

ANNUAL REPORT

FISCAL YEAR ENDING JUNE 30, 2016



ONE TEAM - ONE MISSION - ONE VISION



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FOREWORD BY THE DIRECTOR-GENERAL

I am pleased to present the annual report for the financial year ending 30 June 2016. 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 has continued to be 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.

A major portion of the Authority's revenues are realised from 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.

Our Board and management team continues to demonstrate a strong commitment to results-based management as we truly believe that sound management practices enhance our ability to deliver results to citizens of the Cayman Islands. In the past year, we developed a new strategic plan (Vision 2020, One Team-One Mission-One Vision) that clearly defines our change agenda for the time period 2016 to 2020. This new strategic plan contains our updated mission, vision and values statements, a delivery model that provides a one page picture of what we do and benefits that we are seeking to deliver through our activities and outputs. This plan also outlines three strategic objectives and supporting activities and initiatives and a set of key performance indicators that will allow our organisation to continually assess progress against these strategic objectives. We have also produced policies that guide our planning and reporting, performance measurement and risk management and have substantially updated our risk register to ensure that we are risk aware in the execution of our objectives.

The authority's achievements for the period is testament to the commitment and dedication of its management and staff having the will to succeed, enhanced by an understanding and supportive Board of Directors. We are excited about the future and are ready to further advance our regulatory capabilities.

A stylized, handwritten signature in black ink, appearing to read 'R. Smith'.

P.H. Richard Smith, MBE FRAeS
Director-General of Civil Aviation
September 8, 2016

FOREWORD BY 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 CI Aircraft Registry that are based offshore and operated globally.

We are very excited to have participated with the management team of the Authority in updates to the organisation's mission, vision and delivery model,

which are integral to Vision 2020, the strategic plan that outlines the CAACI change agenda for the next four years. We look forward to providing input to the CAACI management team on the strategic direction of the Authority as this ambitious but realistic vision is operationalised.

The Board is confident the management and staff of the Authority will continue to embrace the challenges and opportunities that it faces and develop solutions to continue the success of the organisation.

SECTION 1.0

ORGANIZATIONAL OVERVIEW



1.1 CAACI STRUCTURE AND FUNCTIONS

The Cayman Islands (CI) is an overseas territory of the United Kingdom (UK) and is committed to the obligations of the Chicago Convention to which the UK is a signatory. The UK Secretary of State delegates authority for regulation of aviation to the Governors of Overseas Territories (OTs). In the case of the CI the delegation is then made for the Civil Aviation Authority (CAA) to carry out all aviation regulatory functions. Air Safety Support International (ASSI), a subsidiary of the UK's CAA, was created to oversee the regulatory compliance of OTs which includes the CI.

The Civil Aviation Authority of the Cayman Islands (CAACI) has full authority for the technical and economic regulation of the CI aviation industry in accordance with assessments conducted by ASSI. Developed in conjunction with the UK territories, ASSI has published the Overseas Territories Aviation Requirements (OTAR) as the specific requirements relative to the unique circumstances of the UK territories and these enable compliance with the legislation - namely the Air Navigation (Overseas Territories) Order (AN(OT)O) and ultimately with the standards and recommended practices of the International Civil Aviation Organisation (ICAO).

The CAACI is the statutory authority responsible for safety and economic regulatory oversight of the CI aviation industry and for aircraft registered in the CI wherever they are based and operated. The functions of the CAACI 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 satisfy our 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 **Air Safety Regulation (ASR)** division oversees the technical and safety regulation of all aircraft on the CI Aircraft Registry and all Cayman approved organisations globally.

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 **Economic Regulatory and 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 ICAO.

The **Finance and 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 CI Aircraft Register.

The primary activities of the CAACI can be grouped into three broad categories as follows:

SAFETY REGULATORY OVERSIGHT

- Certification of aerodromes;
- Certification of aeronautical tele-communications services;
- Certification of air traffic control services;
- Oversight of Meteorological Services to Aviation;
- Oversight of the Cayman Islands Search & Rescue Plan;
- Oversight of Aeronautical Information Services;
- Issuance of air operator certificates;
- Personnel licensing (air traffic control, flight crew and maintenance engineers);
- Approval of maintenance organisations;
- Certification of aircraft airworthiness;
- Issuance, renewal, variation and revocation of certificates of approval for aircraft.

ECONOMIC REGULATION

- Granting of air transport operating permits for scheduled and non-scheduled foreign carriers;
- Regulation of charges levied by airport operators to ensure equality in application;
- Provide advice to the Cayman Islands Government (CIG) regarding bilateral air services negotiations with other States and Territories;
- Liaise with the UK Department for Transport, and participate in the negotiation of air service agreements with other States;
- Provide advice and administrative assistance to the Air Transport Licensing Authority as it pertains to licensing of local carriers;

- Provide advice for effective implementation of regulatory policy that is in the best interests of the travelling public/end user;
- Liaison with ICAO or other relevant organizations to submit air transport data/information as required.

REGISTRATION OF AIRCRAFT

- Determine qualification and eligibility of aircraft owners;
- Conduct due diligence on registrants;
- Registration of aircraft;
- Maintain the aircraft registry;
- Analyse changes to aircraft ownership and the resulting effect on registration;
- Maintain the register of aircraft mortgages.

CAACI STAKEHOLDERS

Our stakeholders are diverse and include:

- The UK Government
- The CIG
- The CAACI Board of Directors
- Employees
- ASSI
- Local industry – airlines, air transport operators, aerodrome operators
- CI Aircraft Registry Clientele
- Local and international business partners
- Foreign carriers
- Other national aviation authorities (NAAs)
- The general public

1.2 BOARD OF DIRECTORS

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).

The members of the Board of Directors for the period 2015-2016 were:

NAME	ROLE
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
Mr. Eric Bush	Chief Officer in the Home Affairs, Health and Culture Portfolio

1.3 DELIVERY MODEL

The “delivery model” presented in this section of the annual report represents the activities and outputs that we deliver to fulfill the regulatory oversight role tied to our civil aviation mandate, the inputs that we use to produce these outputs and the contribution that we make with these outputs.

This delivery model is comprised of the following elements:

- **Inputs** represent the various resources (financial, human, information, physical infrastructure and outputs from other parties) that are consumed by our activities.
- **Activities** describe collections of tasks that identify the primary focus of our program delivery and how the work of our programming is carried out.
- **Outputs** are the products or services generated by the activities that we deliver.
- **Direct outcomes** are the first level of outcomes – those over which our organization has the most immediate or direct influence with our outputs.
- **Intermediate outcomes** are the second level of outcomes – those that we can merely influence through our programming and where other intermediaries (those that we regulate, our partners and other stakeholders) are usually involved.
- **Ultimate outcome** references the higher-level enduring benefit for Caymanians and others that

can be attributed to our programming. This is the outcome level that is subject to many influences beyond the program itself, and is also more strategic in nature. The ultimate outcome is our organization’s vision as stated in this plan.

The CAACI delivery model is supported by two core principles associated with our organization’s ultimate goal of a safe and credible aviation industry for the Cayman Islands. The first principle requires that our regulatory direction, information and guidance are sound and easily understood. This provides the aviation industry the opportunity to clearly appreciate their responsibilities and be equipped to comply with the applicable legislation and standards. The second principle requires that our safety oversight activities are conducted diligently, supported by CAACI Policy, technical data and risk indicators. Where non-compliance is detected, it is addressed and corrected.

