

ANNUAL REPORT

FISCAL YEAR ENDING 31 DECEMBER 2018



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 twelve month fiscal period ended 31 December 2018. The Authority continues to meet its regulatory obligations with full safety oversight designation from the Governor. The Authority also continues to be financially self-sustainable, receiving no capital subsidy, and pays dividend to the Cayman Islands Government.

During the period the CAACI was subject to the biennial assessment by the Air Safety Support International (ASSI), the UK's aviation oversight organisation with responsibility for ensuring that the UK's obligations to the International Civil Aviation Organisation (ICAO) are met by the UK Overseas Territories. The resultant report recommended that the CAACI retain its full designation for safety regulatory oversight of the Cayman Islands' aviation industry. The CAACI is one of only two such designations throughout the UK OTs.

With tourism and international finance being the major economic industries in the Cayman Islands, safe and reliable air transport is imperative for the islands' developments and sustainability. This puts aviation 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. The required safety oversight responsibilities of the CAACI are dependent on technically qualified and experienced personnel to carry out the regulatory functions of the various disciplines. To this end, the CAACI is committed to ensuring staff competencies are maintained and appropriate plans in place for succession planning.

While the Cayman Islands Aircraft Registry ("the Registry") continues to be an attractive registry of choice for high net-worth individuals and corporations, we face increasing competition from other jurisdictions which have established aircraft registries as well. As a main revenue source for the Authority, the CAACI continually seeks to identify opportunities to diversify and broaden the client base.

After establishment of the Maritime and Aviation City within the Cayman Islands Special Economic Zone (SEZ), I am pleased to announce that the first aviation company has been registered and is functioning under the regulatory oversight of the CAACI. This initiative was envisioned to allow the CAACI to compete globally for niche market offshore commercial air transport operations.

Effective and efficient communication is a hallmark of the CAACI in responding to our local aviation services providers, as well as CI registered aircraft based and operated globally. To achieve this, the Authority continues to invest in new product and service offerings of our bespoke data management portal – **VP-C Online** that enables secure 24/7/365 access to the aircraft registry services. This feature is noted as one of the main differentiating and unique offerings of the CAACI which efficiently and effectively automates our registration processes.

Following the ground-breaking for the construction of the CAACI corporate office building in May 2018, plans are in place for the commencement of the construction phase by the end of the first quarter 2019. The CAACI eagerly awaits these new accommodations which will be integral to the sustainability of required staffing levels and future growth.

The management and staff of the Authority enjoy strong support from the CAACI Board of Directors in our commitment to achieving our regulatory oversight obligations and the objectives of our strategic plan – One Team-One Mission-One Vision.

A handwritten signature in black ink, appearing to read "P.H. Smith". The signature is fluid and cursive, written in a professional style.

**P.H. Richard Smith, MBE FRAeS Director-General
of Civil Aviation, 9 February 2018**

FOREWORD BY THE BOARD OF DIRECTORS

The CAACI board of directors are pleased with the performance of the CAACI over the past 12 months. The prudent oversight activities of the highly qualified and technically capable management and staff ensure the local aviation sector is compliant with international safety standards. The Authority also continues to realise benefits with cost savings while still managing to explore diversification of markets and motivating staff to perform to their best potential.

We are also very pleased to report that following another assessment of the CAACI, in November 2018, by the Air Safety Support International (ASSI) – the subsidiary of the UKCAA with oversight responsibility for UK Overseas Territories Aviation Authorities, the CAACI retained its delegation of Authority by the Governor, illustrating that the CAACI meets the internationally mandated criteria to provide full oversight of the Cayman Islands aviation industry, locally and globally. As one of only two UK Overseas Territories to enjoy such privilege, we commend the Director-General and CAACI management for maintaining the required high calibre, technically qualified personnel and ensuring that the CAACI provides optimal safety and economic oversight for this industry that forms the cornerstone of the Cayman economy and supports all other main industries such as finance and tourism.

During the period, The CAACI senior management took a strategic approach to diversify the subscription base for the Cayman Islands Aircraft Registry (CIAR). This approach was deemed necessary to counter aggressive competition in the global marketplace by other jurisdictions for the registration of aircraft and includes exploration of alternative target markets to enhance the Authority's revenue base, which allows the CAACI to remain financially self-sustainable. This forward-thinking initiative involves increased liaison with the global multi-billion dollar aircraft leasing sector with the majority of lessors being based in Dublin, Ireland.

The CAACI has maintained conservative growth year-over-year from the market for business and corporate aircraft registration despite the assertive competition from other jurisdictions which are highly financed and subsidized to promote their offshore registries. With aircraft registered in Cayman domiciled or operating in regions and countries around the world (North America, South America, China, Middle East, Europe) supported by critical safety oversight management for airworthiness and flight operations, the CIAR is highly recognised as an credible asset management option known to maintain or improve aircraft values with excellent client service rendered by the CAACI team. The CAACI management is optimistic that the growth trends will continue with new revenue streams being developed and the profile of the CIAR being raised by new business development initiatives to compete with the growing number of options for registration of an aircraft.

Finally we are very excited that for the 2018 the CAACI has been able to again contribute dividends to the Cayman Islands Government (with no financial injection of capital ever received from CIG), of approximately CI\$3.13M.

The board would like to thank the management and staff and challenge all to continue their dedicated and committed work for this Authority.

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 safety and economic regulation of the CI aviation industry in accordance with the Overseas Territories Aviation Requirements (OTAR). Developed in conjunction with the UK territories, ASSI has published the OTARs as the means of compliance with 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 (2015 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 to 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 registration applicants;
- Conduct due diligence on aircraft owners and registrants;
- Registration of aircraft;
- Maintain the aircraft register;
- 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 2018 were:

NAME	ROLE
Mr. Ian Pairaudeau	Chairman
Mr. Randy Merren	Deputy Chairman
Ms. Shamar Ennis	Member
Mr. William McTaggart	Member
Ms. Gina Berry	Member
Ms. Sherice Arman	Member
Ms. Deloris Gordon	Public Service Representative
Mr. Joel Burke	Public Service Representative



Ground-breaking for the new CAACI Corporate Office.

1.3 DELIVERY MODEL

The “delivery model” presented in this section of the strategic plan represents the activities and outputs that we deliver to fulfil 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.

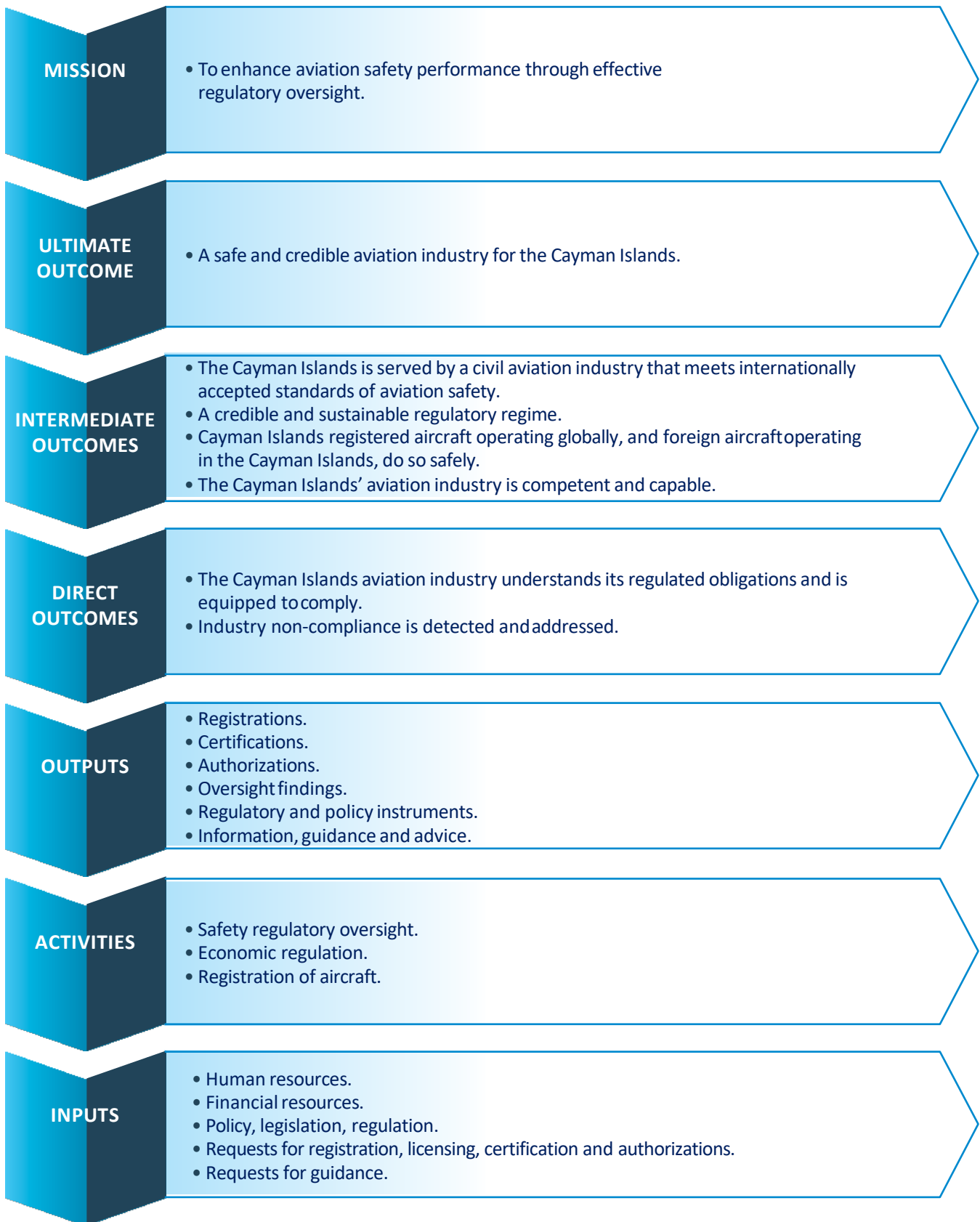
Managing our program based on these underlying principles, we contribute to the following goals:

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.



