of the jurisdiction in the global marketplace.

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 2014-2015 period include the following:-

- i) **NBAA 2014** –The CAACI exhibited at the 66th annual National Business Aviation Association (NBAA) tradeshow, held at the Orange County Convention Centre (OCCC) in Orlando, Florida on 21st -23rd Oct 2014. The show closed with more than 26, 000 people in attendance and 1,100 exhibitors. NBAA 2014 also featured a sold out static display of more than 100 aircraft at the Orlando Executive Airport. The CAACI delegation included the DGCA -Mr. Richard Smith, Deputy DG Economic Regulation - Mrs. Nicoela McCoy, Technical Record Officer- Ms. Yolanda Pierson, Accounts Supervisor – Mrs. Joni Wood, Airworthiness Manager – Mr. Guy Healey; and for the first time at such an event, the Chairman of the Board of Directors Mr. Ian Pairaudeau, joined the CAACI delegation.



NBAA 2014 in Orlando, Florida

ii) **CI Marketing Professional Assoc. (CIMPA)** - The 2nd Annual CIMPA Marketing Conference was held 12th November, 2014 at the Westin Resort & Spa that included both local and international speakers. Topics included digital marketing, creating client relationships, online brand and reputations, and successfully managing media relations. CAACI's Business Development Admin Assistant Cherish Sanchez attended this Conference.

iii) **World Commerce Review (WCR)** – CAACI was featured in the December 2014 and March 2015 issue of the ***World Commerce Review*** magazine. The special feature was based on private aviation, business tourism and private aircraft registry services in the Cayman Islands, particularly looking at the Cayman Islands as a jurisdiction of tax favourable importance for affluent board level executives and heads of state. The magazine was distributed to Political Heads of State and to major conferences, trade shows, seminars and to over 50,000 High Net Worth

readership.

- iv) **Island Air 2015** – CAACI partnered again with local aircraft handling agency Island Air at its' annual luxury party on the 6th February, 2015 by exhibiting to promote the Cayman Islands Aircraft Registry to this high net worth gathering. This event featured corporate and private aircraft as well luxury cars and boats. The show attracted 1000 invited guests who were able to network with local providers on the products and services being offered.
- v) **The Future of Finance Magazine** – CAACI had the opportunity to be included in the second edition of ***The Future of Finance*** magazine for the Cayman Islands. The first edition of the magazine featured over 30 articles and editorial stories, and was supported by 22 local and international advertisers. A digital version of the magazine was also placed on the Cayman Finance website. This publication featured editorial content that was a collaborative effort between Cayman Finance, the Ministry for Financial Services, local industry Associations and Councils, and Cayman Finance member firms.
- vi) **The European** – CAACI partnered with ***The European*** in a full page editorial that was distributed at ABACE in Shanghai, China and at EBACE in Geneva, Switzerland. There was also a two month online presence. The editorial included an overall background of CAACI and its' responsibilities as well as the due diligence and financial Anti-Money Laundering (AML) Compliance requirements.
- vii) **ABACE 2015** – The 2015 Asian Business Aviation Convention & Exhibition (ABACE 2015) was held at the Hawker Pacific Business Aviation Service Centre on Shanghai Hongqiao International Airport in Shanghai, China. By any measure, the show was deemed the best one

yet, featuring 183 exhibitors, 38 aircraft on static display and over 8,500 attendees from more than 40 countries across Asia and beyond. The exhibit floor and aircraft displays had lots of activity and excitement, and the education sessions were well attended. CAACI team that exhibited included the DGCA, Richard Smith, the DASR Designate, Jerry Higgins and Manager Airworthiness UK, Graham Rourke.

The growing success of business aviation in the Asian market has resulted in a further decision to add ABACE to the annual business aviation promotional event to exhibit at, in addition to EBACE in Europe and NBAA in the USA.



ABACE 2015



EBACE 2015

viii) EBACE 2015 - CAACI exhibited at the 15th annual European Business Aviation Convention & Exhibition (EBACE) tradeshow, which is held annually at the Palexpo Centre in Geneva, Switzerland. As EBACE concluded on 21st May, show organizers reported that there were a total of 500 exhibitors and 13,000 attendees that visited during the three day event. The static display was sold out with a total of 60 aircraft on display. For the first time, EBACE featured an Inspiration Zone that was used to focus on the future of aviation which included discussions on Unmanned Aircraft Systems and a session on Skills and Careers for post-secondary European students from Germany, Switzerland and Spain. There were also 400 representatives from different news organizations that provided exhibitor press conferences

for news worthy announcements about various companies' products and future plans. CAACI representatives included DGCA - Mr. Richard Smith, Business Development Admin Assistant – Ms. Cherish Sanchez, Technical Administrator/Dangerous Goods Inspector – Mr. Taron Smith, Airworthiness Manager – Mr. Guy Healey, and UK based Airworthiness Surveyor – Mr. Mike Wilcox.

Regulatory Disciplines

Air Safety Regulation (ASR) Division

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 Operations, 1 Fixed Wing Flight Operations Inspector, and 1 contract Rotary Wing Flight Operations Inspector located in Canada. In addition, the ASR team includes 1 Personnel Licensing Officer, 1 Technical Data Coordinator & Dangerous Goods Inspector, and 1 Technical Administrator.