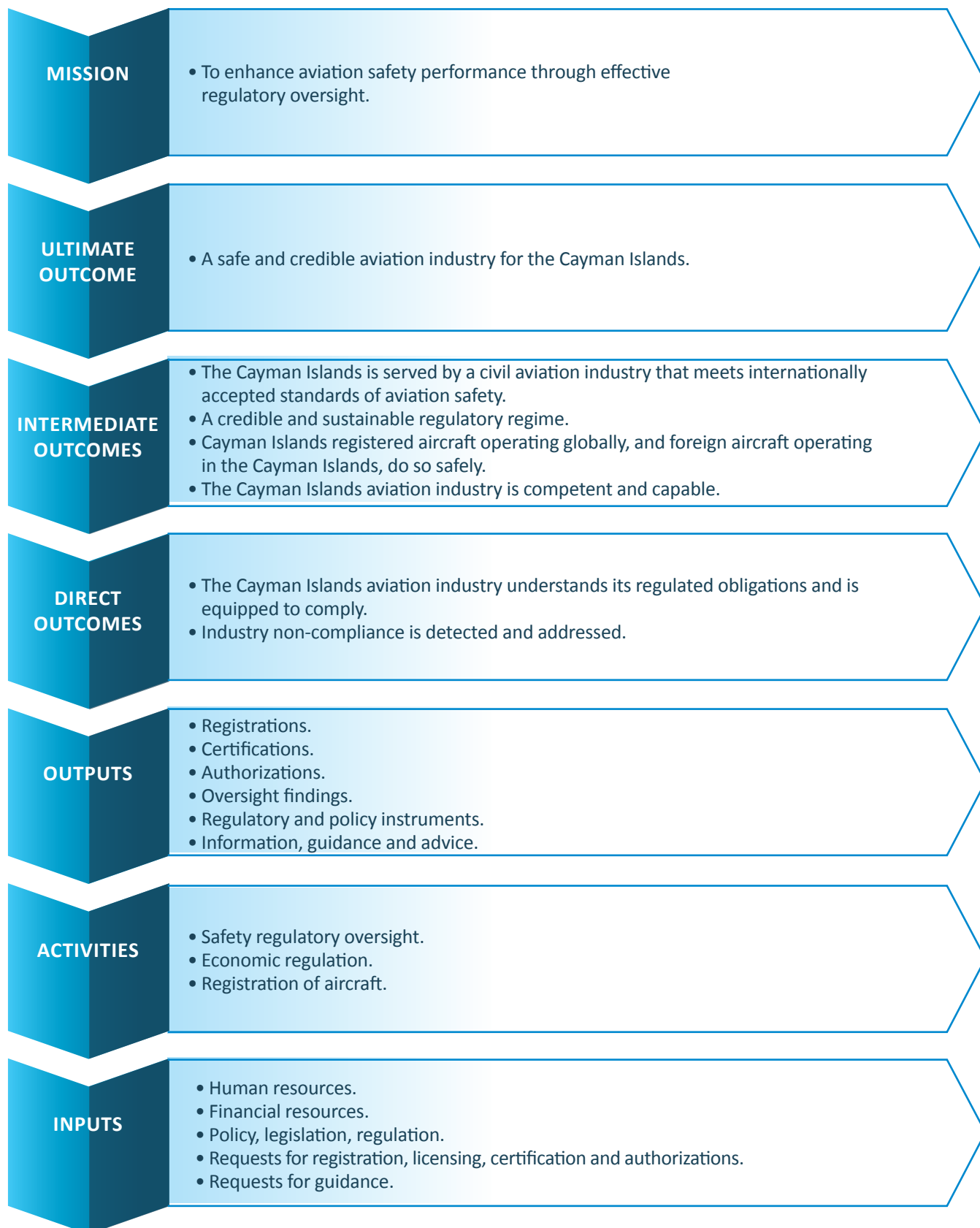
Managing our program based on these underlying principles, we contribute to the following goals:

1. Regulatory non-compliance is detected and addressed;
2. The CI aviation industry understands its regulated obligations and is equipped to meet them;
3. The CI civil aviation industry will meet or exceed internationally accepted standards of aviation safety;
4. Our regulatory regime will be credible and sustainable; and
5. CI registered aircraft operating globally, and foreign aircraft operating in the CI, will do so safely.



Board of Directors and Senior Management Working Session: May 12, 2016

CAACI Delivery Model



1.4 MISSION, VISION AND VALUES STATEMENTS

OUR VISION

“A safe and credible aviation industry for the Cayman Islands “

OUR MISSION

“To enhance aviation safety performance through effective regulatory oversight”



5th Annual Aeropodium Offshore Registration Conference

OUR VALUES

Safety first: we never forget our organization’s primary reason for being

People at the centre: we develop our people to the highest standards and level of expertise in technical and non-technical areas

Leadership: we build and promote a shared commitment to regulatory and aviation excellence regionally and globally

Regulatory objectivity: we conduct our regulatory responsibility with impartiality

Integrity: we ensure that the highest moral and ethical standards are maintained in the discharge of our responsibilities

Active collaboration: we work with others to engage their knowledge and expertise and to generate effective solutions where we are jointly accountable for the end results

Accountability: we account for our actions, accept individual and team responsibilities and transparently disclose results

- Lead through a **modernized approach to regulatory oversight**
- Strengthen our industry position through **the continuous improvement of service delivery to our stakeholders**
- Embrace continuous improvement as an **adaptable, capable, high-performing organization.**



All Staff Strategic Planning Working Session: May 13, 2016

SECTION 2.0

MANAGEMENT DISCUSSION AND ANALYSIS



2.1 PERFORMANCE SUMMARY BY STRATEGIC OBJECTIVE

STRATEGIC OBJECTIVE 1: A MODERNIZED APPROACH TO REGULATORY OVERSIGHT

Lead through a modernized approach to regulatory oversight

PERFORMANCE ANALYSIS AND LESSONS LEARNED

The worldwide implementation of safety management systems by civil aviation service providers signals a shift from traditional reactive and compliance-based oversight to a new model that includes proactive and performance-based tools and methods. CAACI is managing this shift in a phased and balanced way.

For the period 1 July 2015 – 30 June 2016 the ANSR division focused on continuing oversight of the Cayman Islands Airports Authority (CIAA) corrective actions generated by the biennial audits, annual competency assessment of air traffic control staff and introduction of a “split-desk” environment in Air Traffic Control (ATC) designed to reduce controller workload.

In addition, other major safety enhancement projects included the oversight of the safe introduction of Boeing 777 service at Owen Roberts International Airport (ORIA) and the establishment of the required Runway End Safety Areas to meet the ICAO requirement.

During the period, work continued, in collaboration with ASSI, on the development of the Cayman Islands’ State Safety Plan, to meet the recent ICAO requirement.

The following projects are expected to be on-going during the course of 2016/2017:

- i) Representing CAACI on the Overseas Territories Safety and Performance Council (OTSPC) Sub-Committee in the development of the State Safety Programme;

- ii) Introduction and development of a Quality Management System (QMS) based on the recently introduced Centrik system;
- iii) Mentoring/training of the recently appointed Aviation Safety officer;
- iv) Oversight of the removal of the ponds in the approach to runway 08 at ORIA;
- v) Maintaining and developing the Mandatory Occurrence Reporting system;

The following projects are scheduled to be completed during the course of 2016/2017:

- i) Annual competency assessment and emergency procedures training of the CIAA ATS;
- ii) Biennial audit of the CIAA;
- iii) Annual Inspection of George Town Heliport;
- iv) Annual Inspection of Camana Bay Heliport;
- v) Oversight of the CIAA’s Aerodrome Emergency Exercises;
- vi) Review of AN(OT)O 2013 to suggest amendments to:
 - a) Small Unmanned Aircraft operating criteria;
 - b) Permit VFR flight at night (currently permitted in the UK but not in the OTs).

The ASR Division is responsible for the regulation and compliance of airworthiness and flight operations standards, and personnel licensing in accordance with the OTARs. This covers all aircraft operations on the Cayman Islands Aircraft Registry, including the local Air Operator Certificate (AOC) holders.

Led by the ASR team at head office in Grand Cayman, the Division consists of the Director ASR, one Manager of Airworthiness, two Airworthiness Surveyors, one Manager of Flight Operations, and two Flight Operations Inspectors (one fixed wing in HQ, and 1 contract Rotary Wing located on the West Coast of Canada). In addition, the ASR team includes one Personnel Licensing Officer, one Technical Data Coordinator & Dangerous Goods Inspector, and one Technical Administrator.

To complement the ASR team in airworthiness activities, there is one UK Manager Airworthiness, four UK

contracted airworthiness surveyors, one in the USA, one in Germany and one 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, the Manager of Flight Operations, and two Flight Operations Inspectors (one rotary and one fixed wing). 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 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.



European Business Aviation Convention and Exhibition, May 2016

Some of the notable activities that were conducted were as follows:

The Director-General, Deputy Director General, Director Air Safety Regulation, Finance Accounts Supervisor and our Technical Administrative Officer all attended the Las Vegas NBAA event in November 2015. The Director General and the UK Manager Airworthiness also attended the 2016 Asia Business Aviation Conference and Exhibition (ABACE) in Shanghai China in April 2016. In May of 2016, the Director General, along with the Director of Finance, the UK Manager of Airworthiness, and the CAACI Business Development Assistant attended the European Business Aviation Convention and Exhibition (EBACE), held in Geneva Switzerland. These three events are crucial in bringing awareness to the C.I. Aircraft Registry.

The annual meeting in support of the ICAO Article 83 bis Agreement between the CAACI and Saudi Arabia's General Authority of Civil Aviation (GACA) was held in Jeddah, Saudi Arabia, on 25/26 January, 2016. The meeting allows both aviation authorities to review and plan oversight activities of the Saudi airline, National Air Services (NAS) and FlyNas, which operate a growing number of aircraft registered in the Cayman Islands. The CAACI was represented by the Director-General, the Director Air Safety Regulation and both the GCM and UK Managers of Airworthiness. These meetings serve to improve the understanding of regulatory challenges faced by both parties, and help to provide clarity of responsibility within the context of the agreement while allowing further mutual refinements for safety and oversight activities. The GACA meeting was followed by a joint CAACI and NAS meeting held in Riyadh, Saudi Arabia on the 27 January 2016. This meeting was also attended by the Director-General, the Director Air Safety Regulation and the GCM and UK Managers of Airworthiness. There was significant technical discussion regarding CAACI and GACA oversight activities as well as operator responsibilities. It should be noted that while in Jeddah, the CAACI team also met with representatives from Saudi Gulf Airlines on 24 January 2016, to establish a relationship of support as they work toward the issuance of a GACAR Part 121 AOC with Cayman Registered Aircraft via their addition to the 83bis agreement.



NBAA Business Aviation Convention & Exhibition, November 2015

The CAACI developed and entered into a MOU with the US Federal Aviation Administration (FAA) that details jurisdictional oversight responsibilities of a Cayman Registered aircraft operated by a FAR Part 135 AOC for commercial air transport operations.