**Overseas Territories
Safety Performance
Council meeting
ASSI & UK OT’s
September 2018**

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”

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

1.5 STRATEGIC OBJECTIVES

The Vision 2020 (2016-2020) change agenda that we are presenting through this plan has three broad strategic objectives:

- 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.**



ABACE Shanghai, China April 17 – 19, 2018

Ongoing review, updates and improvements

During the period the senior management team participated in a strategic retreat on 15 September 2017 to review the 2020 Strategic Plan (SP), offer any amendments after one year of working with the new SP and to develop the associated Divisional Operational Plans which details the daily operational activities for staff in each division that will guide their day-to-day tasks.

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

During the period 1 January - 31 December 2018 the ANSR division maintained its oversight of the Cayman Islands Airports Authority (CIAA) by regular assessment of the progress being made in addressing the corrective actions arising from the 2017 audit of the two airports, Owen Roberts International Airport on Grand Cayman and Charles Kirkconnell International Airport on Cayman Brac. The oversight process included assessing the CIAA's compliance with international requirements in the following areas:

- Aerodrome physical characteristics;
- Airport operations;
- Air Traffic Control;
- Aeronautical Information Services;
- Aeronautical Telecommunications Services;
- Facilities and Aerodrome Maintenance;
- Safety Management Systems;
- Meteorological Services to Aviation (provided by Cayman Islands National Weather Service);
- Rescue & Fire Fighting Services (provided by Cayman Islands Fire Service).

This process necessitated reviewing and commenting on over 100 corrective action plans and resulted in the closure of 12 Findings and 8 Observations during the course of the year.

In addition, the CAACI maintained its oversight of Edward Bodden Airfield on Little Cayman to enable commercial operations into an uncertified airport to continue under an ongoing Exemption. Activities included:

- Assessment of a multi-agency table-top exercise held in April 2018;
- A further review of the Cayman Airways Express (CAE) manual;
- A further review of CAE personnel (at Edward Bodden Aerodrome) against the manual;

- Assessment of Rescue and Fire Fighting Services against the manual;
- An assessment of the obstacle environment surrounding the Aerodrome;
- Recommendation to the ASR division to support the reissue of the Exemption permitting CAE to operate into an uncertified aerodrome;
- Advice on the remarking of the runway /taxiway markings

Other activities carried out by ANSR personnel during 2018 included:

- Organised, with the support of ER&A, on-Island Human Factors training attended by over 50 members of the Cayman Islands aviation community;
- Review, and approval of CAACI documentation;
- Assessment of investigation reports produced by CIAA;
- Routine Inspections of Owen Roberts International Airport;
- Routine Inspections of Charles Kirkconnell International Airport;
- Issuance of 30 fireworks display approvals in conjunction with CIAA ATC and AIS;
- Logging and distribution of over 120 Mandatory Occurrence Reports (MORs);
- Updating the Bird Strike data base, logging over 80 strikes on Cayman registered aircraft during 2018;
- Annual competency assessment of CIAA Air Traffic Control Officers and the subsequent production and issuance of their certificates of competence;
- Conducting ATC license validation boards as required by the CIAA training programme;

- Co-operating with ASR in the regulation of Small Unmanned Aircraft (SUA)/drone operations;
- On-going development of the CAACI Quality Management Systems (QMS);
- On-going development of the Cayman Islands State Safety Programme (SSP);
- Major participation in the biennial Air Safety Support International (ASSI) assessment of the CAACI;

During the period of this report the following staff development activities took place:

- ANSR personnel attended the following training course /seminars;
 - i) Assessment of the Runway Obstacle Environment;
 - ii) ASSI Annual Aerodrome Seminar;
 - iii) Search and Rescue Organisation (Parts 1 & 2).
- In addition, the Aviation safety Officer (ASO) successfully undertook the following training:
 - i) International Air Law Course;
 - ii) Recurrent flight training (Complex aircraft rating and Instrument proficiency).
- Based on performance, The ASO was re-rolled as ANSR Inspector (grade II);
- Ongoing development of the ANSR Inspector as part of the CAACI succession planning process.

The following known activities are scheduled to be completed during the course of 2019/2020:

- Ongoing oversight of CIAAs Corrective Action Plan Programme resulting from previous audit findings;
- Continuing the training/mentoring of ANSR Inspector as part of the CAACI Succession Plan;
- Annual Inspection of George Town Heliport;
- Annual Inspection of Camana Bay Heliport;
- Annual inspection of Edward Bodden Aerodrome
- Biennial audit of the CIAA (April 2019).

- Annual competency assessment and emergency procedures training of the CIAA ATCOs;
- Review status of CIAA Aerodrome Certificates;
- ATC Licence validations for contract air traffic controllers being employed by CIAA;
- Recruitment of an Aviation Safety Officer as part of the CAACI Succession Plan;
- Continuing work on the development of Cayman Islands State Safety Programme (SSP);
- Continuing work on the development of CAACI Quality Management System (QMS);
- Attending SAR Organisation training (Parts 3 & 4).
- Attending 2019 ASSI Aerodrome Seminar.

Air Traffic Controller Simulator Training



The following projects are scheduled to be completed during the course of 2018/2019:

- i) Ongoing oversight of CIAAs Corrective Action Plan Programme resulting from previous audit findings;
- ii) Continuing the training/mentoring of Aviation Safety Officer as part of the Succession Plan;
- iii) Review the structure of ANSR to meet current workload requirements;
- iv) Annual competency assessment and emergency procedures training of the CIAA ATCOs;
- v) Annual Inspection of George Town Heliport;
- vi) Annual Inspection of Camana Bay Heliport;
- vii) Review status of CIAA Aerodrome Certificates;
- viii) Recruit another Aviation Safety Officer as part of the Succession Plan;
- ix) Oversight of the CIAA's Aerodrome Emergency Exercises;
- x) Continue the work on the development of State Safety Programme (SSP);
- xi) Continue the work on the development of CAACI Quality Management System (QMS);
- xii) Review of AN(OT)O 2013 to suggest amendments to Small Unmanned Aircraft operating criteria;
- xiii) Biennial audit of the CIAA (April 2019).

NBAA 2018 Orlando, Florida



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

Led by the ASR team at the head office in Grand Cayman, the Division consists of the Director ASR, a Manager of Technical Programs & Regulatory Initiatives, two Airworthiness Surveyors and two fixed wing Flight Operations Inspectors. Oversight of Helicopter operations based locally and offshore is provided by contract Rotary Wing Inspectors on an as required basis. The ASR team also includes a Technical Data Coordinator & Dangerous Goods Inspector, a Technical Officer for Oversight Planning and two Technical Officers to support regulatory certification.

Airworthiness oversight and certification activities for our offshore clients are supported by seven (7) contracted airworthiness surveyors based in the United Kingdom, Germany and Switzerland. These individuals carry out the required regulatory functions in support of annual aircraft surveys and maintenance facility inspections around the globe.

Flight Operations oversight and certification activities are performed by two (2) fixed wing Flight Operations Inspectors based in Grand Cayman and supplemented by the DASR and contracted Rotary Wing Inspectors on an as required basis. They carry out operational safety audits of Commercial and Private Air Operators, flight crew proficiency checks of local AOC holders and the issuing of numerous regulatory approvals required for aircraft operations internationally. The DG Inspector carries out periodic inspections of local organisations importing dangerous goods to the Cayman Islands to confirm compliance with local regulations and international air cargo shipping legislation.



07th November 2018 Annual Safety Seminar – Grand Cayman

ASR Technical Officers manage the daily submission of a variety of regulatory applications through VP-C Online system and email to the CAACI. On behalf of approximately 60 air operators these staff carries out the following functions:

- Daily telephone and email responses to external client inquiries;
- Initial technical review of incoming applications through VP-C Online;
- Assignment of the applications to the appropriate area of responsibility for assessment; and
- Once approved for issue, conduct a final quality assurance function for certificate accuracy and appropriate billing before issuing the final approval document.

The first quarter of 2018 saw the Air Safety Regulation Division achieve its full complement of staff with the hiring of two Technical Officers. One to support regulatory certification and the second focused on Oversight Planning. The training of these individuals has been very successful, and the levels of service and oversight associated with both Private and Commercial air operations have been maintained in accordance with the organization's Strategic Objectives.

- Flight Crew License issuance and Flight Crew/Maintenance Licence Validations;
- Initial and Renewal Aircraft Surveys;
- Major and Minor Aircraft Design Approvals;
- Certification and oversight of Continuing Airworthiness Management and Airworthiness Maintenance Organizations;
- Commercial Air Operator Approvals for fixed and rotary wing operations;
- Private Aircraft Operator Approvals;
- Aerial Work Permissions for Aerial Spraying and Small Unmanned Aircraft; and
- Supporting aircraft documentation issuance

or the above (i.e. Noise certificates, Minimum Equipment List approvals, etc.)

In early 2018, the CAACI embarked on the revision of VP-C Online with the keys objectives of integrating the Master Aircraft Register and improving the system based on internal needs and client feedback. Further, a web based oversight management system is being developed as well. These efforts will continue with initial deployment planned for the first quarter of 2019.

The addition of aviation to the Cayman Special Economic Zone has generated interest with some clients to consider an application for an offshore Air Operator Certificate. CHC Global Operations SEZC Ltd. was the first AOC entrant into the economic zone in April 2018. Since then, there have been several serious inquiries and one formal application made in December 2018. ASR is closely monitoring the level of interest in this area due the potential resource demands associated with the certification and oversight of an offshore AOC.