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, Manager of Flight Operations, 1 Fixed Wing Flight Operations

Inspector, and 1 contract Rotary Wing Flight Operations Inspector located on the West Coast of Canada. 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. CAACI Airworthiness Surveyors from head-office as well as contractors based overseas attended the annual ASSI Airworthiness Seminar held in Miami in September 2014.
- ii. The UK Aircraft Accident Investigation Board held a 2-day Accident/Incident Response training seminar on Grand Cayman in November of 2014. The training event was well attended by CAACI staff, representatives from the local aviation industries and government agencies, as well as emergency first responder personnel.
- iii. ASSI conducted biennial assessment of the CAACI in December 2014. The outcome of the assessment was positive, which resulted in the CAACI retaining unconditional designation by the Governor for regulating all functional areas of civil aviation in the Cayman Islands.
- iv. ASR conducted five regulatory audits in the first three months of 2015. These were combined regulatory audits (Airworthiness, Flight Operations, Dangerous Goods) conducted on the following Cayman Islands domestic air operators: Cayman Express, Mosquito Research Control Unit (MRCU), Cayman Islands

Helicopters, Royal Cayman Islands Police Service Air Operations Unit, and CHC Global Operations International, ULC. The audits included in-depth inspections/reviews of the following air operator functional areas: flight operations, aircraft airworthiness, crew training, maintenance facilities and procedures, cargo operations, dangerous goods handling and Safety Management Systems (SMS).

- v. The annual meeting to support the ICAO Article 83bis Agreement between the CAACI and Saudi Arabia's General Authority of Civil Aviation (GACA) was held in Jeddah, Saudi Arabia on 1-2 February 2015. The meeting allows both aviation authorities to review and plan oversight activities of the Saudi airline, National Air Services (NAS), which operate a growing number of aircraft registered in the Cayman Islands. The CAACI was represented by the Director-General, and both the Managers of Airworthiness from head office in Grand Cayman and the UK. These meetings serve to improve the understanding of regulatory challenges faced by both aviation authorities and to provide clarity of responsibility with the context of the agreement while allowing further mutual refinements for safety oversight activities. The GACA meeting was followed by a joint CAACI and NAS meeting in Riyadh, Saudi Arabia on the 4-5 February 2015. This meeting was also attended by the Director-General, and the GCM and UK Managers of Airworthiness. There was significant technical discussion regarding CAACI and GACA oversight activities as well as operator responsibilities.
- vi. In 2014/2015 ASR conducted four General Aviation Operations audits (OTAR Part 125). Two audits were carried out in the UK, one in Austria and one in China.

Statistics for the CI Aircraft Registry at 30 June 2015:

- ➔ Total aircraft entered on the register - 232
- ➔ De-registrations occurring during the two year period – 29
- ➔ New aircraft registrations during the two year period – 40
- ➔ Net growth of aircraft since 30 June 2013 – 29
- ➔ Maintenance organization approvals (AMOs) issued – 205
- ➔ Continued Airworthiness Management Organization approvals (CAMOs) issued – 112

Air Operator Certificate (AOC) holders:

- ➔ Cayman Airways, Ltd
- ➔ Cayman Express
- ➔ Cayman Islands Helicopters
- ➔ MRCU
- ➔ Royal Cayman Islands Police Service Air Operations Unit
- ➔ CHC Global Operations International, ULC

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, A320 and A340
- ➔ Airbus Helicopters: AS332L/L1, AS332L2, BK 117 C2
- ➔ Augusta Westland: AW139
- ➔ Bell Helicopter: 429
- ➔ Boeing: B717, B737 and B777
- ➔ Bombardier: CL300, Global Express Series (5000, 6000, 7000 etc.)
- ➔ Bombardier: Lear 60
- ➔ Canadair Challenger: CL600 Series (600, 601, 604 etc.)
- ➔ Cessna: Citation Series (C500, C680, Citation X, etc.)

- ➔ Dassault Aviation: Falcon Series (200, 7X, 900EX, 2000, 2000EX, 900B etc.)
- ➔ Embraer: 135 and 145
- ➔ Gulfstream: G450, G550, G650, etc.
- ➔ Hawker Beechcraft: HS125-800B, 850XP, 900XP, etc.
- ➔ Sikorsky: S-76 and S-76 C++
- ➔ Pilatus: PC12

Air Navigation Services Regulation (ANSR) Division

During the period 1 July 2014 - 30 June 2015 the ANSR Division primarily focused on addressing the outstanding Corrective Action Plans from the 2008, 2010, 2012, audits of the Cayman Islands Airports Authority in addition to preparing for and executing the 2015 audit of the organization in March 2015. This latest audit included an in-depth assessment of the Airport Operations, the Aerodrome Fire Service, Air Traffic Services, Aeronautical Information Services, Aeronautical Telecommunications and Meteorological Services generated further Findings and Observations. These have been added to the already outstanding items from the previous audits and an action plan is being formulated to deal with the safety critical items as quickly as possible.

Other activities of the division included:

- i) The recertification of the George Town Heliport which was achieved on 16th December 2014.
- ii) The annual inspection of Camana Bay heliport

- iii) Providing the ARFFS management with audit and oversight training.
- iv) Revising the CCAA's inspection and audit processes following the major amendment of OTARs 139 and 140.
- v) Oversight of the CCAA's Aerodrome Emergency Exercises held in November 2014.
- vi) Reviewing new and revised CCAA aerodrome documentation.
- vii) Development of a training syllabus for OT Airport Operations Officers
- viii) Formulating procedures and restrictions to address the risk posed by the escalation of Small Unmanned Aircraft (SUA) operations particularly in the vicinity of the Islands' three airports, and the development of local processes for the approval of SUA being used for commercial operations in accordance with the requirements of Article 73 of the AN(OT)O. (On-going)
- ix) Representing CAACI on the Overseas Territories Safety and Performance Council (OTSPC) Sub-Committee in the development of the State Safety Programme.
- x) Maintaining and developing the Mandatory Occurrence Reporting System.
- xi) Competency assessment of the CCAA air traffic control officers at the Pan-Am simulators, Miami, in February 2015.

During the year, members of ANSR continued to extend their professional knowledge by attending refresher training provided by the AAIB in Cayman during November 2014 and annual refresher training hosted by ASSI in Miami later in the same month.