Cayman Airways Express successfully added the Saab 340 aircraft to their AOC in November 2015. This action consumed many hours of ASR inspector and surveyor time providing regulatory oversight and service delivery in both Flight Operations and Airworthiness functional areas. Their stewardship of this process figured prominently in Cayman Express's successful addition of this complex aircraft to their AOC.

Since 1 July 2015, the Authority has issued four Aerial Work Permissions for the commercial operation of Small Unmanned Surveillance Aircraft (SUSAs). SUSAs are more commonly referred to as drones. As in other jurisdictions, the presence of SUAs in Cayman's airspace poses significant regulatory and safety challenges.

The annual Flight Operations Seminar facilitated by ASSI was hosted by the CAACI on Grand Cayman in June. There was representation at the seminar from other UK Overseas Territories as well as from local industry and AOC holders.

STATISTICS FOR THE CI AIRCRAFT REGISTRY AS OF 30 JUNE 2016:

- ✈ Total aircraft entered on the register = 241
- ✈ De-registrations during the period = 24
- ✈ New aircraft registrations during the period = 33
- ✈ Net growth of aircraft since 01 July 2015 = 9
- ✈ Maintenance organization approvals issued = 146
- ✈ Continued Airworthiness Management organization approvals issued = 73
- ✈ Total Pilot Licence Validation Certificates issued (initial and renewals) between 1 July 2015 and 30 June 2016 = 1052

AIR OPERATOR CERTIFICATE (AOC) HOLDERS:

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

SUSA AERIAL WORK PERMISSION HOLDERS:

- ✈ AIRVU Cayman Limited
- ✈ AERIAL INNOVATIONS Ltd
- ✈ WHIRLYBIRD PRODUCTIONS Ltd
- ✈ Caribbean Life and Travel Ltd



Recent trends show that larger and more complex aircraft are being entered on the CI Aircraft Registry. Aircraft types on the register range from helicopters and smaller jets to larger aircraft and include (not an exhaustive list):

Airbus: A318, A320, A330 and A340

Airbus Helicopters: AS332L/L1, AS332L2, BK 117 C2

Augusta Westland: AW139

Bell Helicopter: 429

Boeing: B717, B737, B727 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 Jet, etc.)

Dassault Aviation: Falcon Series (200, 7X, 900EX, 2000, 2000EX, 900B etc.)

Embraer: 135/145 and 190

Gulfstream: G450, G550, G650, etc.

Hawker Beechcraft: HS125-800B, 850XP, 900XP, etc.

Sikorsky: S-76 and S-76 C++

Pilatus: PC12





- the Aerodrome Safety Inspector, Airworthiness Surveyors and the Technical Data Coordinator/Dangerous Goods Inspector attending Audit Refresher Training;
- the Director-General attending the ICAO Accident/ Incident Investigation Workshop;
- the Technical Data Coordinator/Dangerous Goods Inspector attending Ramp Check Refresher Training;
- various Administrative and support staff from a cross-section of the Authority attending Basic Airside Safety & Aircraft Document Check Training as a cross-training initiative;
- the Manager of Flight Operations and Flight Operations Inspector attending Approved Check Pilot Recurrent Course;
- the Technical Administrator attending an ICAO-endorsed Government Safety Inspector (Personnel Licensing) Course offered by the FAA in the USA;
- In keeping with industry demands, the Flight Operations Inspector attending SAAB 340 “Introduction to Aircraft Systems & Operation” training to facilitate the oversight of Cayman Express introducing the SAAB 340 aircraft into its fleet of equipment.

Staff from a cross-section of the Authority attended the 5th Annual Offshore Aircraft Registration Conference staged by Aeropodium, which the CAACI hosted. The opportunity included meeting and interacting with international partners who travelled to Grand Cayman for the conference representing other national aviation authorities and registries, key decision-makers and influencers from the local and international legal and financial industries and aircraft owners’ representatives.

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 for 2016 was deferred to the latter half of 2016 due to demanding schedules for the technical oversight teams; this represented a better time to host the training seminar in the Cayman Islands during the traditionally slower tourism off-season Fall months.

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

With respect to enabling infrastructure, 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. This includes training and best practice tips on issues like Cybersecurity.

A strategic priority has been the development of permanent office accommodations for the Authority. During the period the CAACI acquired the site of the former Cayman Airways headquarters under a 99-year lease agreement with the CIAA. The Strategic Outline Case was also approved by Cabinet and it is anticipated that architectural and project management contracts will be awarded before the end of the 2016 calendar year.

2.2 FINANCIAL PERFORMANCE AND ANALYSIS

SUMMARY INCOME STATEMENT: Actual vs Budget for the fiscal year ending 30 June 2016 in CI\$ ('000's)

	June 2016 Actual	June 2016 Budget	Over/(Under) Budget	% Variance
REVENUE				
Aircraft Registry	6,145	6,036	109	1.8%
Aerodrome Certification Fee	1,000	1,000	0	0.0%
Operating permits	280	240	40	16.7%
Deposit interest	27	38	(11)	-28.9%
Total Revenue	7,452	7,314	138	1.9%
TOTAL EXPENSES	4,240	4,378	(138)	- 3.2%
NET INCOME FROM OPERATIONS	3,212	2,936	276	9.4%

INCREASE IN REVENUE

The increase in revenue over budgeted amount and same period last year is largely due to:

- All revenue streams above show growth over expected budget except other income/deposit interest. The increase in revenue realised from the Aircraft Registry's annual renewal Certificate of Airworthiness (C of A) fees. These fees are based on aircraft weight and the increase in revenue can be attributed to the steady growth of aircraft entered to the register in past years as well as an increase in heavier aircraft being registered. There was a net gain of 9 aircraft during the year.
- This increase in annual renewal of C of A fees has been partially offset by a shortfall in projections for new aircraft registrations during the period. Revenue from new aircraft registrations was 23% less than projected and targeted increase of 5% in revenue from the Aircraft Registry was not realized. Growth in revenue from the Aircraft Registry over the projected budget was 1.8% and growth in total revenue over projected budget was 1.9%.
- There was an increase of 16.7% in revenue from operating permits issued to scheduled and non-scheduled carriers coming into the Cayman Islands

over the projected budget which aligns with the steady growth in stay over tourism for leisure and business travellers coming to the jurisdiction.

DECREASE IN REVENUE

- Deposit interest projected was not achieved due to global interest rates still remaining very low.

SAVINGS IN EXPENSES

There were savings in all major expense items budgeted during the year and the most significant savings can be attributed as follows:

- The largest expense item of the Authority is personnel costs for which only 96% of the budgeted amount was spent this fiscal year. The 4% savings (\$100k) is largely due to salaries and benefits costs budgeted for a full year for new staff that came on board later than expected. The Flight Operations Inspector post budgeted in the Air Safety Regulation (ASR) Division from beginning of the fiscal year was not filled until 3rd August 2015. The Aviation Safety Officer post in the Air Navigation Services Regulation Division (Aerodrome) budgeted was not filled until 1st May 2016.

- Training expenses are budgeted for each staff member and only 56% percent of the costs allocated to this were spent during the year. This underspend was a result of the full quota of staff not being employed for the full year as planned as well as actual amounts spent on training being less than budgeted. The Annual Safety Conference which brings together all of CAA contractors from around the world to Cayman to be trained in new safety regulations and guidelines was not held during this fiscal year which accounts for a quarter of the savings. This Conference is planned for October 2016.
- ASSI fees have also dropped significantly since the fees attached to the MOU between the UKG and CIG were implemented in March 2012.
- There was savings in this expense item over budgeted fees of CI\$67k or 57% this fiscal year.
- IAS19 Post-retirement Plan Valuations at 30 June

2016 reflected a total re-measurement loss of \$838k on the pension and healthcare plans combined. These plans consist of a Defined Benefit Pension Plan and a Post-Retirement Healthcare Plan modeled after the CIG's similar plan for long serving staff members which fit a particular set of employment criteria. The Defined Benefit Plan is funded with PSPB and Health Care Plan is unfunded and is expected to be covered by the Authority's retained earnings.