In response to market trends and opportunities, and in line with our strategic goals, the ASR team committed to investigate opportunities in the aircraft lessor market. This initiative specifically relates to aircraft transition and storage at the end of a lease term. Following discussions with a high profile lessor based in Ireland, a CAACI Team lead by the Director-General travelled to Dublin in September 2018 and met with over fifteen Lessors and CAMOS through a series of formal meetings and hosted a dedicated networking session. The purpose of the trip was to create an awareness of the CAACI within the Lessor and CAMO community, and to promote the expertise and capabilities of the Register that are uniquely aligned to support the needs of aircraft Lessors. Follow up meetings are planned for early 2019.

In late 2018, Cayman Airways Limited added a Boeing 737-8MAX aircraft to their fleet. This is the first of its type in the Caribbean Region. Even though CAL is currently operating Boeing 737-300 aircraft, the new technology introduced by this model of aircraft required a significant amount of certification effort by the Air Safety Division leading up to the day of delivery. The aircraft conducted its first in service flight to Miami, less than one (1) week after landing in Grand Cayman. This can be directly attributed to the significant efforts of the ASR Technical Team in the months leading up to the aircraft delivery. The ASR staff continues to support the airline as two more new aircraft are scheduled to arrive in 2019.

With respect to regulatory oversight, the following activities were carried out by AS Staff:

- Surveys for Initial, Renewal and Export C of As- 238 Inspections
- Airworthiness Organisation Oversight -101 Assessments
- ASR Staff conducted five (5) Private Air Operator Audits to support the renewal of their Private Air Operator Certificate. The remaining 2018 renewals were based on submission of a completed IS-BAO Assessment;
- Annual Designated Flight Examiner monitoring of individuals delegated flight

ASR Staff participated in the following activities in support of the CAACI Regulatory Program:

- Annual Liaison visit with the Saudi Arabian GACA in support of the current 83bis Agreement and Air Operators in the Kingdom currently operating under the agreement;
- Participated in ABACE in Shanghai, EBACE in Geneva and NBAA in Orlando

In 2019 ASR will be focused on the following:

- Deployment of an improved version of VP-C Online along with an integrated web based oversight program;
- Working with RCIPs on the addition of a new Airbus EC145 Helicopter;
- Working with Cayman Airways on the addition of two (2) more Boeing 737-8MAX aircraft; and
- Working with Aircraft Lessors and qualified CAMOs to deliver customised regulatory support to manage leased aircraft that are in transition or in need well managed storage solutions.



STATISTICS FOR THE CI AIRCRAFT REGISTRY FOR THE PERIOD 1 JANUARY – 31 DECEMBER 2018

- Total aircraft entered on the register as at 31 December 2018= 246
- New aircraft registrations during the period = 35
- De-registrations during the period = 18
- Net growth of aircraft since 31 December 2017 = 17
- Total approved Maintenance organizations = 208
- Total Continued Airworthiness Management Organizations= 70
- Total Pilot Licence Validation Certificates issued (initial and renewals) for the period = 856
- Total Pilot Licenses issued = 8
- Total Maintenance Licence Validation Certificates issued (initial and renewal) = 203
- Major/Minor Aircraft Modification Design Approvals = 123
- Total Number of Approved Certificates issued by ASR in 2018 = 3130

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/DRONE AERIAL WORK PERMISSION HOLDERS:

- Dart Real Estate
- Caribbean Life & Travel
- Wright Holdings
- Deep Blue Images
- Nyss One Productions
- SkyHigh Limited
- Dept. of Environment (research purposes only)

Note: permission includes ability to undertake photography/videography and or data.



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 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 (Classics, NG's and MAX's), B727, B787 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



STRATEGIC OBJECTIVE 2: CONTINUOUS IMPROVEMENT OF SERVICE DELIVERY

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

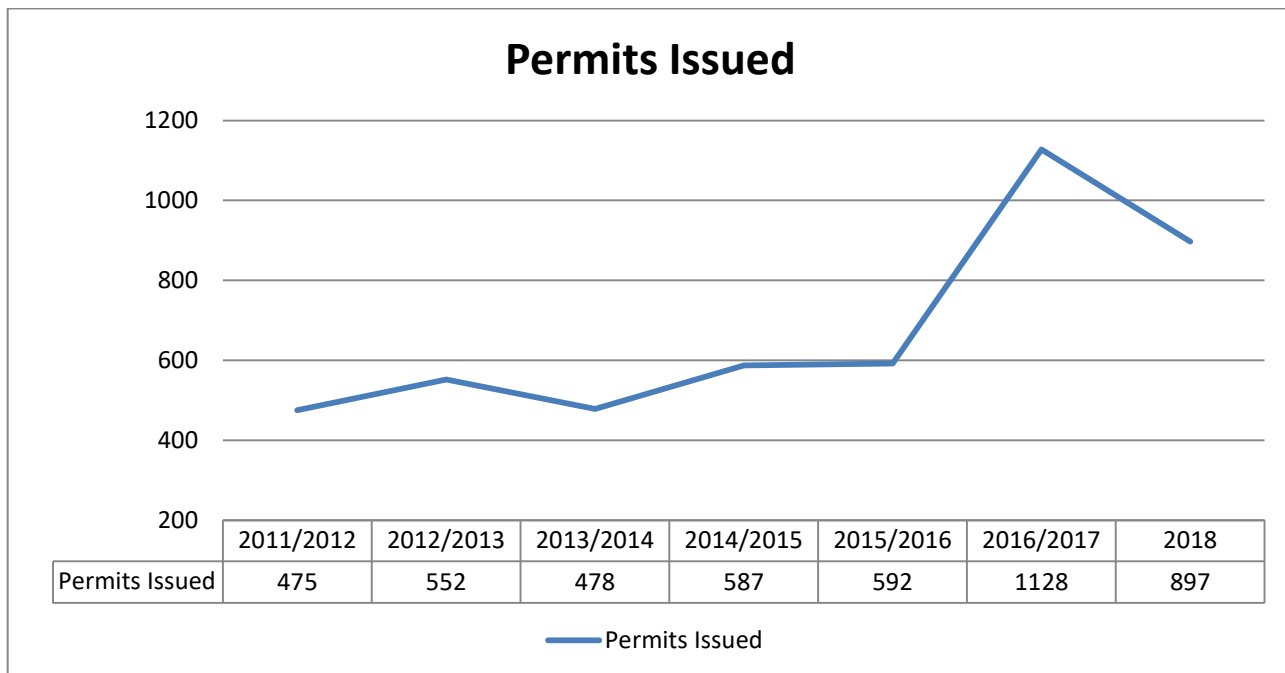
PERFORMANCE ANALYSIS AND LESSONS LEARNED

Continuous improvement of our processes and tools to enhance the service experience of our clients is an overarching objective for the CAACI.

The Authority, through its Economic Regulation Division, is responsible for the oversight and issuance of required permits for all foreign registered aircraft that operate to/from the islands for commercial purposes, including scheduled and non-scheduled operations (including air ambulances, these

applications are fielded and reviewed, with CAACI personnel available to process, 365 days per year). Seasonal operating permits are issued to the scheduled airlines and some air ambulance operators, whereas on demand permits are issued for ad-hoc charter operations and other non-scheduled operations. Much of this activity is closely tied to the Cayman tourism industry and is influenced by the global economic condition, as many of these operations are provided for high net worth business and leisure travellers.

Demand and availability of charter/non-scheduled operations is on the rise.



- Due to a change in reporting period for the fiscal year for 2016/2017 had 18 months rather than the normal 12.

The movement in activity of non-scheduled/charter arrivals is closely tied to the recovering tourism and stay-over sector of the tourism market. The CAACI's Economic Regulatory staff also proactively embarks on an annual drive to inform all related parties of the requirements and of any changes in requirements or filing processes.

There were no additions to the usual scheduled permits for this period and permits were issued to Air Canada, American Airlines/US Airways (merging), IBC Cargo, Delta Airlines, Jet Blue, Southwest, United Airlines and West Jet. However, Express Jet, who operated out of Atlanta, Georgia on behalf of Delta Airlines did not renew their permit.

The Economic Regulatory staff continue in their liaison role between local AOC holders and the ICAO to collect and submit required air transport statistics.

The Deputy Director-General and Air Carrier Licensing Officer provided administrative support to the Air Transport Licensing Authority (ATLA) – the independent Board, appointed to process applications for economic licenses of local commercial air transport operators. The Deputy Director-General continues to serve as the Secretary to the ATLA. During the period between January – December 2018, the number of non-scheduled permits issued by the DGCA (delegated authority by the ATLA) on behalf of the ATLA, to other UK Overseas Territories' airlines/operators, declined from 7 during the same period in 2017 to 1 issued in January 2018 to InterCaribbean Airlines. The reason for this difference was due to the number of hurricane relief flights relating to Hurricane Irma operated in 2017. Support was also given to the ATLA board this year to assist with the renewal of ATLA licenses for Cayman Airways Express and Cayman Airways Ltd. As well as the addition of the new Boeing Max to the Cayman Airways ATLA license.

The Deputy Director-General also continues as the appointed Secretary to the Board of Directors of the CAACI.

Work is ongoing with the Brac Informatics Centre (BIC) team to refine the VP-C Online electronic data management portal and plan for development of further phases, which will enhance efficiencies in managing the aircraft registry process. This initiative is also in keeping with the Cayman Islands Government's creation of the E-Government Unit and Broad Outcome 8 "Stable, effective and Accountable Government" focusing on continuous improvement of the CAACI's electronic data management platforms thereby improving customer service and increasing efficiencies.

During this year the Deputy-Director General, Economic Regulation & Administration and the Air Carrier Licensing Officer meet with UKDfT and other OT CAA's in Miami, Florida to discuss how BREXIT will affect air services and open skies.

An ongoing strategic priority is to promote development of a certifiable airport in Little Cayman to enhance safety of air transport operations into that island.

Discussions have been on-going with the Ministry responsible for air transport.



Air Services Agreements meeting with UK Dept. for Transport (UK DfT) & the UK Overseas Territories aviation authorities.

We will continue our journey to become an adaptable, capable, high performing organization.

PERFORMANCE ANALYSIS AND LESSONS LEARNED

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 and is continuing to do so.