Economic Regulation

The 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	2014-2015
Non-scheduled/charter	475	552	478	587

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 up since last year due to an increase in ad-hoc flights operated by non-scheduled charter operators.

There was a slight change to the number of seasonal scheduled operating permits issued, as American Airlines and US Airways combined under a single air carrier certificate. Also during this period Aerolienas Sosa discontinued flights to Grand Cayman and Express Jet began flights for the Summer season which are operated on behalf of Delta Airlines.

Permits were issued to:-

- ➔ Air Canada
- ➔ American Airlines/US Airways ➔ Express Jet
- ➔ IBC (cargo only)
- ➔ Delta Airlines
- ➔ JetBlue
- ➔ United Airlines
- ➔ 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.

During the period the ATLA dealt with the partial application of BlueSky Airlines which has been placed on hold pending acquisition of aircraft.

The ATLA also delegated to the Director-General of Civil Aviation (DGCA), the authority to determine applications for permits for journeys other than scheduled journeys that would normally be processed by the ATLA.

CAACI 2014/15 Strategic Goals and Objectives

1. Amend the Air Navigation (Fees) Regulations 2010

The proposal to amend the fees was deferred due to delay in effecting amendment to the Mortgaging of Aircraft Regulations.

2. Amendment of the Mortgaging of Aircraft Regulations (2015)

3. The new Mortgaging of Aircraft Regulations were published in the Cayman Islands by Extraordinary Gazette no. 33 and, therefore, brought into effect on May 6, 2015. Promote development of a certifiable airport in Little Cayman to enhance safety of air transport operations into that island. A plan for airport development on Little Cayman was presented in the CIAA's Airports Master Plan document published in July 2014. Discussions are on-going with the Ministry responsible for air transport

4. Continue managed growth of the Registry to increase revenues by 5% per annum. The targeted annual increase of 5% for revenues from the Aircraft Registry was surpassed with the actual increase being 13% over the previous year.

5. Pursue development of permanent office accommodations for the Authority. Negotiations are on-going between the CAACI and the CIAA for the CAACI to acquire the site of the former Cayman Airways headquarters building under a long-term lease agreement. It is anticipated that the agreement will be concluded in the upcoming year.

Finance & Compliance

Financial Summary

Net Income (operating) - The year ended June 30, 2015 yielded an audited operating net income of CI\$3,230,511 which is 35% over the budgeted net income of \$2,399,572. This resulting net income is mainly due to the increase in revenues from a steady increase in aircraft with heavier weight entered on the Aircraft Register over the past 5 years and significant savings in expenses under the budgeted amounts. The savings in expenses over the budgeted amount occurred in most areas, the largest portion being in personnel costs and professional fees.

Net income (comprehensive) – the overall (comprehensive) audited Net Income for the year was reduced by an adjustment of \$318,000 related to the re-measurement of the Defined Benefit Liabilities of the CAA – pension and post-retirement health care. This results in a comprehensive net income of \$3,548,911. The Pension Liability is the unfunded portion of the Defined Benefit Pension Plan that the Authority would be responsible for paying to the plan participants upon retirement. The Post-Retirement Health Care Liability covers only long-serving employees which were hired under the Cayman Islands Government General Orders of 1987. Both of these liabilities were determined by two separate actuarial valuations. Details of the aforementioned adjustment 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 five years. The number of aircraft on the register has increased from 173 at June 30, 2010 to 232 at June 30, 2015, an increase of 34% during the 5 year period. There was a net growth of 11 aircraft during the fiscal year. This 5% increase in actual aircraft on the register along with the sustained growth of prior year's results in a 13% growth in revenue from the aircraft register. These results surpass the targeted annual revenue growth of 5% as reported in the CAA's Ownership Agreement with the Cayman Islands Government for the 14/15 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.

The Air Operator Certificate (AOC) Fees have increased over the last fiscal year to \$380,000 over the projected \$320,000 due to the international commercial helicopter company, CHC; registering additional helicopters during the period under its Cayman Islands issued AOC. There are currently 7 aircraft operated by CHC.



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, 2018.

Air operator permit approvals are issued to schedule and non- scheduled commercial foreign registered aircraft flying into the Cayman Islands. This revenue stream had been growing steadily and correlate with increasing statistics for stayover tourism. The total revenue amount of \$273,800

represents an increase in revenues of 13% over last year and a 19% over the projected amount for the year.

Expenses - Total expense incurred in the period of \$4,109,638 was \$139,571 below the budgeted amount. Savings in most expense categories were attained with the largest being in personnel costs due to some senior technical posts not being filled or filled for only a part of the year. This overage in personnel costs was partially absorbed by the overage in contractor fees that are related to the provision of required services for the unfilled posts.

Professional Fees charged by Air Safety Support International (ASSI) for safety oversight of the CAA have dropped significantly since the MOU between the UK Government and the CI Government was signed with an effective date of April 1, 2012. This total fee of \$103,281 was \$52,000 less than the budgeted amount.

During the year, the CAA received settlement costs which had been awarded in the Court of Appeal in the matter of Axis International Ltd. (Axis) vs CAA. This award was credited to legal costs for the year which resulted in an overall credit to legal costs of \$29,267. See note 14 in the Audited Financial Statements for further details.

Capital Expenditure was expected to be \$565,000 but only \$19,181 was spent due to several planned projects not being completed as scheduled. Each project is detailed below:

- New CAACI Office Accommodation (\$500,000 was budgeted and nothing was spent)

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. In April 2015, a further \$250,000 was allocated by the Board for preparatory site works, design and demolition. The Authority has expended only \$5,258 on structural and engineering assessments to date.

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. As of the report date, the CAA was still in negotiation with the CIAA to obtain legal rights and access to the land and a new Strategic Outline Case (SOC) was being obtained from an independent third party.