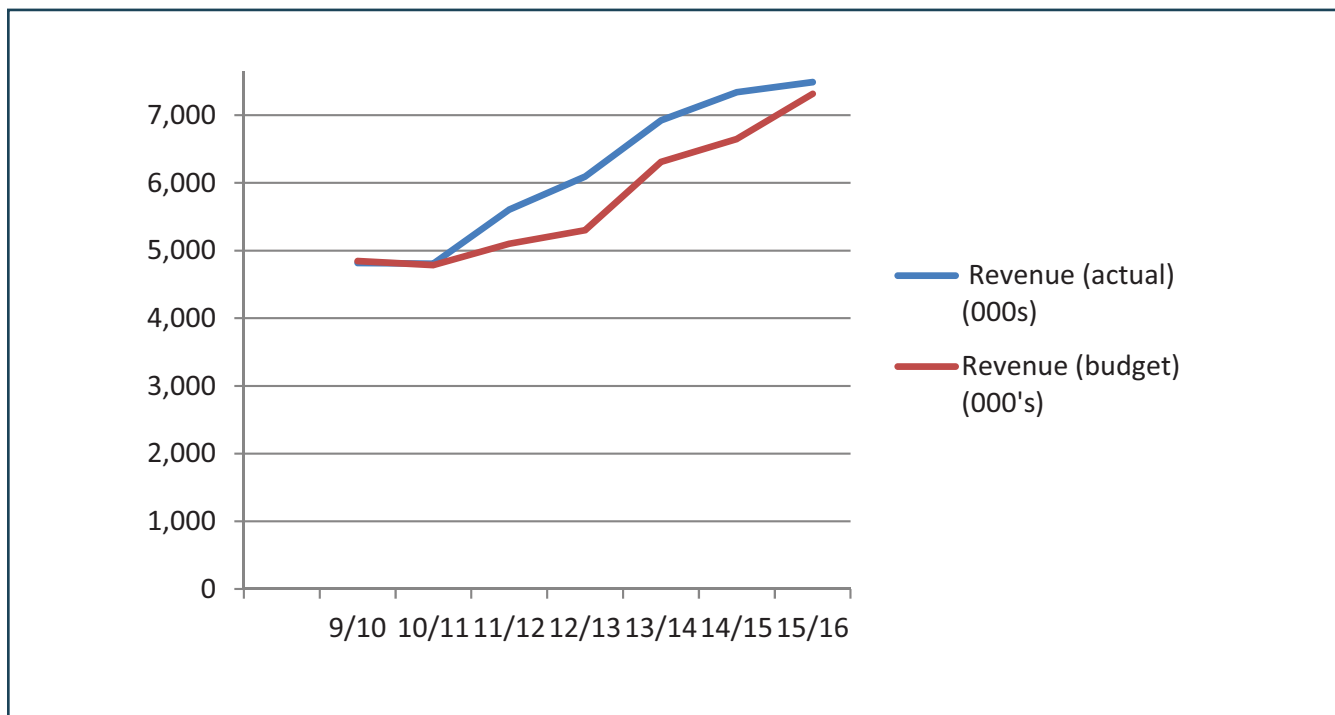
OPERATING NET INCOME

The increases in revenue over the projected amounts and the savings in expenses outlined above have resulted in an increase of \$276k (9.4%) in Operating Net Income over the targeted amount for the year. Operating Net Income does not include re-measurement gains and losses from the employee defined benefit plans.

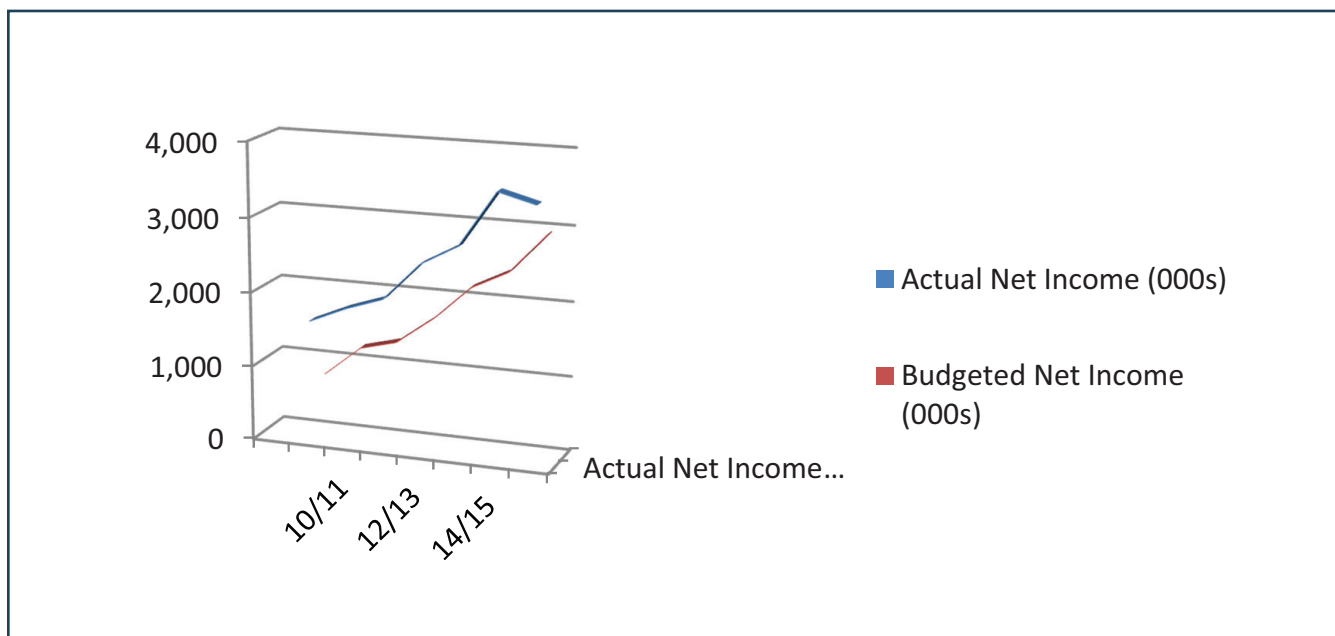
Key Performance Indicator Results and Analysis

Key Performance Indicators (KPIs)	Results for Reporting Period (against baseline)	Results of Analysis
Number of new clients to the CI Aircraft Registry/ new registration revenue	There was a decrease in initial registration revenue (new aircraft being added to the register) between the 14-15 and 15-16 years, which indicates the negative effects of competition from new global aircraft registers starting up in the last two to three years. The CAA is committed to continue to raise the profile of the Cayman Islands Aircraft Register through attendance and presentations at aviation industry conferences and exhibitions and informational media releases.	23% decrease of initial Certificate of Airworthiness revenue from \$661k to \$508k from the last financial year
Percentage of audits with minimal deficiencies	The 2014-15 financial statements were issued with an unqualified audit opinion and only one minor internal control point (reporting). This deficiency was remedied before the completion of the audit. An internal audit was also conducted during this year on the 2015 financial year which resulted in no deficiencies being indicated on the final audit report. An internal audit was also conducted during this year on the 2015 financial year which resulted in no deficiencies being indicated on the final audit report.	Financial Statements: Unqualified audit opinion; only one deficiency reported in the management letter. Internal Audit – no deficiencies being reported
Levels of industry self-sufficiency/ Annual Net Income	The target set for increase in total revenue was not achieved. This supports the negative KPI for new client revenue above. However, as the CAA has raised the baseline significantly in growth in revenues for the past 7 years, there would have to be a significant decrease in revenue in any given year to lose self-sufficiency status. (to below break-even point) (See revenue and net income growth charts below) The target set for Comprehensive Net Income of \$2.9 million was not achieved and is attributed to re-measurement losses of \$838k on post-retirement IAS19 plan valuations for long serving CAA staff.	Targeted revenue growth – 5%, achieved 1.9% Audited operating Net Income achieved of \$3,212k shows a \$19k decrease over prior year audited Net Income of \$3,231k Decrease in audited comprehensive income of \$1,175k: 2015- \$3,549k; 2016 - \$2,374k

Increase in Revenues over targeted amount in the last 7 years since 2010



Increase in Net Income over targeted amount in the last 7 years since 2010



2.3 LOOKING FORWARD

This section of the report, taken from Vision 2020: CAACI's 2016-2020 Strategic Plan, describes our three strategic objectives, the initiatives and activities that will be carried out to achieve these objectives, and the key performance indicators that will be used to assess how well we are progressing in support of these strategic objectives.

A MODERNIZED APPROACH TO REGULATORY OVERSIGHT

Lead through a modernized approach to regulatory oversight

The worldwide implementation of safety management systems by civil aviation service providers signals a shift from traditional reactive and compliance-based oversight to a new model that includes proactive and performance-based tools and methods. Such a shift, therefore, introduces the need for NAAs such as CAACI to perform safety oversight functions in a similar way through a modernized approach to regulatory oversight.

HOW WE WILL ACHIEVE THIS OBJECTIVE

In order to make progress towards our goal of a modernized approach to regulatory oversight, we will need to pursue implementation of performance-based oversight (PBO) while continuing to maintain existing compliance and regulatory approaches where appropriate.

During the life of this strategic plan, we will continue to:

- Ensure economic regulatory oversight for the local air transport industry
- Ensure compliance with the AN(OT)O

Over the next five years we will also undertake the following initiatives:

- Assess industry capacity, collect data and identify risk areas
- Train key individuals in PBO
- Develop and publish bulletins for PBO to increase the knowledge base of industry
- Develop and roll out an appropriate electronic workflow management platform in support of PBO

HOW WE WILL KNOW WE ARE MAKING PROGRESS

We will know we are making progress in terms of leading through a modernized approach to regulatory oversight if the knowledge base of industry has increased, the percentage of audits with minimal deficiencies is at an acceptable level, and the industry is exhibiting high levels of self-sufficiency.



*All Staff Strategic Planning Working Session:
May 13, 2016*

CONTINUOUS IMPROVEMENT OF SERVICE DELIVERY

Strengthen our industry position through the continuous improvement of service delivery to our stakeholders

Continuous improvement of our processes and tools to enhance the service experience of our clients has always been an overarching objective for the CAACI and will remain so for this strategic planning horizon. An example of success in this area has been the development of VP-C Online, the secure electronic data management system that provides CAACI clients with the means to apply online for the various approvals that are required for both initial aircraft registration and for continuing airworthiness. This includes registry applications, certificates and authorizations.

HOW WE WILL ACHIEVE THIS OBJECTIVE

Continuous improvement of service delivery to our global stakeholders is a strategic priority of the CAACI.