FINANCIAL SUSTAINABILITY

The Authority implements an annual integrated communications programme as a component of its Business Development activities, aimed at creating greater awareness of the Cayman Islands Aircraft Registry globally and a greater awareness of CAACI's credible regulatory regime with the ultimate goal of increasing the subscribers to the aircraft registry and creating sustainable financial streams for the Authority. Three signature aviation tradeshow feature on the CAACI annual promotional calendar: the National Business Aviation Association (NBAA) Business Aviation Conference and Exhibition (BACE) held annually in the USA; the European Business Aviation Association Conference & Exhibition (EBACE) held in Geneva, Switzerland and the Asian Business Aviation Association Conference & Exhibition (ABACE) held annually in Shanghai, China. An overview of all initiatives and opportunities for the 2016- 2017 period included the following:

NBAA 2018 –The CAACI exhibited at the 71st annual National Business Aviation Association (NBAA) tradeshow, held at the Orange County Convention Centre and the Atlantic Aviation at Orlando Executive Airport , 16-18 October. Attendance was over 30,000 business aviation professionals from almost 100 different countries every year. The sold-out static display of aircraft featured 114 aircraft at Orlando Executive Airport (ORL) and the largest-ever indoor static display at the convention centre, showcasing fixed-wing airplanes and six helicopters. The CAACI delegation comprised of the Director-General Richard Smith, Deputy DGCA Nicoela McCoy, and CAACI staff Elaine Whorms, Bethany Walton, Juliet Rankine and Cydric Desbarida.

Business Aviation Magazine – Spring 2018 Edition, half page generic registry ad. 5,000 copies are available at all Trade shows, 800 copies are sent to International FBO's, 100 copies are placed, In all Goldtree VIP Executive vehicles, 30,000 complimentary copies are sent to HNWI.

ABACE 2018 – The 2018 Asian Business Aviation Convention & Exhibition (ABACE 2018) was held at the Hawker Pacific Business Aviation Service Centre Shanghai Hongqiao International Airport in Shanghai, China in April. ABACE serves not just as the region's premiere marketplace for connecting buyers and sellers, but as an important catalyst for further developing the industry throughout Asia. By any measure, the show was deemed the best one yet, featuring 170 exhibitors, 30 aircraft on static display and over 8,500 attendees from more than 40 countries across Asia and beyond. Strong noted that at ABACE2017, 44 percent of attendees held executive management roles at their companies. Other attendees in the financial sector, sales and marketing, or flight department personnel came from 51 countries, with 75 percent from China. The CAACI team included the DGCA, Richard Smith, the DASR, Lindsay Cadenhead and Manager Technical Programmes Guy Healey.

Business View Caribbean magazine – Spring 2018 Edition. Interview with the Director-General and ½ page ad. BVC business to business publication that goes out electronically to the largest subscriber base of over 40,000 executive readers throughout the Caribbean, and over 420,000 throughout North America.

EBACE 2018 - CAACI recently exhibited at the 18th annual European Business Aviation Convention & Exhibition (EBACE) tradeshow, which is held annually at the Palexpo Centre in Geneva, Switzerland. As EBACE concluded on 31st May, show organizers reported that there were 418 exhibitors representing nearly 100 different countries, on the show floor. Many of the exhibitors unveiled new products and services, and more than 450 journalists from Europe and around the world covered the event. At EBACE2018, 54 aircraft were on display at Geneva International Airport, and three more aircraft were displayed inside the Palexpo exhibit hall. CAACI representatives included the Director-General Richard Smith, Jane Panton, Melanie Hulse, Lindsay Cadenhead and Charles Mike Wilcox.

Cayman Airways Skies magazine – July/August edition.
Half page ad in CAL 50th Anniversary edition.

Corporate Jet Investor (CJI)

- **CJI London** – January 29th and 30th, the Director-General and the Director of Finance and Compliance attended on behalf of the Authority. The CAACI was a sponsor of the event which included the Director-General participating in a panel discussion.
- **CJI Asia (Singapore)** – June 13th and 14th, the Director-General attended on behalf of the CAACI and participated in a panel discussion on the registration of aircraft. In addition the CAACI was a major sponsor of the event.
- **CJI Miami** – 13th -14th November, the Director-General attended the CJI Miami Conference.
- **CJI - Official Guide to Aircraft Registration and Tax 2018**. Branded as co-publisher of magazine with 2 page article and listing in the September 2018 edition of the guide.
- **Inside Industry magazine** - Winter 2019 Edition. Interview with the Director-General. The magazine has a readership of over 126,000 (combined digital and hard copy) consists of CEOs, directors, owners, purchasers and buyers associated with manufacturing and general aviation industry activities.



Local aircraft registry training 2018



Corporate Jet Investor London January 2018

MANAGING FOR RESULTS

Human resource management is a key enabler of a high performing organization.

The CAACI staff complement at 31 December 2018 was 22. During the period of this past fiscal year, the following staff changes occurred:

- The Technical Officer post was filled on 19 February 2018.
- The Technical Officer – Oversight Planning post was filled in August 2018.
- In addition the following contract renewals occurred:
 - Airworthiness Surveyor’s contract was renewed for an additional 24 months.

In order to support efficient and effective regulatory oversight of aircraft on the CI Aircraft Registry the CAACI utilizes independent contractors in various marketplaces globally who are dispatched to survey aircraft and maintenance organisations to support the aircraft registry. At 31 December 2018 the CAACI contracted four contractors in the UK, which were broken down as follows: three contracts were renewed during 2018, one contract was not renewed and one new contract was offered in July 2018 to a UK based contractor for 24 months, the one in Switzerland, one in Germany and two in the North American marketplace (includes Canada), remained.

A Key Priority is managed growth to the Cayman Islands Aircraft register which provides over 80% of the revenue which sustains the Authority and provides significant annual dividends to the Cayman Islands Government. In 2018, the Register grew by 17 aircraft (7.5%). The net income achieved this period has contributed \$3,132,832 to the CIG.

Other significant developments include a restructuring of the ANSR division in February 2018 creating the posts of Air Navigation Services Regulator Inspector to accommodate upward movement for the succession planning of the Aviation Safety Officer. After successfully completing various training the present Aviation Safety Officer was appointed to the post of Air Navigation Services Regulator Inspector II effective 02 May 2018.

AN ENABLING WORK ENVIRONMENT

CAACI is committed to building an enabling work environment that equips our team with the knowledge, tools and leadership necessary to successfully perform their duties.

During the period, staff from all divisions completed necessary training as per defined training plans. Technical staff participated in various group training initiatives staged by ASSI or other recognized technical training institutions as required to maintain their technical competencies.



May 2018 EBACE, Geneva Switzerland

These included:

- Aerodrome Safeguarding workshop, Measuring Safety Culture, Human Factors training, Flight Operations seminar, International Air Law course, Fundamentals of Air Transport System, C550 Ground Servicing Survival Concepts Emergency Procedures, renewal of Commercial Air Transport License, Introductory QMS training sessions, Introduction to Aviation Law, Dangerous Goods refresher training, Risk Based Oversight & Surveillance course, Aerodrome Seminar, and Workshop on the Basic Search and Rescue System Administration and Management and Project Management courses.
- The Economic Regulatory staff attended applicable training such as GRFM050-Getting Ready for Fare Manager, WebEoc training, and attendance at the OTSPEC meeting with the DG and ASSI and other UK OTs,
- The Administrative and Finance staff also attended applicable training such as NBAA Business Finance, Registration & Legal Conference, CFO Conference 2018, Management Skills, Challenging Conversations, IFRS Basics with US GAAP Comparison and Cybersecurity & IT
- Significant investment in training continues for the Aviation Safety Officer in order to meet the goals and objectives of this succession post and his progression in the ANSR division.

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 Deputy-Director Economic Regulation & Administration and the Human Resources/Office Administrator attending the annual SHRM HR conference in Chicago, Illinois.

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, IT fraud, and impersonation etc. Emphasis has been placed in 2018 on improvement to IT controls and security issues including implementation of Next-Gen Firewall (Palo Alto), Next-Gen Anti-malware endpoint solution, regularly audited access control, managed remote access by secure VPN, and regular back-up and DR testing with BIC partner. These and other initiatives are aligned with efforts towards a robust NIST Cybersecurity Framework and the five categories of Identify, Protect, Detect, Respond, and Recover. This again aligns with CIG's Broad Outcome #8.

A strategic priority has been the development of permanent office accommodations for the Authority. Following the acquisition of the former Cayman Airways headquarters under a 99-year lease agreement with the CIAA. The old CAL building was demolished in May 2018 starting with the official ground-breaking ceremony on 07th May.



One of three **Human Factors** Training courses held in May 2018

2.2 FINANCIAL PERFORMANCE AND ANALYSIS

SUMMARY INCOME STATEMENT: Actual vs Budget for the year ending 31 December 2018 in CI\$ (000's)

	Dec-18 Actual (audited)	Dec-18 Budget/OA	Over/(Under) Budget	% Variance
REVENUE				
Aircraft Registry (revenue from others)	5,943	6,128	(185)	-3%
Aircraft Registry (revenue from CIG entities)	356	350	6	2%
Aircraft registry forecasting error on Ownership Agreement (OA) with CIG		320	(320)	-100%
Aerodrome Certification Fee	1,000	1,000	0	0%
Operating permits	366	327	39	12%
Deposit interest	108	52	56	108%
Total Revenue from operations	7,773	8,177	(404)	-5%
Total expenses from operations	4,463	4801	(338)	-7%
Net Income from operations vs OA	3,310	3,376	(66)	-2%
Net Income from operations vs corrected forecast	3,310	3,056	254	8%
Income and expense due to actuarial valuation of DB retirement plans:				
Expense included in actual personnel costs:				
Defined Benefit retirement plans service cost	(278)	0	(278)	
Other comprehensive gains:				
Remeasurement of defined benefit pension obligation	382	0	382	
Remeasurement of post-retirement healthcare obligation	331	0	331	
Total Net Income	3,745	3,056	689	23%

REVENUE

Overall revenue increased over prior year but amount achieved was slightly below target.