- Developed Computer Software (\$23,000 budgeted and \$3,850 spent)
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, 2015 as planned as development priorities changed and refinement of the existing modules were deemed necessary for optimal effectiveness of the e-portal.

- Aviation Safety Plan (\$12,000 budgeted and nothing further spent)
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, 2015. However, as the contractor did not deliver on the services according to the contract, 70% of the deposit of \$11,922 was refunded by the contractor. The CAA agreed with the contractor that the \$3,500 not refunded was the value of the work done and already submitted to the CAA.

- Computer Hardware (\$23,200 budgeted and \$11,702 spent). Costs of replacement computers and new computers were lower than expected and the previously planned server upgrade was not needed as a portion of the IT services, ie., email was migrated to Smartermail housed at the disaster recovery service provider - Brac Informatics Centre (BIC), and not locally at the CAACI offices.

Looking forward to the period 2015 – 2016

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 period.

- ❖ To increase the aircraft registry revenues by a minimum of 5% per annum.
- ❖ To recruit and retain qualified personnel required to meet the Authority's oversight obligations.
- ❖ To actively pursue staff succession planning and staff training as appropriate to ensure the Authority's business continuity.
- ❖ To maintain financial independence and continue to making dividend contributions to Government.
- ❖ To retain full designation by the Governor for safety oversight of all functional areas.
- ❖ To enhance aviation safety through collaborative efforts with industry and key stakeholders including calls for development of a certifiable airport on Little Cayman.
- ❖ To continue promoting local and global awareness of the Cayman Islands Aircraft Registry.
- ❖ To development permanent administrative office headquarters for the CAACI

Appendix A

**Financial Statements of the
CIVIL AVIATION AUTHORITY
CAYMAN ISLANDS
30 JUNE 2015**



Financial Statements

30 June 2015



STATEMENT OF RESPONSIBILITIES
30 June 2015

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, fairly present the financial position as at 30 June 2015 and its comprehensive income and cash flows of the Civil Aviation Authority of the Cayman Islands for the financial year ended 30 June 2015.

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

- a) Completely and reliably reflect the financial transactions of Civil Aviation Authority of the Cayman Islands for the year ended 30 June 2015;
- b) Fairly reflect the financial position as at 30th June 2015 and its comprehensive income for the year ended 30th June 2015;
- 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.



Richard Smith (Mr)
Director-General

Date: 30 October 2015



Jane Panton (Mrs)
Director of Finance and Compliance

Date: 30 October 2015



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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, 2015, 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 28 in accordance with the Section 60(a)(i) of the *Public Management and Finance Law (2013 Revision)*.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on 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 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 that performed its work in accordance with International Standards on Auditing.

AUDITOR GENERAL'S REPORT (continued)

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Civil Aviation Authority of the Cayman Islands as at June 30, 2015 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Garnet Harrison
Acting Auditor General

October 30, 2015
Cayman Islands

Civil Aviation Authority of the Cayman Islands
Statement of Financial Position
As at June 30, 2015
Stated in Cayman Islands

	Note	June 30, 2015	June 30, 2014 (Restated – Note 4)	July 1, 2013 (Restated – Note 4)
Assets				
Current assets				
Cash and cash equivalents	5(a)	4,027,690	2,966,595	1,923,757
Short term deposits	5(b)	5,003,770	4,985,922	6,994,954
Trade and other receivables	6	1,645,818	1,764,708	1,758,374
Total current assets		10,677,278	9,717,225	10,677,085
Non-current assets				
Capital assets	7	177,691	236,316	179,544
Total non-current assets		177,691	236,316	179,544
Total Assets		10,854,969	9,953,541	10,856,629
Liabilities and Equity				
Current liabilities				
Accounts payable and accrued liabilities	8(a)	1,049,862	1,089,008	990,811
Dividend payable to Cayman Islands Government	8(b)	2,168,520	2,543,937	4,068,127
Total current liabilities		3,218,382	3,632,945	5,058,938
Non-current liabilities				
Defined benefit (pension) obligation	9(b)	1,258,750	1,429,750	1,175,000
Defined benefit (healthcare) obligation	9(c)	1,569,000	1,462,000	1,150,000
Total non-current liabilities		2,827,750	2,891,750	2,325,000
Total Liabilities		6,046,132	6,524,695	7,383,938
Equity		4,808,837	3,428,846	3,472,691
Total Liabilities and Equity		10,854,969	9,953,541	10,856,629

Approved for issuance on behalf of Civil Aviation Authority's management on **30 October 2015**




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, 2015
Stated in Cayman Islands Dollars**

	Note	Year ended June 30, 2015	Year ended June 30, 2014 (restated)
Revenue			
Air safety regulation and certification fees	11 (a)	5,024,678	4,661,656
Aerodrome oversight fees	11 (b)	1,000,000	1,000,000
Surveyor fees and net reimbursable expenses	11 (c)	1,014,822	960,865
Aircraft operating permits	11 (d)	273,800	241,500
Other income	11 (e)	26,849	60,246
Total revenue		7,340,149	6,924,267
Expenses			
Personnel costs	12 (a)	2,356,639	2,448,248
Office administration and business development	12 (b)	663,063	612,204
Professional and licensing fees	12 (c)	891,191	772,692
Travel – official, training and administrative	12 (d)	113,206	130,475
Depreciation expense	7	65,883	62,101
Bad debt expense	6	19,656	10,455
Total expenses		4,109,638	4,036,175
Operating net income for the year		3,230,511	2,888,092
Other comprehensive gains / (losses)			
Re-measurement of defined benefit (pension) obligation	9(b)	250,000	(222,000)
Re-measurement of defined benefit (healthcare) obligation	9(c)	68,000	(166,000)
Total comprehensive income		3,548,511	2,500,092