During the life of this strategic plan, we will continue to:

- Annually update our client database to confirm the validity of registrations and the accuracy of aircraft owner information
- Maintain our information technology hardware, software and network infrastructure
- Improve management of our information technology and services
- Obtain feedback from end users and clients and implement appropriate and approved changes based on this feedback
- Generate and maintain appropriate integrated communications initiatives to support consistent messaging for the regulatory role of the CAACI and the CI Aircraft Registry
- Act as liaison for ICAO or other organizations in order to submit or receive data and information for dissemination to industry and stakeholders

Over the next five years we will also undertake the following initiative:

- Introduce an appropriate QMS

HOW WE WILL KNOW WE ARE MAKING PROGRESS

We will know we are making progress in terms of continuous improvement of service delivery to our stakeholders if applications processing times and responses to requests for information, guidance and advice are within the CAACI service standards and we have increased client commendations and shared recommendations, as well as seeing low levels of industry complaints.



AN ADAPTABLE, CAPABLE , HIGH-PERFORMING ORGANIZATION

Embrace continuous improvement as an adaptable, capable, high-performing organization.

Our organization has worked hard to put in place the financial and human capital, physical infrastructure, processes and work environment necessary to adapt and be capable of performing at a high level. The strategic directions, initiatives and activities linked to this strategic objective position us well to build upon the progress we have already made.

HOW WE WILL ACHIEVE THIS OBJECTIVE

In order to build upon the progress we have made towards our goal of an adaptable, capable, high-performing organization, we will continue to focus on three key areas:

- Financial sustainability
- Managing for results
- An enabling work environment

FINANCIAL SUSTAINABILITY

An adaptable, capable, high-performing organization relies upon a stable financial base in order to make the investments that it needs to sustain and enhance its management practices, work environment and human capital.

During the life of this strategic plan, we will continue to:

- Enhance the development and serviceability of the VP-C Online portal. This will result in increased use and access by industry and increased revenue.
- Develop integrated communications strategies in support of the Authority's objectives and identify business development opportunities

Over the next five years we will also undertake the following initiatives:

- Develop appropriate policies to accommodate growth
- Seek additional revenue streams to ensure the financial independence of the CAACI

MANAGING FOR RESULTS

An adaptable, capable, high performing organization relies upon a robust set of management structures, frameworks, processes, and accountability instruments that will drive results.

During the life of this strategic plan, we will continue to:

- Support the incremental development of the Authority's QMS
- Maintain a positive relationship with the CAACI Board
- Comply with local legislation
- Continue to ensure adequate back-up and disaster recovery for CAACI data

Over the next five years we will also undertake the following initiatives:

- Implement a robust performance measurement framework
- Implement a risk management framework and risk register that is integrated with our performance measurement framework and QMS
- Conduct a review of current policies and procedures in the Finance Department with a view to achieving optimum performance
- Review and revise job descriptions to omit redundancies and improve efficiency

AN ENABLING WORK ENVIRONMENT

An adaptable, capable, high performing organization needs a motivated and highly skilled workforce supported by an enabling work environment that equips its people with the knowledge, tools and leadership necessary to successfully perform their duties.

During the life of this strategic plan, we will continue to:

- Develop divisional training plans to ensure qualified staff are recruited and competencies maintained
- Provide training opportunities for technical and administrative staff to cover gaps in knowledge and skills and to ensure that our staff receive refresher training to maintain their competence in all functional regulatory areas
- Utilize training as an intrinsic incentive and motivator for CAACI staff
- Foster team building, an environment of continuous learning and a spirit of cooperative collaboration
- Provide adequate physical facilities and equipment to enable our management and staff to work in the best possible working conditions

Over the next five years we will also undertake the following initiative:

- Strengthen the CI regulatory resource by employing and developing local human capital

HOW WE WILL KNOW WE ARE MAKING PROGRESS

We will know we are making progress in terms of financial sustainability if we have been able to maintain or grow the current CI Registry levels, and we have succeeded in securing additional revenue streams.

We will have succeeded in strengthening our ability to manage for results if we are using integrated resources, performance and risk information to strengthen planning, priority-setting and decision-making.

The goal of an enabling work environment will have been advanced if levels of employee satisfaction with their work environment are high, qualified and experienced managers and staff are retained, and if, over the longer term, the CAACI has been able to attract appropriately qualified Caymanians to competitions for highly technical positions, thus continuing our progress towards our goal of a workforce that is representative of the CI population.



SECTION 3.0

SUPPLEMENTARY INFORMATION



LIST OF ACRONYMS AND ABBREVIATIONS

ACRONYM	DESCRIPTION
ABACE	Asian Business Aviation Convention & Exhibition
AN(OT)O	Air Navigation (Overseas Territories) Order
ANSR	Air Navigation Services Regulation (Division)
AOC	Air Operator Certificate
ASR	Air Safety Regulation (Division)
ASSI	Air Safety Support International
ATLA	Air Transport Licensing Authority
CAA	Civil Aviation Authority
CAACI	Civil Aviation Authority of the Cayman Islands
CIAA	Cayman Islands Airports Authority
CI	Cayman Islands
CIG	Cayman Islands Government
EBACE	European Business Aviation Convention & Exhibition
GACA	General Authority of Civil Aviation
ICAO	International Civil Aviation Organisation
NAA	National Aviation Authority
NBAA	National Business Aviation Association
ORIA	Owen Roberts International Airport
OT(s)	Overseas Territory(Territories)
OTAR(s)	Overseas Territories Aviation Requirement(s)
PBO	Performance-based Oversight
QMS	Quality Management System
SUSAs	Small Unmanned Surveillance Aircraft
UK	United Kingdom
UKCAA	United Kingdom Civil Aviation Authority

CIVIL AVIATION AUTHORITY OF THE CAYMAN ISLANDS (CAACI) RISK REGISTER

The CAACI maintains a corporate risk register in accordance with the format in table 1 below. The register is reviewed and updated by the Management Team on a quarterly basis or more frequently as necessary. A detailed review is also carried out annually in accordance with the budget and planning cycle.

Risk Category	Risk Description	Inherent Risk			Existing Controls, Risk Responses	Residual Risk			Further Risk Responses	Risk Owner
		Likelihood	Impact	Total		Likelihood	Impact	Total		
Operational	Air safety may be compromised due to domestic AOC holders lacking a mature (effective) SMS.	3	2	6	Continue to encourage the domestic industry to embrace the SMS culture through communication and leadership.	3	2	6	Maintain conventional regulatory oversight with the addition of enhanced monitoring in key areas with experienced regulators.	Air Safety Regulation (ASR) Division
Strategic	The credibility and sustainability of the regulatory regime may be jeopardized due to "Grey market" private operators conducting commercial operations.	3	3	9	Continue to improve regulatory relationships (GACA/FAA) for mutual oversight support and information sharing.	3	2	6	As these mutual relationships evolve, more active CAACI involvement with these NAAs (i.e. validation assessments) to assure CAACI expectations continue to be met.	ASR
Strategic	There is a risk that stakeholders will not embrace the transition to Performance Based Regulation in the oversight programme for aircraft and organisations.	4	3	12	Evaluating both in-house and third party process management tools to facilitate Performance Based Regulation implementation.	3	3	9	Ongoing process development and assessment of work flow process tool.	ASR
Operational	There is a risk that CAACI will not be able to cope with the high demand on CAACI resources due to the addition of new aircraft types to the fleet by Domestic AOC.	4	3	12	Fleet change will impose short term high demand on CAACI resources. Regular communication with the AOC principals will be required to ensure successful implementation.	4	2	8	Coordination with AOC holder to allow for effective management of CAACI human resources.	ASR
Operational	CAACI's ability to ensure that internationally accepted air safety standards are in place is compromised due to aircraft being parked at locations without access to maintenance facilities.	4	3	12	Inclusion of storage requirements in aircraft maintenance programmes.	3	2	6	Implementing CAMO engagement and identifying candidate aircraft.	ASR

CIVIL AVIATION AUTHORITY OF THE CAYMAN ISLANDS (CAACI) RISK REGISTER

Risk Category	Risk Description	Inherent Risk			Existing Controls, Risk Responses	Residual Risk			Further Risk Responses	Risk Owner
		Likelihood	Impact	Total		Likelihood	Impact	Total		
Operational	CAACI's ability to ensure that internationally accepted air safety standards are in place is compromised due to lack of appropriate hangar facilities for FlyNAS Riyadh and or Jeddah.	4	3	12	GACA committed to a combined CAACI-GACA initiative to move the operator to resource a suitable maintenance facility.	4	3	12	Ongoing process of follow up and oversight.	ASR
Operational	CAACI's ability to ensure that internationally accepted air safety standards are in place is compromised due to approval certificates being issued without sound basis of regulatory code (Radio Installation Approval).	3	2	6	Aircraft radio station licences are issued by having aircraft operators liaise with ICTA directly.	2	2	4	To reopen discussion with ICTA to ensure a comprehensive Radio Station Licence scheme is in place with ICTA support.	ASR
Operational	CAACI's ability to provide air navigation safety assurance is compromised due to the existence of an inexperienced management team at CIAA.	3	3	9	Concern raised with the Board of the CIAA. Some training has taken place and a new, external, Chief of Airport Operations has been appointed. Remains subject to ongoing oversight by CAACI –ANSR.	2	3	6	CAACI continues increased oversight emphasis.	Air Navigation Services Regulation (ANSR) Division
Operational	CAACI's ability to provide air navigation safety assurance is compromised due to the lack of continuity of management and resources in CIFS/RFFS.	4	3	12	Concern raised with the Ministry of Home Affairs. Subsequently, a new, external, Chief Fire Officer has been appointed to review and revise the CIFS. Remains subject to ongoing oversight by CAACI –ANSR.	3	2	6	RFFS Chief is restructuring the organization in line with responsibility emphasis. CAACI to continue oversight for compliance with regulatory obligations.	ANSR