Aircraft Registry revenue grew by 2.3% over the same 12 months in 2017 but did not make the target of 4%. Various factors influencing the Registry revenues include:

- Increasing competition from other offshore aircraft registries established over the past eight years;
- Increased European regulations restricting foreign registered aircraft domiciled in EU States;
- Continued slump in the offshore oil and gas industry affecting the need for helicopter operations;
- Anticipated increased AOC issuance not yet materialised.

OTHER REVENUE

- The growth in revenue from **Operating permits** issued to scheduled and non-scheduled carriers coming into the Cayman Islands aligns with the steady growth in stay over tourism for leisure and business travellers coming to the jurisdiction. A 12% increase over the forecasted amount was achieved for this revenue stream.
- **Fixed Deposit interest** was significantly over the targeted amount due to increasing interest rates and increased cash reserves over the past 2 years. Cabinet approved for the CAACI to retain 4.5 million for the development of its new offices on Airport Road which has only had the design and architectural fees and site preparation costs incurred so far. As of report writing date, a contract has not yet been awarded for the construction of the building due to delays in the procurement process caused by delays in the implementation of the new Procurement Law which was passed in May 2018.

SAVINGS IN EXPENSES FROM OPERATIONS

The savings in expenses (**\$338k**) relative to the budgeted amount are largely due to, (savings in thousands are shown next to the line item):

- **Personnel costs (\$115k)** – This savings represents 34% of the total savings. The largest portion (\$102k) is due to vacant positions budgeted but not filled during the 12 month period and the other portion (\$13k) is due to staff medical expense and insurance premium costs being less than expected.
- **Training expenses (\$104k)** are less than budgeted due to various factors such as the vacant positions not being filled and, training costs for some seminars being less than expected as well as some planned training was not undertaken. However, with a large part of the staff complement required to have a high level of technical expertise, training will continue to be budgeted at previous levels.
- **Overseas Contractors/Surveyors (\$52k)** – this savings is due to the part time surveyors not being utilized as much as the full time surveyors which also underpins further value for money initiatives. Part Time surveyors are only paid for time worked but full time surveyors are paid a standard monthly contract fee regardless of hours worked.
- **Travel & Subsistence (\$71k)** – Savings in all areas of travel were achieved during the year including administration and training. Business development travel makes up some of the savings here as some travel to aviation industry shows were combined with cost recoverable travel to inspect aircraft and aircraft maintenance organisations.
- The **business development** budget for promotion of the Aircraft Register was underutilised by \$30k due in part to lower costs being obtained for exhibition booths.
- **Insurance premiums (\$12k)** - lower premiums were negotiated for Accident Investigation Insurance and Indemnity Insurance.
- **Other expenses (\$45k)** – this represents savings in various small line item expenses.

OVERAGES IN EXPENSES

There were some unplanned expenses during the year that absorbed some of the savings stated above:

Contract fees were \$79k more than budgeted due to the following necessary expenses incurred during the year and approved by the DGCA. The overages of each item are shown in parentheses:

- Total AOC/Centrik (\$30k)- technical data management tool to support the existing VP-C Online Aircraft Registry Data Management program.
- EasiBuy LLC (30k)– procurement services – to support the new building development project
- Monthly IT support (\$12k) – additional services needed for transitioning to new servers and installing firewalls.
- Aerodrome inspection services (\$5k) – this contract is performed every 2 years and the budget was based on costs incurred in 2015.

NET INCOME

The net income from operations of \$3,311 surpasses the targeted net income of \$3,056 by \$254k or 8%.

The following table shows the net income from operations of the Authority from July 1 2013 through December 31, 2018 as well as the annual dividend payments to the Cayman Islands Government which is based on 75% of the net comprehensive income. Net comprehensive income includes re-measurement gains and losses from annual actuarial valuations of the Post-Retirement defined Benefit Pension and Healthcare. The below table summarises net income from operations only. Full audited financial statements can be reviewed in the Supplementary documents in this Report.

Summary of Financial Performance July 1, 2013 through December 2018:

					18 months ended Dec 31, 2017 (audited) in CI\$ ('000's) ANNUALISED OVER 12 MONTHS	18 months ended Dec 31, 2017 (audited) in CI\$ ('000's)						
	PY growth %	12 months ended Dec 31, 2018 (Audited) in CI\$ ('000's)	PY growth %	12 months ended Dec 31, 2017 (audited) in CI\$ ('000's)			PY growth %	12 months ended June 30, 2016 (audited) in CI\$ ('000's)	PY growth %	12 months ended June 30, 2015 (audited) in CI\$ ('000's)	12 months ended June 30, 2014 (audited) in CI\$ ('000's)	
Revenue												
Aircraft Registry (foreign and local)	2.32%	6,299	0%	6,156	6,324	9,486	2%	6,145	7%	6,039	5,623	
Aerodrome Certification Fees (CIAA)	0%	1,000	0%	1,000	1,000	1,500	0%	1,000	0%	1,000	1,000	
Operating Permits - foreign entities	2%	366	28%	359	329	493	2%	280	14%	274	241	
Deposit Interest	31%	108	185%	77	66	99	0%	27	-55%	27	60	
Total Revenue		7,773		7,592	7,719	11,578		7,452		7,340	6,924	
Total Expenses from Operations		4,462		4,360	4,257	6,385		4,240		4,110	3,890	
Net Income from Operations		3,311		3,232	3,462	5,193		3,212		3,230	3,034	
		Payable				Actual		Actual		Actual	Actual	
Dividend payments made to Gov't		3,133		2,738		3,468		2,031		2,169	2,544	

Key Performance Indicator Results and Analysis

Key Performance Indicators	Results for Reporting Period (against baseline)	Results of Analysis
Number of new clients to the CI Aircraft Registry/ new registration revenue	There was a net growth of 17 new aircraft to the Register – now 246 up from 229 in Dec 2017. This net growth reflects 35 new registrations and 18 deregistrations.	The increase in new aircraft to the register is largely due to <ul style="list-style-type: none"> • temporary registrations by leasing companies • increase in new private/corporate customers • increase in commercial aircraft under the 83 bis agreement with Saudi Arabia(new airline in 2016)
Percentage of audits with minimal deficiencies	The 2018 and 2016-17 financial statements were issued with an unqualified audit opinion with no deficiencies noted.	Financial Statements: Unqualified audit opinion;
Levels of industry self-sufficiency/ Annual Net Income	<p>Actual Net Income from operations (excluded post-retirement plan expenses or gains or losses) Dec 2018 \$3,310 Actual audited Net Income for 12 months ending Dec 2017 \$3,232</p> <p>Growth of \$78k over prior year</p> <p>Targeted annual net income in the 2018 Ownership Agreement \$3,376k.incorrectly reflected a 10% growth forecast. The corrected Net Income target with a 4% growth forecast was surpassed by 8%</p>	<p>The target net income for the year was based on an unaudited prior year amount at June 30 2017 which included revenues outside of the Jan to Dec period 2017 which the actuals at Dec 2018 would be compared against.</p> <p>The Aircraft Registry is continuing to grow despite fierce competition from other offshore aircraft registers. New revenue measures are being pursued to continue growth. The Registry continues to be a very viable source of CIG income.</p>
Expenses are being managed and not exceeding budget	<p>Total unaudited actual expenses for year ended Dec 31 2018 \$ 4,415k</p> <p>Total budgeted expenses per Ownership Agreement for 2018 \$4,801</p> <p>Indicating a savings of \$386k in total expenses compared with budget.</p>	The savings and overages in expenses were described above and indicate that expenses are being well managed by the Authority.

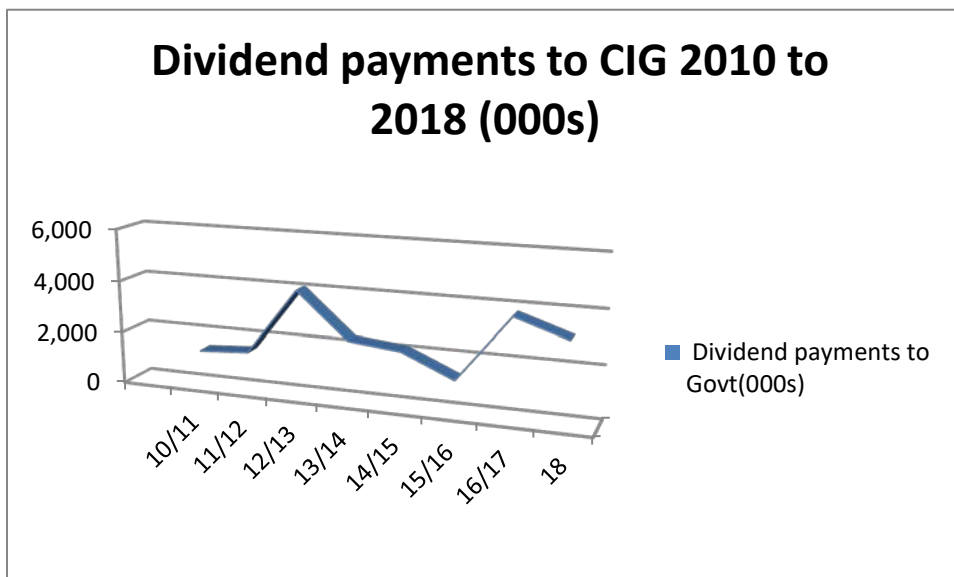
Results of financial position of the Authority at 31 December 2018 compared to the 2018 Ownership Agreement

The below table shows the analysis of the results in financial position compared with expected amounts on the 2018 Ownership Agreement