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, 2015
Stated in Cayman Islands Dollars**

	Year ended June 30, 2015	Year ended June 30, 2014 (restated)
Cash flows from operating activities		
Operating net income for the year	3,230,511	2,888,092
Adjustments for:		
Gain on disposal of capital assets	(9,000)	-
Depreciation expense	65,883	62,101
Decrease / (increase) in accounts receivable	118,890	(6,334)
(Decrease) / increase in accounts payables and accrued liabilities	(39,146)	98,200
Net adjustment for defined benefit obligation and interest costs	254,000	178,750
Net cash from operating activities	3,621,138	3,220,809
Cash flows from investing activities		
(Increase) / decrease in short term deposits	(17,848)	2,009,032
Proceeds on disposal of capital assets	20,923	-
Purchase of capital assets	(19,181)	(118,876)
Net cash (used in) / provided by investing activities	(16,106)	1,890,156
Cash flows used in financing activities		
Dividends paid*	(2,543,937)	(4,068,127)
Net cash used in financing activities	(2,543,937)	(4,068,127)
Net increase in cash and cash equivalents	1,061,095	1,042,838
Cash and cash equivalents at beginning of the year	2,966,595	1,923,757
Cash and cash equivalents at end of the year	4,027,690	2,966,595

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, 2015
Stated in Cayman Islands Dollars**

	Note	June 30, 2015	June 30, 2014 (restated)
Balance at beginning of the year*		3,428,846	3,472,691
Operating net income for the year		3,230,511	2,888,092
Other comprehensive gain / (loss)	9	318,000	(388,000)
Dividends	8(b)	<u>(2,168,520)</u>	<u>(2,543,937)</u>
Balance at end of the year		<u>4,808,837</u>	<u>3,428,846</u>

* The opening balance at July 1, 2013 has been restated. Refer to 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
June 30, 2015

1. Background information

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

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

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

The registered address of the Civil Aviation Authority is P.O. Box 10277 APO, Grand Cayman, Cayman Islands and is located at Cayman Grand Harbour. The Civil Aviation Authority has 20 employees as at June 30, 2015 (2014: 19).

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:

a) New standards and amendments adopted by the Authority

The Authority has adopted the following standards and amendments for the first time for their annual reporting period commencing 1 July 2014:

Amendment to IAS 32, ‘Financial instruments: Presentation’ on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Authority’s financial statements.

Amendments to IAS 36, ‘Impairment of assets’ on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13. The amendment did not have a significant effect on the Authority’s financial statements.

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
June 30, 2015

2. Significant Accounting Policies (continued)

a) New standards and amendments adopted by the Authority (continued)

Amendment to IAS 39, 'Financial instruments: Recognition and measurement' on the novation of derivatives and the continuation of hedge accounting. This amendment considers legislative changes to 'over-the-counter' derivatives and the establishment of central counterparties. Under IAS 39 novation of derivatives to central counterparties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria. The amendment did not have a significant impact on the Authority's financial statements.

IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy if that liability is within the scope of IAS 37 'Provisions'. The interpretation addresses what the obligating event is that gives rise to pay a levy and when a liability should be recognised. The Authority is not currently subjected to significant levies so the impact on the Authority is not material.

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

b) New standards, amendments and interpretations issued but not effective for the financial year beginning July 1, 2014 and not early adopted

Certain new accounting standards and interpretations have been published that are not mandatory for June 30, 2015 reporting periods and have not been early adopted by the Authority. The Authority's assessment of the impact of these new standards and interpretations is set out below.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Authority is yet to assess IFRS 9's full impact.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The Authority is assessing the impact of IFRS 15.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Authority in the current or future reporting periods and on foreseeable future transactions.

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
June 30, 2015

2. Significant Accounting Policies (continued)

c) Property, plant and equipment

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.

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 represent term deposits with banks or other financial institutions 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

The Authority classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
June 30, 2015

2. Significant Accounting Policies (continued)

h) Financial assets and liabilities (continued)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Authority's loans and receivables comprise trade and other receivables, short term deposits and cash and cash equivalents in the balance sheet.

Financial assets are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the Authority has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

i) Accounts payable and accrued liabilities

Accounts payables and accrued liabilities are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable and accruals are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

j) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Authority or the counterparty.

k) 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.

l) Leases

The Authority leases certain property. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

Leases of property, plant and equipment where the Authority has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. The Authority did not have any finance leases during 2015 (2014: \$Nil).

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
June 30, 2015

2. Significant Accounting Policies (continued)

m) Employee benefits

The Authority operates various post-employment schemes, including a post-employment healthcare plan, and 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 the Statement of Comprehensive Income.

(ii) Post-employment healthcare plan

Certain employees are eligible for post-employment healthcare under the 1987 CIG General Orders and the CAA Law 2004. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. 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. These obligations are valued annually by independent qualified actuaries.

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
June 30, 2015

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.

Management 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) Employee benefits – post-employment pension and healthcare

The present value of the 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 and healthcare include the discount rate. Any changes in these assumptions will impact the carrying amount of 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 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 of prior year amounts

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.

Employee benefits - Post-employment healthcare benefits obligation

In the current year it came to the attention of the Authority that employees transferred from the Cayman Islands Government ("CIG") upon the creation of the Authority in 2002 would be entitled to post-employment health benefits. Management had not previously accounted for the post-employment healthcare defined benefit obligation in accordance with IAS 19 – Employee Benefits (or Revised).

During the financial year an actuarial valuation was completed in respect of the post-employment healthcare defined benefit obligation as of July 1, 2013, June 30, 2014 and June 30, 2015.