CIVIL AVIATION AUTHORITY OF THE CAYMAN ISLANDS (CAACI) RISK REGISTER

Risk Category	Risk Description	Inherent Risk			Existing Controls, Risk Responses	Residual Risk			Further Risk Responses	Risk Owner
		Likelihood	Impact	Total		Likelihood	Impact	Total		
Operational	CAACI's ability to provide air navigation safety assurance is compromised due to the conduct of public transport operations into the uncertified aerodrome Little Cayman.	2	3	6	Little Cayman Airfield is managed by Cayman Airways Express (CAE). The use of the airfield for commercial operations is limited to DH-6 aircraft following a risk assessment carried out with input from the manufacturers. CAE has produced an Aerodrome Manual to support the operation and, beginning in December 2015, the airport is subject to an annual inspection, including an emergency exercise, conducted by the CAACI. CIG intends to develop a new site capable of certification within 3-5 years. This remains subject to ongoing oversight by CAACI –ANSR &ASR.	2	2	4	Little Cayman Aerodrome is now subject to annual inspection against aerodrome manual obligations and AEP exercises.	ANSR
Operational	There is a risk to air navigation safety due to the increased presence of SUAs in CI air space.	2	3	6	Initial public information campaign. More recently (1Feb, 2016) 3nm restricted zones have been established around three Cayman Island airports. A further more extensive publicity campaign is planned for Spring 2016.	2	2	4	Evolverment of SUA clubs for CAACI community education focus.	ANSR

CIVIL AVIATION AUTHORITY OF THE CAYMAN ISLANDS (CAACI) RISK REGISTER

Risk Category	Risk Description	Inherent Risk			Existing Controls, Risk Responses	Residual Risk			Further Risk Responses	Risk Owner
		Likelihood	Impact	Total		Likelihood	Impact	Total		
Operational	There is a risk to air navigation safety due to the Ponds underlying the approach to Rwy 08 being an attractant to wildlife and presenting operational challenge for ARFFS response.	3	5	15	CIAA directed to fill the ponds. Estimated date of completion 31 December 2017.	2	3	6	CAACI oversight emphasis on related programs such as maintenance of required grass cutting length and ARFFS preparatory planning for responses into the areas of 1000 meters beyond the runway threshold.	ANSR
Operational	CAACI may not be able to effectively recruit and retain qualified technical, administrative and financial staff due to CIG policy (administrative or human resources), resulting in high turnover.	3	3	9	Continual education and awareness with CIG.	3	3	9		Economic Regulatory and Administration Division
Reputational	Loss of confidence/damage to reputation of the CAACI due to external factors that impact our ability to meet our mandate.	2	4	8	Public relations initiatives to remediate any issues that occur as well as on-going proactive tactics at building positive awareness	2	2	4		Economic Regulatory and Administration Division
Financial	The CAACI may not be able to quickly and adequately react to market conditions or act autonomously in the best interest of its business due to CIG fiscal policy that undermines or negatively impacts financial resources and results in reductions in CAACI reserves and operating cash.	3	3	9	Education and awareness measures with CIG to maintain financial autonomy.	3	3	9		Economic Regulatory and Administration Division

CIVIL AVIATION AUTHORITY OF THE CAYMAN ISLANDS (CAACI) RISK REGISTER

Risk Category	Risk Description	Inherent Risk			Existing Controls, Risk Responses	Residual Risk			Further Risk Responses	Risk Owner
		Likelihood	Impact	Total		Likelihood	Impact	Total		
Operational	CAACI's ability to conduct its statutory responsibilities is jeopardised due to global shortage of technical experts to fill required posts (Airworthiness, Flight Operations and Air Navigation Services) or loss of key personnel as a result of competition from other employers	3	4	12	Liaison with other NAAs to share resources and also succession planning internally to continually train resources at CAACI. Adoption of robust HR policies and practises, i.e., compensation and benefits, training etc. Succession planning for critical posts.	3	2	6		Economic Regulatory and Administration Division
Operational	CAACI's ability to provide economic regulatory assurance is compromised due to invalid verification documents received from foreign permit applicants (Article 135 applicants) or expired or revoked documents being used in applications for operating permits, resulting in inadvertent grant of permits in those instances.	2	2	4	Liaison with other NAAs to research and verify validity of documents submitted.	2	2	4		Economic Regulatory and Administration Division
Operational	There is a risk of serious injury, death or kidnapping of CAA personnel due to criminal/terrorist activity when on overseas assignments on behalf of the CAACI.	2	4.5	9	Careful planning of travel assignments based on risk assessment by credible sources; employment of travel services firm that specialises in data/intelligence and perhaps extraction in case of emergencies; internal HR policies/practises that support trip planning such as identification of appropriate foreign embassies in countries of travel.	1	4	4		Economic Regulatory and Administration Division

CIVIL AVIATION AUTHORITY OF THE CAYMAN ISLANDS (CAACI) RISK REGISTER

Risk Category	Risk Description	Inherent Risk			Existing Controls, Risk Responses	Residual Risk			Further Risk Responses	Risk Owner
		Likelihood	Impact	Total		Likelihood	Impact	Total		
Operational	The CAACI's reputation is damaged due to exposure of private client data in a public forum.	4	2	8	NIST framework. Cyber security measures, continual monitoring and implementation of best practices.	3	2	6		Economic Regulatory and Administration Division
Reputational	The integrity of the Aircraft Registry is compromised due to potential clients submitting false information to be accepted to the Registry.	2	2	4	Adherence to local and global Anti-Money Laundering (AML) Regulations and Standards which includes use of due diligence tools for all new client background checks For current clients, bi-annual review of due diligence files for updated client information	1	2	2	Background checks/media monitoring on clients not paying bills on time or "register search enquiries" from attorneys	Finance And Compliance Division
Financial	The CAACI does not achieve its financial targets due to competition and global market forces.	3	3	9	Closely monitoring of Key Performance Indicators and researching related market activity to analyse and determine possible correlations to revise internal policies to respond to market requirements	2	2	4	Liaison with key stakeholders to determine if targets need to be adjusted after revisions to marketing policies have been implemented and given a chance to work	Finance And Compliance Division

SECTION 4.0

Financial statements





Financial Statements

30 June 2016



STATEMENT OF RESPONSIBILITIES

30 June 2016

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 2016 and its comprehensive income and cash flows of the Civil Aviation Authority of the Cayman Islands for the financial year ended 30 June 2016.

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 2016;
- b) Fairly reflect the financial position as at 30th June 2016 and its comprehensive income for the year ended 30th June 2016;
- 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.

A handwritten signature in blue ink, appearing to read "Richard Smith".

Richard Smith (Mr)
Director-General

Date: 31st October 2016

A handwritten signature in blue ink, appearing to read "Jane Panton".

Jane Panton (Mrs)
Director of Finance and Compliance

Date: 31st October 2016

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, 2016, 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 27 in accordance with the Section 60(1)(a) 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, 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

A handwritten signature in dark ink, appearing to read 'Sue Winspear', written in a cursive style.

Sue Winspear, CPFA
Auditor General

October 31, 2016
Cayman Islands

Civil Aviation Authority of the Cayman Islands
Statement of Financial Position
As at June 30, 2016
Stated in Cayman Islands Dollars

	Note	June 30, 2016	June 30, 2015
Assets			
Current assets			
Cash and cash equivalents	4(a)	3,235,493	4,027,690
Short term deposits	4(b)	6,668,504	5,003,770
Trade and other receivables	5	2,049,958	1,645,818
Total current assets		11,953,955	10,677,278
Non-current assets			
Capital assets	6	149,820	177,691
Total non-current assets		149,820	177,691
Total Assets		12,103,775	10,854,969
Liabilities and Equity			
Current liabilities			
Accounts payable and accrued liabilities	7(a)	1,001,263	1,049,862
Dividend payable to Cayman Islands Government	7(b)	2,031,272	2,168,520
Total current liabilities		3,032,535	3,218,382
Non-current liabilities			
Defined benefit (pension) obligation	8(b)	2,061,750	1,258,750
Defined benefit (healthcare) obligation	8(c)	1,858,000	1,569,000
Total non-current liabilities		3,919,750	2,827,750
Total Liabilities		6,952,285	6,046,132
Equity		5,151,490	4,808,837
Total Liabilities and Equity		12,103,775	10,854,969

Approved for issuance on behalf of Civil Aviation Authority's management on 31st October 2016

 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, 2016
Stated in Cayman Islands Dollars