Results of Financial Position at December 2018 vs Ownership Agreement				
	Actual audited at 31 Dec 2018	Forecast per OA	Difference	Explanation for difference
Total Assets:				
Cash and short term deposits	12,463	8,757	3,706	CAACI office building was expected to be 75% completed by Dec 2018 when the 2019 budget was submitted. Contract for construction not awarded as yet due to delay in procurement process
Trade and other receivables	1,945	2,405	(460)	
Capital Assets	845	3,758	(2,913)	
	15,253	14,920	333	
Total Liabilities:				
Total current liabilities	3,953	3,602	351	Increase in Dividend Payable to CIG over forecasted amount
Total non-current liabilities (staff retirement obligations)	3,053	4,161	(1,108)	unsupported non-actuarial forecast
	7,006	7,763	(757)	
Net Worth	8,247	7,157	1,090	
Cash Flows from Operating activities	2,476	3,400	(924)	Revenue incorrectly forecasted by 320k, trade receivables did not increase to amount expected
Cash Flows from investing Activities	(450)	(3,100)	2,650	Only 450 was spent on Capital Expenditure when \$3,100k was expected to be spent on the CAA office building
Cash flows from Financing Activities	(3,468)	(3,484)	16	Dividend payment to CIG slightly more than forecasted
Return on Investment	24%	22%		
Total Net Income	3,745	3,345		
Total Assets	15,352	14,920		

Dividends paid to CIG

Dividends paid to Cayman Islands Government (CIG) are based on 75% of Comprehensive Net Income which includes adjustments for actuarial valuations. Although dividend payments have been increasing since the first payment in 2007, there was a fall-off in 2016 due to substantial adjustments for actuarial valuations on the defined benefit pension plan and post-retirement health care plan for a few long serving employees which are both funded from the reserves of the CAACI. It should also be noted that the payment for 2016/17 was for an 18 month period. The chart below shows the growth pattern of dividend payments to the CIG from 2010.



Summing up the finances of the CAACI

The CAACI's targeted Net Operating Income surpassed the targets set in the 2018 Ownership Agreement between the CAACI and the Cayman Islands Government. A key component of the Authority's financial performance is the continued robust activity of the Cayman Islands Aircraft Register that falls under the ambit of the CAACI, which allows the Authority to be financially independent and a significant contributor to the revenues of the CIG for the past 10 years. The past five years have seen increasing competition from other offshore aircraft registers and the management of the CAACI is continually strategizing to meet the demands of this increasing challenge. These financial results are achieved through a combination of several factors including prudent management of the CAACI and hardworking, qualified and dedicated staff. Careful management of budgeted expenses resulted in 7% savings under the forecast and is also a contributing factor to achieving the targeted Net Operating Income 8% over budget estimate. The CAACI will strive to continue achieving similar results in the coming years and be a positive contributor to the CIG and the Cayman Islands economy.

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.

Annual Meeting with the General Authority of Civil Aviation (GACA) in Saudi Arabia.



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.

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

The Standing Public Accounts Committee Award Ceremony - January 24th, 2018

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 compete 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
AOC	Air Operator Certificate
ASR	Air Safety Regulation (Division)
ASSI	Air Safety Support International
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



Financial Statements

December 31, 2018

**Civil Aviation Authority of the Cayman Islands
Financial Statements
For the year ended December 31, 2018
Stated in Cayman Islands Dollars**

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**Civil Aviation Authority of the Cayman Islands
Statement of Responsibilities
For the year ended December 31, 2018**

STATEMENT OF RESPONSIBILITIES

December 31, 2018

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 (2018 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 (2018 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 December 31, 2018 and its comprehensive income and cash flows of the Civil Aviation Authority of the Cayman Islands for the financial period ended December 31, 2018.

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 financial period ended December 31, 2018;
- b) Fairly reflect the financial position as at December 31, 2018 and its comprehensive income for the year ended December 31, 2018 and;
- c) Comply with International Financial Reporting Standards under the responsibility of the International Accounting Standards Board.

The Office of the Auditor General conducts an independent audit and expresses an opinion on the accompanying financial statements. The Office of the Auditor General and its agent has been provided access to all the information necessary to conduct an audit in accordance with International Standards of Auditing.



Richard Smith (Mr)

Director-General

Date: May 17, 2019



Jane Panton (Mrs)

Director of Finance and Compliance

Date: May 17, 2019

AUDITOR GENERAL'S REPORT

To the Board of Directors of the Civil Aviation Authority and the Members of the Legislative Assembly

Opinion

I have audited the financial statements of the Civil Aviation Authority of the Cayman Islands (the "Authority"), which comprise the statement of financial position as at December 31, 2018, the statements of comprehensive income, cash flows and changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 2018, and its financial performance, and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

I have conducted my audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Authority in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to my audit of the financial statements in the Cayman Islands and I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my 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.

Emphasis of Matter – Corresponding information

I draw attention to Note 16 to the financial statements which indicates that the corresponding information presented as at and for the 18 month period ended December 31, 2017 has been restated. My opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance 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.

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Authority's financial reporting process.

AUDITOR GENERAL'S REPORT (continued)

Auditors' Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Authority to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I have undertaken the audit in accordance with the provisions of section 60(1)(a) of the *Public Management and Finance Law (2018 Revision)*. I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.



Sue Winspear, CPFA
Auditor General

May 17, 2019
Cayman Islands

Civil Aviation Authority of the Cayman Islands
Statement of Financial Position
For the year ended December 31, 2018
Stated in Cayman Islands Dollars

		December 31,	December 31,
	Note	2018	2017
		<u>2018</u>	<u>(Restated- Note 16)</u>
Assets			
Current assets			
Cash and cash equivalents	4(a)	4,363,948	5,805,651
Short term deposits	4(b)	8,098,721	7,997,861
Trade and other receivables	5	<u>1,944,760</u>	<u>1,470,604</u>
Total current assets		<u>14,407,429</u>	<u>15,274,116</u>
Non-current assets			
Capital assets	6	<u>844,969</u>	<u>542,153</u>
Total non-current assets		<u>844,969</u>	<u>542,153</u>
Total Assets		<u>15,252,398</u>	<u>15,816,269</u>
Liabilities and Equity			
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	7	538,947	835,405
Contract liabilities		281,589	391,491
Dividend payable to Cayman Islands Government	8(a)	<u>3,132,832</u>	<u>3,791,870</u>
Total current liabilities		<u>3,953,368</u>	<u>5,018,766</u>
Non-current liabilities			
Defined benefit pension obligation	9(a)	1,099,000	1,405,750
Post-retirement healthcare obligation	9(b)	<u>1,954,000</u>	<u>2,082,000</u>
Total non-current liabilities		<u>3,053,000</u>	<u>3,487,750</u>
Total Liabilities		<u>7,006,368</u>	<u>8,506,516</u>
Equity		<u>8,246,030</u>	<u>7,309,753</u>
Total Liabilities and Equity		<u>15,252,398</u>	<u>15,816,269</u>

Approved for issuance on behalf of Civil Aviation Authority's management on May 17, 2019

RICHARD SMITH

(Director General)

JANE PANTON

(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
As at December 31, 2018
Stated in Cayman Islands Dollars

	Note	Year ended December 31, 2018	18 months ended December 31, 2017
Revenue			
Air safety regulation and certification fees	11 (a)	5,373,699	7,968,573
Surveyor fees and net reimbursable expenses	11 (c)	925,414	1,516,788
Total Aircraft Registry fees		6,299,113	9,485,361
Aerodrome oversight fees	11 (b)	1,000,000	1,500,000
Aircraft operating permits	11 (d)	365,525	493,470
Other income	11 (e)	108,223	99,381
Total revenue		7,772,861	11,578,212
 Operating expenses			
	8(b),		
Personnel costs	12 (a)	3,010,274	4,064,429
Office administration and business development	12 (b)	662,970	870,043
Professional and licensing fees	12 (c)	801,667	1,152,648
Travel – official, training and administrative	12 (d)	196,766	208,345
Total operating expenses		4,671,677	6,295,465
 Other expenses			
Depreciation expense	6	46,581	89,614
Bad debt expense	5	22,244	-
Total other expenses		68,825	89,614
Total expenses		4,740,502	6,385,079
Net income for the period		3,032,359	5,193,133
 Other comprehensive gains / (losses)			
Re-measurement of defined benefit pension obligation	9(a)	381,750	788,000
Re-measurement of post-retirement healthcare obligation	9(b)	331,000	(31,000)
		712,750	757,000
Total comprehensive income for the year / period		3,745,109	5,950,133

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 December 31, 2018
Stated in Cayman Islands Dollars

	Year ended December 31, 2018	18 month period ended December 31, 2017
	<u> </u>	<u> </u>
Cash flows from operating activities		
Net income for the year / period	3,032,359	5,193,133
Adjustments for:		
Depreciation expense	46,581	89,614
(Increase)/decrease in trade and other receivables	(474,156)	579,354
(Decrease)/increase in accounts payables and accrued liabilities	(296,458)	225,633
Decrease in contract liabilities	(109,902)	-
Net adjustment for defined benefit obligation and interest costs	278,000	325,000
Net cash from operating activities	<u>2,476,424</u>	<u>6,412,734</u>
Cash flows from investing activities		
Increase in short term deposits	(100,860)	(1,329,357)
Purchase of capital assets	(349,397)	(481,947)
Net cash used in by investing activities	<u>(450,257)</u>	<u>(1,811,304)</u>
Cash flows used in financing activities		
Dividends paid	(3,467,870)	(2,031,272)
Net cash used in financing activities	<u>(3,467,870)</u>	<u>(2,031,272)</u>
Net (decrease)/increase in cash and cash equivalents	(1,441,703)	2,570,158
Cash and cash equivalents at beginning of the year / period	<u>5,805,651</u>	<u>3,235,493</u>
Cash and cash equivalents at end of the year / period	<u><u>4,363,948</u></u>	<u><u>5,805,651</u></u>

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 December 31, 2018
Stated in Cayman Islands Dollars

	Note	<u>Year ended December 31, 2018</u>	<u>18 month period ended December 31, 2017 (Restated – Note 16)</u>
Balance at beginning of the period		7,309,753	5,822,219
Net income for the period		3,032,359	5,193,133
Other comprehensive gain	9	712,750	757,000
Dividends	8(a)	<u>(2,808,832)</u>	<u>(4,462,599)</u>
Balance at end of the year / period		<u>8,246,030</u>	<u>7,309,753</u>

The accompanying notes form an integral part of these financial statements.