The aggregate effect of the restatements on the financial statements for the year ended June 30, 2014 is summarized below. The opening equity at July 1, 2013 has decreased by \$1,150,000 which is the amount of the adjustment relating to the year ended June 30, 2013 or earlier. Other than adjustment to net operating income for the year ended June 30, 2014 for the service costs, interest and administrative costs, there was no cash flow impact.

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
June 30, 2015

4. Restatement of prior year amounts (continued)

Post-employment healthcare benefits obligation (continued)

	June 30, 2014	July 1, 2013
	\$'000	\$'000
Statement of Financial Position		
i) Defined benefit healthcare obligation:		
Previously stated	-	-
Adjustment to opening obligation	1,150	1,150
Re-measurement due to actuarial assumptions	166	-
Service, interest and administrative costs	146	-
Restated balance	<u>1,462</u>	<u>1,150</u>
 ii) Equity:		
Previously stated	4,891	4,623
Restatement of defined benefit healthcare obligation	(1,462)	(1,150)
Restated balance	<u>3,429</u>	<u>3,473</u>
 Statement of Comprehensive Income	June 30, 2014	
	\$'000	
i) Personnel costs:		
Previously stated	2,302	
Service, interest and administrative costs	146	
Restated balance	<u>2,448</u>	
ii) Re-measurement of post-employment healthcare benefit obligation:		
Previously stated	-	
Re-measurement due to actuarial assumptions	(166)	
Restated balance	<u>(166)</u>	

5. Cash and short term investments

	June 30, 2015	June 30, 2014
a) Cash and cash equivalents		
Cash on hand	795	477
Current and call accounts	4,026,895	2,966,118
Total cash and cash equivalents	<u>4,027,690</u>	<u>2,966,595</u>
 b) Short term deposits		
Fixed Deposits	<u>5,003,770</u>	<u>4,985,922</u>

Fixed deposits are held with Cayman National Bank and with the Cayman Islands Government and have maturity dates over 90 days but within 365 days. See Note 13.

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
June 30, 2015

6. Trade and other receivables

	June 30, 2015	June 30, 2014
Accounts receivables - Trade	1,555,740	1,654,576
Other receivables	120,189	120,587
Allowance for doubtful accounts	<u>(30,111)</u>	<u>(10,455)</u>
Trade and other receivables (net)	<u>1,645,818</u>	<u>1,764,708</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 \$19,656 for 2015 (2014: \$10,455) represents amounts owed that were over a year old and thus provided for in the allowance for doubtful accounts for the year.

Of the total accounts receivable outstanding at June 30, 2015, \$250,000 (2014: \$250,100) 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), \$105,376 (2014: \$112,352) was due from Cayman Airways Limited and \$158,469 (2014: \$611,035) 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 of Accounts Receivables – Trade Receivables of \$1,555,740 (2014: \$1,654,576) and Allowance for doubtful accounts of (\$30,111) (2014: (\$10,455)).

Aging profile of trade receivables

Period Outstanding (Days)	June 30, 2015	June 30, 2014
0-30	818,070	901,361
30-90	497,298	277,777
90-365	201,016	464,983
Over 365	9,245	-
Total	1,525,629	1,644,121

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
June 30, 2015

6. Trade and other receivables (continued)

The changes in the allowance for doubtful accounts are detailed as follows:

	2015	2014
Opening allowance for doubtful accounts	10,455	8,167
Bad debts provided for during the year	19,656	10,455
Less recoveries	-	(4,038)
Write off against accounts previously provided for	-	(4,129)
Closing allowance for doubtful accounts	<u>30,111</u>	<u>10,455</u>
	2015	2014
Neither past due nor impaired	818,070	901,361
Total past due but not impaired	707,559	742,760
Impaired:		
31 – 365 days	-	-
Over 365 days	<u>30,111</u>	<u>10,455</u>
Total impaired	<u>30,111</u>	<u>10,455</u>
Total receivables	<u>1,555,740</u>	<u>1,654,576</u>

As of 30 June 2015, receivables of \$707,559 (2014: \$742,760) were past due but not impaired. These relate to a number of independent customers from whom there is no recent history of default or to related party customers guaranteed by the Cayman Islands Government. The ageing analysis of these receivables is as follows:

	2015	2014
31 – 365 days	698,314	746,595
Over 365 days	<u>9,245</u>	<u>(3,835)</u>
Total past due but not impaired	<u>707,559</u>	<u>742,760</u>

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
June 30, 2015

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, 2013	131,021	115,709	121,601	130,754	36,947	4,523	50,312	-	590,867
Additions during 13/14	13,772	1,746	10,463	9,216	-	-	71,754	11,922	118,873
Disposals during 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
Additions during 14/15	-	1,746	11,702	4,998	-	735	-	-	19,181
Disposals 14/15	-	-	-	-	-	-	(26,000)	(11,922)	(37,922)
As at June 30, 2015	144,793	119,201	143,766	144,968	36,947	5,258	71,754	-	666,687
Accumulated depreciation:									
Brought Forward, as at July 1, 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
Disposals during 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
Expense for year 14/15	7,572	9,253	7,605	24,039	3,064	-	14,351	-	65,882
Disposals 14/15	-	-	-	-	-	-	(26,000)	-	(26,000)
As at June 30, 2015	137,221	87,036	126,767	79,010	35,921	-	23,041	-	488,994
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
Net book value as at June 30, 2015	7,572	32,165	16,999	65,958	1,026	5,258	48,713	-	177,691

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
June 30, 2015

8. Liabilities and related party transactions

a) Accounts payable and accrued liabilities

	2015	2014
Unearned income	453,174	427,567
Employee incentive awards accrued	164,352	196,003
Accrued expenses	285,202	222,356
Accounts payable	145,125	241,950
Other payables	1,500	-
Unidentified deposits and unresolved issues	509	1,132
Total accounts payable / accrued liabilities	<u>1,049,862</u>	<u>1,089,008</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 (CIG) 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 September 30, 2015 a total of \$2,168,520 (2014: \$2,543,937) was paid to the CIG as detailed below:

	June 30, 2015	June 30, 2014
Dividend payable for current year unaudited operating income	2,741,534	2,345,677
Adjustment to dividend payable for prior years audited income	<u>(573,014)</u>	<u>198,260</u>
	<u>2,168,520</u>	<u>2,543,937</u>

For the first five months of the current year (2014: 12 months), the Authority also had 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 2015 the salary and benefits totaled \$18,235 (2014: \$41,328). The amount represents essential administrative and support services during the period. The employee resigned effective November 30, 2014.