	Note	Year ended June 30, 2016	Year ended June 30, 2015
Revenue			
Air safety regulation and certification fees	10 (a)	5,131,216	5,024,678
Aerodrome oversight fees	10 (b)	1,000,000	1,000,000
Surveyor fees and net reimbursable expenses	10 (c)	1,014,106	1,014,822
Aircraft operating permits	10 (d)	279,650	273,800
Other income	10 (e)	27,126	26,849
Total revenue		7,452,098	7,340,149
Expenses			
Personnel costs	11 (a)	2,707,440	2,356,639
Office administration and business development	11 (b)	608,647	663,063
Professional and licensing fees	11 (c)	700,590	891,191
Travel – official, training and administrative	11 (d)	156,407	113,206
Depreciation expense	6	60,924	65,883
Bad debt expense	5	6,165	19,656
Total expenses		4,240,173	4,109,638
Operating net income for the year		3,211,925	3,230,511
Other comprehensive gains / (losses)			
Re-measurement of defined benefit (pension) obligation	8(b)	(728,000)	250,000
Re-measurement of defined benefit (healthcare) obligation	8(c)	(110,000)	68,000
Total comprehensive income		2,373,925	3,548,511

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, 2016
Stated in Cayman Islands Dollars

	Year ended June 30, 2016	Year ended June 30, 2015
Cash flows from operating activities		
Operating net income for the year	3,211,925	3,230,511
Adjustments for:		
Gain on disposal of capital assets	-	(9,000)
Depreciation expense	60,924	65,883
(Increase)/ decrease in accounts receivable	(404,141)	118,890
(Decrease) / increase in accounts payables and accrued liabilities	(48,599)	(39,146)
Net adjustment for defined benefit obligation and interest costs	254,000	254,000
Net cash from operating activities	3,074,109	3,621,138
Cash flows from investing activities		
(Increase) / decrease in short term deposits	(1,664,734)	(17,848)
Proceeds on disposal of capital assets	-	20,923
Purchase of capital assets	(33,052)	(19,181)
Net cash (used in) / provided by investing activities	(1,697,786)	(16,106)
Cash flows used in financing activities		
Dividends paid	(2,168,520)	(2,543,937)
Net cash used in financing activities	(2,168,520)	(2,543,937)
Net (decrease)/increase in cash and cash equivalents	(792,197)	1,061,095
Cash and cash equivalents at beginning of the year	4,027,690	2,966,595
Cash and cash equivalents at end of the year	3,235,493	4,027,690

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, 2016
Stated in Cayman Islands Dollars

	Note	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Balance at beginning of the year		4,808,837	3,428,846
Operating net income for the year		3,211,925	3,230,511
Other comprehensive (loss)/gain	8	(838,000)	318,000
Dividends	7(b)	<u>(2,031,272)</u>	<u>(2,168,520)</u>
Balance at end of the year		<u><u>5,151,490</u></u>	<u><u>4,808,837</u></u>

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, 2016
Stated in Cayman Islands Dollars

1. Background information

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

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

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

The registered address of the Civil Aviation Authority is P.O. Box 10277 APO, Grand Cayman, Cayman Islands and is located at Cayman Grand Harbour. The Civil Aviation Authority has 21 employees as at June 30, 2016 (2015: 20).

2. Significant Accounting Policies

Basis of Presentation

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

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

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

a) New standards and amendments adopted by the Authority

There were no new standards and amendments adopted for the first time for the annual reporting period commencing 1 July 2015.

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
June 30, 2016
Stated in Cayman Islands Dollars

2. Significant Accounting Policies (continued)

b) New standards, amendments and interpretations issued but not effective for the financial year beginning July 1, 2015 and not early adopted

Certain new accounting standards and interpretations have been published that are not mandatory for June 30, 2016 reporting period 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, issued May 2014 '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 2018 and earlier application is permitted. The Authority is assessing the impact of IFRS 15.

IFRS 16, 'Leases' primarily affects the accounting by lessees and will result in the recognition of almost all leases on the Statement of Financial Position. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. The Statement of Comprehensive Income will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years and operating expense is replaced with interest and depreciation. The standard is effective for accounting periods beginning on or after 1 January 2019 and earlier application is permitted only if IFRS 15 is adopted at the same time. The Authority is assessing the impact of IFRS 16.

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.

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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 10.

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2. Significant Accounting Policies (continued)

h) Financial assets and liabilities

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.

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 statement of comprehensive income. 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 statement of financial position 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

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2. Significant Accounting Policies (continued)

l) Leases (continued)

the leased property and the present value of the minimum lease payments. The Authority did not have any finance leases during 2016 (2015: \$nil).

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.

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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 8.

4. Cash and short term investments

	June 30, 2016	June 30, 2015
a) Cash and cash equivalents		
Cash on hand	788	795
Current and call accounts	3,234,705	4,026,895
Total cash and cash equivalents	3,235,493	4,027,690
b) Short term deposits		
Fixed Deposits	6,668,504	5,003,770

Current and call accounts holdings are at Cayman National Bank \$3,105,868, Bank of Butterfield \$14,166 and NatWest (UK) \$114,671 (GBP 105,518 @ exchange rate GBP to KYD 1.0867).

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 12.

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5. Trade and other receivables

	June 30, 2016	June 30, 2015
Accounts receivables - Trade	1,865,610	1,555,740
Other receivables	206,947	120,189
Allowance for doubtful accounts	(22,599)	(30,111)
Trade and other receivables (net)	<u>2,049,958</u>	<u>1,645,818</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 \$6,165 for 2016 (2015: \$19,656) 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, 2016, \$250,000 (2015: \$250,000) was due from the Cayman Islands Airports Authority ("CIAA") for the quarterly fee due for Regulatory services under the Memorandum of Understanding (MOU) referred to in Note 10b), \$138,740 (2015: \$105,376) was due from Cayman Airways Limited and \$415,664 (2015: \$158,469) 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 Trade Receivables of \$1,865,610, (2015: \$1,555,740) and Allowance for doubtful accounts of (\$22,599) (2015: (\$30,111)).

Aging profile of trade receivables

Period Outstanding (Days)	June 30, 2016	June 30, 2015
0-30	1,154,281	818,070
30-90	478,171	497,298
90-365	210,559	201,016
Over 365	-	9,245
Total	1,843,011	1,525,629

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5. Trade and other receivables (continued)

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

	2016	2015
Opening allowance for doubtful accounts	30,111	10,455
Bad debts provided for during the year	6,166	19,656
Less recoveries	(13,678)	-
Write off against accounts previously provided for	-	-
Closing allowance for doubtful accounts	<u>22,599</u>	<u>30,111</u>

The changes in trade receivables are as follows:

Neither past due nor impaired	1,154,280	818,070
Total past due but not impaired	688,731	707,559
<i>Impaired:</i>		
31 – 365 days	3,497	19,268
Over 365 days	19,102	10,843
Total impaired	<u>22,599</u>	<u>30,111</u>
 Total trade receivables	 <u>1,865,610</u>	 <u>1,555,740</u>

As of June 30, 2016, receivables of \$688,731 (2015: \$707,559) 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:

	2016	2015
31 – 365 days	688,731	698,314
Over 365 days	-	9,245
Total past due but not impaired	<u>688,731</u>	<u>707,559</u>

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6. 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, 2014	144,793	117,455	132,064	139,969	36,947	4,523	97,754	11,922	685,428
Additions during 14/15	-	1,746	11,702	4,998	-	735	-	-	19,181
Disposals during 14/15	-	-	-	-	-	-	(26,000)	(11,922)	(37,922)
As at June 30, 2015	144,793	119,201	143,766	144,967	36,947	5,258	71,754	-	666,686
Additions during 15/16	-	2,383	10,418	7,500	1,751	11,000	-	-	33,052
Disposals 15/16	-	-	-	-	-	-	-	-	-
As at June 30, 2016	144,793	121,584	154,184	152,468	38,698	16,258	71,754	-	699,739
Accumulated depreciation:									
Brought Forward, as at July 1, 2014	129,649	77,783	119,162	54,971	32,857	-	34,690	-	449,112
Charge for year 14/15	7,572	9,253	7,605	24,037	3,064	-	14,352	-	65,883
Disposals during 14/15	-	-	-	-	-	-	(26,000)	-	(26,000)
As at June 30, 2015	137,221	87,036	126,767	79,008	35,921	-	23,042	-	488,995
Expense for year 15/16	7,572	8,881	6,079	23,382	660	-	14,350	-	60,924
Disposals 15/16	-	-	-	-	-	-	-	-	-
As at June 30, 2016	144,793	95,917	132,846	102,390	36,581	-	37,392	-	549,919
Net book value as at June 30, 2015									
	7,572	32,165	16,999	65,959	1,026	5,258	48,712	-	177,691
Net book value as at June 30, 2016									
	-	25,667	21,338	50,078	2,117	16,258	34,362	-	149,820

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7. Liabilities and related party transactions

a) Accounts payable and accrued liabilities

	2016	2015
Unearned income	474,121	453,174
Employee incentive awards accrued	176,014	164,352
Accrued expenses	201,370	285,202
Accounts payable	149,225	145,125
Other payables	-	1,500
Unidentified deposits and unresolved issues	533	509
Total accounts payable / accrued liabilities	<u>1,001,263</u>	<u>1,049,862</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 August 31, 2016 a total of \$2,031,272 (2015: \$2,168,520) was payable to the CIG as detailed below:

	June 30, 2016	June 30, 2015
Dividend payable for current year unaudited operating income	2,451,173	2,741,534
Adjustment to dividend payable for prior years audited income	<u>(419,901)</u>	<u>(573,014)</u>
	<u>2,031,272</u>	<u>2,168,520</u>

For the first five months of the 2015 fiscal year 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 totalled \$18,235. 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.