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
December 31, 2018

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 22 employees as at December 31, 2018 (2017: 20).

2. Significant Accounting Policies

a) Basis of Presentation

Pursuant to the Public Management and Finance Law (PMFL) (Amendment) 2015, the Authority was required to prepare its financial statements for the year ended December 31, 2017 and for each calendar year ending thereafter on December 31. As a result of the change in the CIG’s financial reporting period in 2017, the corresponding amounts presented in these financial statements are not entirely comparable. December 31, 2018 is a 12 month period and December 31, 2017 is an 18 month period.

The financial statements of the Authority are prepared under the historic cost convention as modified by the revaluation of 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 accordance 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. Actual results could differ from those estimates, the impact of which would be recorded in future periods. 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.

b) New standards, amendments and interpretations adopted

(i) IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets and financial liabilities. 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.

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
December 31, 2018

2. Significant Accounting Policies (continued)

b) New standards, amendments and interpretations adopted (continued)

(i) IFRS 9 Financial Instruments (continued)

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.

The standard is effective for accounting periods beginning on or after 1 January 2018 therefore, the Authority has adopted this standard in the 2018 financial year.

For financial assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and will be recognised earlier than under IAS 39. The Authority has determined that the application of IFRS 9's impairment requirements at January 1, 2018 would not result in any material variance to the prior IAS 39 calculation of allowance for doubtful accounts at December 31, 2017. However, the calculation of expected credit losses under IFRS 9 is used as the provision for loss against Accounts Receivable at December 31, 2018. For trade receivables the simplified approach under IFRS 9 will be followed by the Authority measuring the loss allowance at an amount equal to lifetime expected credit losses.

The following table and the accompanying notes explain the original categories under IFRS 9 for each class of the Authority's financial assets and liabilities as at January 1, 2018:

	Note	Original classification under IAS39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
<u>Financial Assets</u>					
Trade and other receivables	2(b), (i), 5	Loans and receivables	Amortised cost	1,470,604	1,470,604
Cash and Cash equivalents	2(i), 4	Loans and receivables	Amortised cost	5,805,651	5,805,651
Short term deposits	2(g),(i)	Loans and receivables	Amortised cost	7,997,861	7,997,861
<u>Financial Liabilities</u>					
Trade payables and accrued liabilities	2(i), 7	Other financial liabilities	Other financial liabilities	1,226,896	1,226,896
Dividend payable	2(i), 8(a)	Other financial liabilities	Other financial liabilities	3,467,870	3,467,870

(ii) IFRS 15 Revenue from contracts with customers

IFRS 15 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 the Authority completes its performance obligations under the safety certification process. 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 January 1, 2018.

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
December 31, 2018

2. Significant Accounting Policies (continued)

b) New standards, amendments and interpretations adopted (continued)

(ii) IFRS 15 Revenue from contracts with customers (continued)

The Authority has assessed the effects of this standard and has concluded that the standard has effectively changed the recognition of the revenue from the aircraft registry fees whereby revenue was previously recognised at validity date of the certification, and is now recognised at issue date. The Authority has assessed this standard and has adjusted the revenue derived at the issue date of certificates accordingly in the 2018 financial year.

The authority has adopted IFRS 15 using the cumulative affect method (with practical expedients) with the effect of initially applying this standard recognised at the date of initial application (ie. January 1, 2018). Accordingly the corresponding information presented for the 18 month period ended December 31, 2017 has not been restated.

The following table summarises the impact of transition to IFRS 15 on opening equity as at January 1, 2018, this impact has been recorded in the net income for the year ended December 31, 2018.

	<u>Impact of adopting IFRS 15 at</u> <u>January 1, 2018</u>
Opening equity:	
Air safety regulation and certification fees	<u>121,100</u>

The following table summarises the impact of adopting IFRS 15 on the Authority's Statement of Comprehensive Income for the year ended December 31, 2018.

	<u>As reported</u>	<u>Adjustments</u>	<u>Amounts</u> <u>without</u> <u>adoption of</u> <u>IFRS 15</u>
<i>Continuing operations</i>			
Revenue: Air safety regulation and certification fees Note 11(a)	5,373,699	(105,080)	5,268,619
Revenue: Surveyor fees and net reimbursable expenses Note 11(b)	<u>925,414</u>	<u>(18,800)</u>	<u>906,614</u>
Total Aircraft Registry Fees	<u>6,299,113</u>	<u>(123,880)</u>	<u>6,175,233</u>

(c) New Accounting Standard not yet effective

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 currently 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.

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
December 31, 2018

2. Significant Accounting Policies (continued)

(d) 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
Land	Not depreciated

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.

(e) 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 functional and 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.

(f) 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.

(g) Short-term deposits

Short-term deposits represent term deposits with banks or other financial institutions, including the CIG, with original maturities of greater than three months but less than twelve months. Impairment of short term deposits has been considered on a 12-month expected credit loss basis and reflects the short maturities of the exposures, the Authority deems any exposure to be immaterial due to the low credit risk based on the external credit ratings of the counterparties.

(h) 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 and when performance obligations have been completed; and when specific criteria have been met for each of the Authority's activities as described in Note 11. Contract liabilities in the Statement of Financial Position represent unearned revenue where performance obligations have yet to be fully completed.

(i) Financial assets and liabilities

Under IFRS 9, the Authority classifies its financial assets, Cash and cash equivalents, short term deposits and Trade and other receivables, as amortised cost.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
December 31, 2018

2. Significant Accounting Policies (continued)

(i) Financial assets and liabilities (continued)

Cash and cash equivalents, short term deposits and trade and other 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 those with maturities greater than 12 months after the end of the reporting period which are classified as non-current assets.

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. The Authority's financial assets are carried at amortised cost using the effective interest method.

The Authority classifies its financial liabilities as other financial liabilities. Such financial liabilities are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers or obligations to the Cayman Islands Government for dividends based on comprehensive net income. Accounts payable and accrued expenses 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.

Both financial assets and liabilities have been assessed under IFRS 9 and it has been determined that there has been no impact on the measurement of these financial assets and liabilities from the change of classification from IAS 39 to IFRS 9.

(j) Offsetting financial instruments

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

(k) 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 capital assets where the Authority has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. The Authority did not have any finance leases during 2018 (2017: \$nil).

(l) 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.

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
December 31, 2018

2. Significant Accounting Policies (continued)

(l) Employee benefits (continued)

(i) Pension obligations (continued)

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.

(m) Corresponding figures

Corresponding figure are reclassified to ensure consistency with the current year unless it is impractical to do so.

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 defined benefit pensions and healthcare include the discount rate. Any changes in these assumptions will impact the carrying amount of obligations.

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
December 31, 2018

3. Critical Accounting Estimates and Judgments (continued)

i) Employee benefits – post-employment pension and healthcare (continued)

The Authority determines the appropriate discount rate at the end of each year in conjunction with the actuary. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the obligations.

In determining the appropriate discount rate, the Authority in conjunction with the actuary considers the interest rates of high-quality corporate bonds that are denominated in the United States Dollars (USD), a currency pegged to the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation.

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

4. Cash and cash equivalents and short term investments

	December 31, 2018	December 31, 2017
a) Cash and cash equivalents		
Cash on hand	770	602
Current and call accounts	4,363,178	5,805,049
Total cash and cash equivalents	<u>4,363,948</u>	<u>5,805,651</u>
b) Short term deposits		
Fixed Deposits	<u>8,098,721</u>	<u>7,997,861</u>
Current and call account holdings are:	December 31, 2018	December 31, 2017
- Cayman National Bank	3,266,730	5,192,447
- Bank of Butterfield	905,686	496,450
- NatWest UK (GBP 177,433) (Exchange Rate of GBP to KYD 1.075)	190,762	116,152
Fixed deposit holdings are:		
- Cayman National Bank	5,983,561	5,925,141
- Cayman Islands Government	2,115,160	2,072,720

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

5. Trade and other receivables

Trade and other receivables that were classified as loans and receivables under IAS39 are now classified at amortised cost under IFRS 9. Lifetime expected credit losses have been calculated using sales invoices billed between July 1, 2017 and September 30, 2018 and the actual cash collection dates of these invoices to determine a historical collection profile by ageing category.

The amount uncollected over 365 days to determine the loss rate by aging category, this is then applied to the aged trade receivables at December 31, 2018 gives the expected credit loss at that date as follows:

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
December 31, 2018

5. Trade and other receivables (continued)

Ageing profile of trade receivables

Period Outstanding (Days)	Loss rate	Ageing balance of receivables at 31 December 2018	Expected credit loss 2018 (IFRS 9)	Ageing balance of receivables at 31 December 2017	Expected credit loss 2017 (IFRS 9)*
0-30	0.24%	848,451	2,032	845,051	2,028
31-90	0.51%	486,929	2,483	298,787	1,524
91-180	1.81%	315,902	5,718	231,013	4,181
181-365	5.71%	116,574	6,656	20,051	1,145
Over 365	100%	18,637	18,637	(9,091)	5,155
Total Trade Receivables		1,786,493	35,526	1,385,811	14,033

*The expected credit loss rates were applied to aged trade receivables at 31 December 2017 and it was determined that the expected credit loss yielded from this calculation did not differ materially from the provision for uncollectible accounts of \$14,484 at that date therefore no transition adjustment was required under IFRS 9.

The bad debts expense recorded in the statement of comprehensive income of \$22,244 for 2018 (2017: \$0) represents the increase in the allowance for doubtful accounts following the implementation of the lifetime expected credit loss method under IFRS 9.