The Authority's Register of Interests signed by all of its Managing/Divisional Directors indicates no 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.

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
June 30, 2015

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 2015 were \$803,788 (2014: \$868,533). Performance incentive award is estimated at the maximum amount possible under the Authority's board approved Performance Incentive Award Plan for both years. No amounts have been paid out for the 2015 performance incentive award, the total payment for 2014 settled post year end 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, through his employment contract approved by the Governor and Board of Directors, is provided with a vehicle including running costs, insurance and maintenance. Under the medical coverage program, as is for all staff, any claims not covered by the insurance provider and are deemed to be a medical necessity are fully subsidized by the Authority. For the year ended June 30, 2015 this amounted to \$7,794 (2014: \$11,739) for all key employees.

	2015	2014
Base salary	609,855	659,739
Pension	47,866	52,713
Medical coverage	91,851	98,675
Fuel allowance	2,118	2,488
Performance incentive award (estimated)	52,098	54,918
Total key employee benefits	<u>803,788</u>	<u>868,533</u>

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

Accrued expenses include professional fees of \$118,130 (2014: \$36,804) 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 91,572 (revised from GBP 114,000 in 2014) 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. Post-employment benefits

a) 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.

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.

**Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
June 30, 2015**

9. Post-employment benefits (continued)

a) Pensions (continued)

i. 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, 2015 the amount of \$59,444 (2014: \$42,345) was contributed by the Authority.

ii. Defined benefit plan

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. This benefit is available to certain long serving employees under 1987 Cayman Islands Government General Orders.

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 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, 2015 \$'000	June 30, 2014 \$'000
Statement of financial position:		
Defined benefit obligation at end of year	3,969	3,937
Fair value of plan assets at end of year	(2,710)	(2,507)
Liability in the statement of financial position	<u><u>1,259</u></u>	<u><u>1,430</u></u>
Income statement charge included in operating profit for the year:		
Defined pension benefits	93	82
Re-measurements for:		
Defined pension benefits	250	(222)

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
June 30, 2015

9. Employee post-employment benefits (continued)

b) Defined benefit plan (continued)

	Present value of obligation '000's	Fair value of asset plan '000's	Net liability/ (asset) '000's
As at July 1, 2013	3,431	(2,256)	1,175
Current service cost	22	-	22
Interest expense/(income)	173	(113)	60
	195	(113)	82
Re-measurements:			
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	-	-	-
As at June 30, 2014	3,937	(2,507)	1,430
Current service cost	30	-	30
Interest expense/(income)	177	(114)	63
	207	(114)	93
Re-measurements:			
Return on plan assets	-	(63)	(63)
(Gain)/loss from change in financial assumptions	(187)	-	(187)
	(187)	(63)	(250)
Contributions:			
Employers	-	(14)	(14)
Plan participants	12	(12)	-
Payments from plan:			
Benefit payments	-	-	-
Administrative expenses	-	-	-
As at June 30, 2015	3,969	(2,710)	1,259

The principal actuarial assumptions at the date of valuation

	2015 %	2014 %
1. Discount Rate	4.75	4.50
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-employment mortality table – 2015: RP-2014 projected on a generation basis using scale MP-2014 (2014: UP-94 projected on a generational basis using Scale BB).		

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
June 30, 2015

9. Employee post-employment benefits (continued)

b) Defined benefit plan (continued)

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, 2015 and 2014 to changes in the weighted principal assumptions is:

Impact on defined benefit obligation 2015			
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.25%	Decrease by 4.5%	Increase by 4.8%
Inflation rate	0.25%	Increase by 4.0%	Decrease by 3.8%
Mortality*	10%	Decrease by 1.9%	Increase by 2.1%

Impact on defined benefit obligation 2014			
	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 30.12 (2014: 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 0.91 and 1.02 years (2014: 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 obligation recognised within the statement of financial position.

The significant plan assets, are comprised of:

	2015	2014
Global Equities	80%	79%
Fixed Income	19%	20%
Real estate equities	0%	0%
Cash	1%	1%
	<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.

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
June 30, 2015

9. Employee post-employment benefits (continued)

b) Defined benefit plan (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 19.8 years (2014: 20.9 years).

c) Post-employment healthcare

The Authority operates an unfunded post-employment healthcare benefit scheme. The method of accounting, significant assumptions and the frequency of valuations are similar to those used for the defined benefit pension scheme set out above with the addition of actuarial assumptions relating to the long-term increase in healthcare costs of 5% a year (2014: 5%).

The amounts recognised in the balance sheet represent the present value of unfunded obligations.