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7. 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 2016 were \$874,839 (2015: \$803,788). 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 2016 performance incentive award, the total payment for 2015 settled post year end was \$52,860. 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, 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, 2016 this amounted to \$7,412 (2015: \$7,794) for all key employees.

	2016	2015
Base salary	672,136	609,855
Pension	47,950	47,866
Medical coverage	99,224	91,851
Fuel allowance	2,262	2,118
Performance incentive award (estimated)	53,267	52,098
Total key employee benefits	<u>874,839</u>	<u>803,788</u>

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

Accrued expenses include professional fees of \$88,629 (2015: \$118,130) 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 67,282 (GBP 91,572 in 2015) 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.

8. 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
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8. 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 to PSPB under these plans are expensed as incurred in the statement of comprehensive income. For June 30, 2016 the amount of \$61,240 (2015: \$59,444) 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, 2016	June 30, 2015
	\$'000	\$'000
Statement of financial position:		
Defined benefit obligation at end of year	4,934	3,969
Fair value of plan assets at end of year	(2,872)	(2,710)
Liability in the statement of financial position	<u>2,062</u>	<u>1,259</u>
Income statement charge included in operating profit for the year:		
Defined pension benefits	(89)	93
Re-measurements for:		
Defined pension benefits	(728)	250

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8. 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
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
Current service cost	29	-	29
Interest expense/(income)	189	(129)	60
	218	(129)	89
Re-measurements:			
Return on plan assets	-	(7)	(7)
(Gain)/loss from change in financial assumptions	735	-	735
	735	(7)	728
Contributions:			
Employers	-	(14)	(14)
Plan participants	12	(12)	-
Payments from plan:			
Benefit payments			-
Administrative expenses	-	-	-
As at June 30, 2016	4,934	(2,872)	2,062

The principal actuarial assumptions at the date of valuation

	2016	2015
	%	%
1. Discount Rate	4.00	4.75
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 – 2016: RP-2014 projected on a generation basis using scale MP-2014 (2015: RP-2014 projected on a generation basis using scale MP-2014).		

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8. 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, 2016 and 2015 to changes in the weighted principal assumptions is:

Impact on defined benefit obligation 2016			
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.25%	Decrease by 4.6%	Increase by 4.9%
Inflation rate	0.25%	Increase by 4.1%	Decrease by 3.9%
Mortality*	10%	Decrease by 2.2%	Increase by 2.4%

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%

* The assumed life expectancy of a person retiring today at age 57 is 30.21 (2015: 30.12). 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 (2015: 0.91 and 1.02 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:

	2016	2015
Global Equities	80%	80%
Debt securities	19%	19%
Cash	<u>1%</u>	<u>1%</u>
	<u>100%</u>	<u>100%</u>

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

Asset Volatility

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

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

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8. 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, 2017 is \$26,000. As of June 30, 2016 and June 30, 2015, 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 19.9 years (2015: 19.8 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 which is 5% (2015: 5%).

Other significant assumptions include:

- a. Mortality rates – 2016: RPH-2014 employee and healthy annuitant (2015: RP-2014 projected on a generation basis using scale MP-2014).
- b. Mortality improvement scale – 2016 Scale MP-2015 (2015: Scale MP-2014).

The amounts recognised in the statement of financial position represent management's estimation of the present value of unfunded obligations.

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8. 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 ('\$000)
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
Current service cost	105
Interest expense/ (income)	74
	179
Re-measurements:	
- (Gain)/ loss from change in demographic assumptions	(80)
- (Gain)/ loss from change in financial assumptions	289
- Experience (gains)/ losses	(99)
	110
As at June 30, 2016	1,858

9. 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 expired August 15, 2016, this lease has been renewed with new expiration date of August 15, 2019. 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 from July 1, 2016 to August 14, 2019 (38 months of monthly rent and strata fees of \$14,126)	\$536,788
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10. 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 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 year at the same fee.

c) 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, 2016, a fee of \$250 (2015: \$250) per hour was charged. Travel, subsistence and postage expenses associated with surveys are recovered from the customer. Surveyor fees are included in the statement of comprehensive income as follows:

	Year Ended June 30,	
	2016	2015
Surveyor fee billings	1,004,392	1,011,301
Survey reimbursable billings	626,790	630,400
Reimbursable expenses paid	<u>(617,076)</u>	<u>(626,879)</u>
Surveyor fees & net reimbursable expenses	<u>1,014,106</u>	<u>1,014,822</u>

During the financial years ending 2016 and 2015, the Surveyors' Reimbursable Travel Expenses have been offset against the Surveyor Fees and Billable expenses as the expenses have been recovered through the revenue. Showing the net amount of surveyor travel expenses billed improves the clarity of presentation.

d) Aircraft operating permits

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

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10. Revenue (continued)

e) Other income

	2016	2015
Interest income	24,755	17,849
Bad debt recovery	13,678	9,000
Unrealised gain (loss) on foreign currency accounts	(11,307)	-
Total Other Income	27,126	26,849

11. Expenses

Operating expenses

a) Personnel costs

Salaries/performance incentive expenses – Cayman	1,982,494	1,688,356
Insurance and medical expenses	311,848	271,830
Pension (including DB plan service costs)	189,323	183,809
Post-employment healthcare- Note 8(c)	179,000	175,000
Training	29,655	25,111
Recruitment and relocation expenses	15,120	12,533
Total personnel costs	2,707,440	2,356,639

b) Office administration and business development

General office administration expenses	313,238	381,269
Rental expenses	188,335	179,060
Business development expenses	104,960	97,413
Board expenses	2,114	5,321
Total office administration and business development	608,647	663,063

c) Professional & licensing fees

Contractors fees – overseas	398,197	547,618
Air safety support international (ASSI)	88,629	103,281
Work permit fees	48,094	86,985
Insurance fees	67,605	75,980
Audit and other professional fees	50,607	48,454
Professional dues and subscriptions	4,564	4,956
AAIB retainer Fee	34,583	34,480
Legal fees	8,311	18,704
Legal fees – helipad suit (Note 13)	-	(29,267)
Total professional & licensing fees	700,590	891,191

d) Travel – official, training and administrative

Travel – business development	52,249	62,719
Travel – administration and training	104,158	50,487
Total Travel – official, training and administrative	156,407	113,206

Total operating expenses

4,173,084	4,024,099
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12. 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 June 30, 2016:

	< 1 year	>1 < 5 Years	5 years +
Cash outflows			
Accounts payable and acc. expenses	1,001,263	-	-
Dividend payable	<u>2,031,272</u>	<u>-</u>	<u>-</u>
Total cash outflows	\$ <u>3,032,535</u>	\$ <u>-</u>	\$ <u>-</u>

As at 30 June 2015:

	< 1 year	>1 < 5 Years	5 years +
Accounts payable and acc. expenses	1,049,862	-	-
Dividend payable	<u>2,168,520</u>	<u>-</u>	<u>-</u>
Total cash outflows	\$ <u>3,218,382</u>	\$ <u>-</u>	\$ <u>-</u>

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, 2016 are National Air Services (NAS) with approximately 23% (2015: 36%) of total outstanding balances, Cayman Airways 8% (2015: 6%) and Cayman Islands Airports Authority (CIAA) 14% (2015: 15%) and are considered significant concentrations of credit risk.

Interest rate risk

Cash amounts held at Cayman National Bank over \$500,000 (2015: \$200,000) are placed on semi-annual and annual fixed deposits and generally earn an interest rate of between 0.3500% (2015: 0.3000%) and 0.4500% (2015: 0.4500%) per annum in the year ending 2016. There are two accounts held at NatWest Bank in the UK, an operating account and a credit card account for 5 (2015: 5) 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 (2015: £16,000) was held as a deposit. This deposit earns between 0.5% and 1% interest per annum. As at June 30, 2016 there is also a fixed deposit held with Cayman Islands Government Treasury. The amount is \$2,029,114 (US\$2,474,529) (2015: CI\$2,014,232), for twelve months to a rate of 0.5900% and matures on 29 July 2016. Management believes that a reasonable possible change in interest rates would not have a direct material impact on the Authority's profit/ (loss).

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12. 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. At 30 June 2016, there was a significant unrealised loss recorded on the current and deposit accounts in GBP held at Natwest in the United Kingdom. The total of both accounts is GBP105,518. The transactional balance on the account at 30 June 2016 was \$125,978 and was adjusted down to \$114,671 at an exchange rate of GBP to KYD of 1.0867, yielding and unrealised loss of \$11,307 at the reporting date.

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.

13. Contingent Liabilities

(2016)

The Authority signed a Ground Lease on 17th May 2016 with the Cayman Islands Airports Authority (CIAA) as the lessor for use of land to build office accommodation for the CAA (lessee). The ground lease specifies a single payment of CI\$400,000 to be paid to the CIAA within 30 days of the CAA acquiring planning permission for the Designated Use of the land. As of June 30, 2016, such planning permission had not been obtained.

(2015)

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 US\$50,000(CI\$40,000) 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 CI\$29,267 in 2015.

14. 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 7(b), to make an annual payment into the general revenue of the Cayman Islands Government. The Authority is not subject to externally imposed capital requirements.

15. Subsequent events

Subsequent to year end, the Authority has paid \$2,031,272 of dividends payable to the Cayman Islands Government.