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
June 30, 2015

9. Employee post-employment benefits (continued)

(c) Post-employment healthcare (continued)

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

	Present value of obligation ('S000)
As at July 1, 2013	1,150
Current service cost	87
Interest expense/ (income)	59
	146
Re-measurements:	
- (Gain)/ loss from change in demographic assumptions	-
- (Gain)/ loss from change in financial assumptions	166
- Experience (gains)/ losses	-
	166
Exchange differences	-
As at June 30, 2014	1,462
As at July 1, 2014	1,462
Current service cost	109
Interest expense/ (income)	66
	175
Re-measurements:	
- (Gain)/ loss from change in demographic assumptions	19
- (Gain)/ loss from change in financial assumptions	(87)
- Experience (gains)/ losses	-
	(68)
Exchange differences	-
As at June 30, 2015	1,569

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. 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 statement of comprehensive income 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:

Cayman Grand Harbour, Cayman Islands to July 1, 2015 August 31, 2016	\$197,764
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Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
June 30, 2015

11. Revenue

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.

b) Aerodrome oversight fees

These fees represent mainly the charge for regulatory oversight by the Authority to CIAA 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 \$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.

On July 1, 2015 a Memorandum of Understanding (MOU) between CAA and CIAA was signed whereby CAA would charge the CIAA \$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, 2015 and would be effective for a period of three years, with an agreement to review annually. This MOU has been in place since July 1, 2004 and has been renewed every years at the same fee.

d) Surveyor fees and net reimbursable expenses

The Air Navigation (Fees) Regulations, November 2010 (Amended) also dictate that an hourly rate up to \$250 can be charged for surveys carried out on all the aircraft on the Cayman Islands Aircraft Register. During the year ended June 30, 2015, a fee of \$250 (2014: \$250) per hour was charged. Travel, subsistence and postage expenses associated with surveys are recovered from the customer. Surveyors fees are included in the statement of comprehensive income as follows:

	Year Ended June 30,	
	2015	2014
Surveyor fee billings	1,011,301	960,002
Survey reimbursable billings	630,400	624,445
Reimbursable expenses paid	<u>(626,879)</u>	<u>(623,582)</u>
Surveyor fees & net reimbursable expenses	<u>1,014,822</u>	<u>960,865</u>

During the financial years ending 2015 and 2014, 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.

e) 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.

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
June 30, 2015

11. Revenue (continued)

f) Other income

	2015	2014
Interest income	17,849	38,660
Miscellaneous income	-	11,048
Gain on sale of vehicles	9,000	6,500
Bad debt recovery	-	4,038
Total Other Income	26,849	60,246

12. Expenses

Operating expenses

a) Personnel costs

Salaries/performance incentive expenses – Cayman	1,688,356	1,815,742
Insurance and medical expenses	271,830	258,715
Pension	183,809	167,541
Post-employment healthcare- Note 9(c)	175,000	146,000
Training	25,111	46,795
Recruitment and relocation expenses	12,533	13,455
Total personnel costs	2,356,639	2,448,248

b) Office administration and business development

General office administration expenses	381,269	363,441
Rental expenses	179,060	182,832
Business development expenses	97,413	61,322
Board expenses	5,321	4,609
Total office administration and business development	663,063	612,204

c) Professional & licensing fees

Contractors fees – overseas	547,618	417,450
Air safety support international (ASSI)	103,281	162,471
Work permit fees	86,985	81,932
Insurance fees	75,980	57,777
Audit and other professional fees	48,454	36,535
Professional dues and subscriptions	4,956	6,159
AAIB retainer Fee	34,480	5,740
Legal fees	18,704	4,628
Legal fees – helipad suit (Note 13)	(29,267)	-
Total professional & licensing fees	891,191	772,692

d) Travel – official, training and administrative

Travel – business development	62,719	78,730
Travel – administration and training	50,487	51,745
Total Travel – official, training and administrative	113,206	130,475

Total operating expenses

4,024,099	3,963,619
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Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
June 30, 2015

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 2015:

	< 1 year	>1 < 5 Years	5 years +
Cash outflows			
Accounts payable and acc. expenses	1,049,861	-	-
Dividend payable	<u>2,168,520</u>	<u>-</u>	<u>-</u>
Total cash outflows	\$ 3,218,381	\$ -	\$ -

As at 30 June 2014:

	< 1 year	>1 < 5 Years	5 years +
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	\$ -	\$ -

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, 2015 are National Air Services (NAS) with approximately 36% (2014: 36%) of total outstanding balances, Cayman Airways 6% (2014: 6%) and Cayman Islands Airports Authority (CIAA) 15% (2014: 15%) and are considered significant concentrations of credit risk.

Interest rate risk

Cash amounts held at Cayman National Bank over \$200,000 (2014: \$200,000) are placed on semi-annual and annual fixed deposits and generally earn an interest rate of between 0.3000% (2014: 0.3000%) and 0.4500% (2014: 1.1900%) per annum in the year ending 2015. There are two accounts held at NatWest Bank in the UK, an operating account and a credit card account for 5 (2014: 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 (2014: £16,000) was held as a deposit. This deposit earns between 1% and 2% interest per annum. As at June 30, 2015 (2014: \$Nil), there is also a fixed deposit held with Cayman Islands Government Treasury. The amount is \$2,014,232 (US\$2,456,380) for six months to a rate of 0.3000% and matures on 31 July 2015. Management believes that a reasonable possible change in interest rates would not have a direct material impact on the Authority's profit/(loss).

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
June 30, 2015

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. Contingent Liabilities

In March 2014, 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. In February 2015, Axis settled all claims for costs submitted by the Cayman Islands Government on behalf of the CAA and the Attorney General's Chambers. The settlement to the CAA was for \$40,000 (US\$50,000) which represented the deductible on the Professional Indemnity policy which was used to pay initial litigation costs. The settlement was applied to an outstanding amount relating to an exchange loss on an invoice paid to the Queen's Counsel retained on the case by the CAA which was paid late by the insurers at a lower exchange rate. This resulted in a credit on legal fees for the Helipad suit of \$29,267 in the current year.

15. Capital management

The Authority's objectives when managing capital are to safeguard its ability to continue as a going concern in order to fulfil 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 \$2,168,520 of dividends payable to the Cayman Islands Government.