	December 31, 2018	December 31, 2017
Trade accounts receivable	1,786,493	1,385,811
Other receivables	193,793	99,277
Allowance for doubtful accounts	(35,526)	(14,484)
Trade and other receivables (net)	<u>1,944,760</u>	<u>1,470,604</u>

Of the total trade accounts receivable outstanding at December 31, 2018, \$250,000 (2017: \$250,000) was due from the Cayman Islands Airports Authority (“CIAA”) for the quarterly fee due for Regulatory services under the Memorandum of Understanding (MOU) referred to in Note 11b, \$102,124 (2017: \$93,725) was due from Cayman Airways Limited and \$479,553 (2017: \$83,202) due from National Air Services for various services. The CIAA and Cayman Airways Limited are related parties of the Authority.

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

	12 months ended December 31, 2018	18 months ended December 31, 2017
Opening allowance for doubtful accounts	14,484	22,599
Bad debts provided for during the period	22,244	-
Write off against accounts previously provided for	(1,202)	(8,115)
Closing allowance for doubtful accounts	<u>35,526</u>	<u>14,484</u>

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
December 31, 2018

5. Trade and other receivables (continued)

The Authority currently has a bad debt write off 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.

As of 31 December 2018, receivables of \$938,042 (2017: \$540,760) were considered past due. 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.

6. Capital assets

	Leasehold Improvements	Furniture & Fixtures	Computer Hardware	Computer Software	Office Equipment	Future Office Building (including Land)	Vehicles	Total
Historical Cost of assets:								
Cost at July 1, 2016	144,793	121,584	154,184	152,468	38,698	16,258	71,754	699,739
Additions	-	-	17,353	18,405	2,437	443,752	-	481,947
As at December 31, 2017	144,793	121,584	171,537	170,873	41,135	460,010	71,754	1,181,686
Additions	-	-	22,705	16,927	7,556	302,209	-	349,397
Disposals	-	-	(1,939)	-	-	-	-	(1,939)
As at December 31, 2018	144,793	121,584	192,303	187,800	48,691	762,219	71,754	1,529,144
Accumulated depreciation:								
Brought Forward, as at July 1, 2016	144,793	95,917	132,846	102,390	36,581	-	37,392	549,919
Charge for period	-	11,017	21,196	34,510	1,365	-	21,526	89,614
As at December 31, 2017	144,793	106,934	154,042	136,900	37,946	-	58,918	639,533
Charge for year	-	5,378	14,394	12,976	997	-	12,836	46,581
Disposals	-	-	(1,939)	-	-	-	-	(1,939)
As at December 31, 2018	144,793	112,312	166,497	149,876	38,943	-	71,754	684,175
Net book value as at December 31, 2017	-	14,650	17,495	33,973	3,189	460,010	12,836	542,153
Net book value as at December 31, 2018	-	9,272	25,806	37,924	9,748	762,219	-	844,969

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
December 31, 2018

7. Accounts payable and accrued liabilities

	December 31, 2018	December 31, 2017
Employee incentive awards accrued	186,715	178,437
Accrued expenses	201,975	152,760
Accounts payable	142,197	102,244
Other payables	6,095	400,000
Unidentified deposits and unresolved issues	1,965	1,964
Total accounts payable / accrued liabilities	538,947	835,405

8. Related party balances and transactions

(a) 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 payment to the Cayman Islands Government. The directive indicated that the Authority would pay 75% of the comprehensive income first reported to the Office of the Auditor General within three months of the end of the financial period. A revision in the directive in July 2013 stated that an adjustment should be made to the subsequent period payment for any difference in the final audited comprehensive income to that first reported. As at 31 December 2018 a total of \$3,132,832 (2017 (restated): \$3,791,870) was payable to the CIG as detailed below:

	December 31, 2018	December 31, 2017 (Restated)
Dividend payable in respect of current period comprehensive income	2,808,832	4,462,599
Dividend payable in respect of prior period comprehensive income	324,000	(670,729)
Total Dividend Payable	3,132,832	3,791,870

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.

(b) 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 the 12 months ended 31 December 2018 amounted to \$954,651 (2017: \$1,390,055). Performance incentive award is estimated at the maximum amount possible under the Authority's board approved Performance Incentive Award Plan for both years. The total paid out for the 2016 and 2017 performance incentive award settled prior to year-end was \$75,418 (2017: \$48,728). The Director General and the Deputy Director-General, Economic Regulation and Administration have the benefit of having an additional 6.4% and 5% respectively 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 medical necessities are fully subsidized by the Authority. For the 12 months ended December 31, 2018 this amounted to \$5,517 (2017: \$12,814) for all key employees.

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
December 31, 2018

8. Related party balances and transactions (continued)

(b) Key Employee Benefits (continued)

	12 months ended December 31, 2018	18 months ended December 31, 2017
Base salary	728,153	1,060,160
Pension	56,102	80,801
Medical coverage	95,549	145,226
Fuel allowance	2,032	2,262
Performance incentive award (estimated)	72,815	101,606
Total key employee benefits	954,651	1,390,055

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

Professional fees include 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 86,772 (GBP 84,908 in 2017) 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 is invoiced to the CIG by ASSI and CIG (The Financial Secretary) passes the invoices on to the Authority for direct payment to ASSI.

9. Post-retirement 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.

i. Defined contribution plan

In accordance with the Cayman Islands National Pensions Law, (2012 Revision) (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 12 months ended December 31, 2018 the amount of \$77,968 (2017: \$115,325) 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.

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
December 31, 2018

9. Post-retirement benefits (continued)

a) Pensions (continued)

ii. Defined benefit plan (continued)

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.

	Present value of obligation \$'000	Fair value of asset plan \$'000	Net liability/ (asset) \$'000
As at July 1, 2016	4,934	(2,872)	2,062
Current service cost	54	-	54
Interest expense/(income)	252	(147)	105
Re-measurements:			
- Return on plan assets	-	(455)	(455)
- Gain from changes in financial assumptions	(36)	-	(36)
- Gain on changes in demographic assumptions	(297)	-	(297)
	(27)	(602)	(629)
Contributions:			
- Employers	-	(27)	(27)
- Plan participants	27	(27)	-
Payments from plan:			
- Benefit payments	(16)	16	-
- Administrative expenses	-	-	-
As at December 31, 2017	4,918	(3,512)	1,406
Current service cost	44	-	44
Interest expense/(income)	172	(123)	49
Re-measurements:			
- Return on plan assets	-	269	269
- Gain from changes in financial assumptions	(608)	-	(608)
- Gain on changes in demographic assumptions	(43)	-	(43)
	(435)	146	(289)
Contributions:			
- Employers	-	(18)	(18)
- Plan participants	18	(18)	-
Payments from plan:			
- Benefit payments	-	-	-
- Administrative expenses	-	-	-
As at December 31, 2018	4,501	(3,402)	1,099

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
December 31, 2018

9. Post-retirement benefits (continued)

a) Pensions (continued)

ii. Defined benefit plan (continued)

	December 31, 2018 \$'000	December 31, 2017 \$'000
Statement of financial position:		
Defined benefit obligation at end of period	4,501	4,918
Fair value of plan assets at end of period	(3,402)	(3,512)
Liability in the statement of financial position	1,099	1,406
	12 months ended December 31, 2018	18 months ended December 31, 2017
Income statement charge included in operating profit for the period:		
Defined pension benefits – service cost and interest expense	93	159
Income statement charge included in Other Comprehensive Gains/(Losses):		
Defined pension benefits – re-measurements on returns and assumptions	(382)	(788)

The principal actuarial assumptions at the date of valuation:

	2018 %	2017 %
1. Discount Rate	4.50	3.80
2. Rate of salary increase	2.50	2.50
3. Rate of price inflation	2.00	2.00
4. Rate of pension increase	2.00	2.00
5. Post-employment mortality table – 2018: RP-2014 scaled back to 2006 using MP-2014 then projected on a generation basis using scale MP-2018 (2017: RP-2014 projected on a generation basis using scale MP-2016).		

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 December 31, 2018 and December 31, 2017 to changes in the weighted principal assumptions is:

Impact on defined benefit obligation 2018			
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.25%	Decrease by 3.8%	Increase by 4%
Inflation rate	0.25%	Increase by 3.6%	Decrease by 3.4%
Mortality*	10%	Decrease by 2.1%	Increase by 2.3%
Impact on defined benefit obligation 2017			
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.25%	Decrease by 4.2%	Increase by 4.5%
Inflation rate	0.25%	Increase by 4.0%	Decrease by 3.8%
Mortality*	10%	Decrease by 2.3%	Increase by 2.5%

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
December 31, 2018

9. Post-retirement benefits (continued)

a) Pensions (continued)

ii. Defined benefit plan (continued)

* The assumed life expectancy of a person retiring today at age 57 is 28.80 (2017: 29.13). 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 1.01 years (2017: 0.91 and 1.01 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:

	2018	2017
Global Equities	79%	80%
Debt securities	20%	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.

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.

As of December 31 2018 and 2017 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 between 16.07 and 16.32 years (2017: 17.96 and 18.23 years).

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
December 31, 2018

9. Post-retirement benefits (continued)

b) Post-retirement healthcare

The Authority operates an unfunded post-retirement 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% (2017: 5%). Other significant assumptions include:

- a. Mortality rates – 2018: RP-2014 Mortality Table scaled back to 2006 using MP-2014 (2017: RP-2014 Mortality Table scaled back to 2006 using MP-2014).
- b. Mortality improvement scale – 2018 Scale MP-2018 (2017: Scale MP-2016).
- c. Discount rate assumption 2018: 4.55% (2017:3.85%)

The amounts recognised in the balance sheet represent management’s estimation of the present value of unfunded obligations.

The sensitivity of the obligation at December 31, 2018 and December 31, 2017 to changes in the weighted principal assumptions is:

	Impact on obligation 2018		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.25%	Decrease by 5.2%	Increase by 5.6%
Healthcare cost trend rate	1%	Increase by 24.6%	Decrease by 18.9%
Mortality	10%	Decrease by 4%	Not Applicable

	Impact on obligation 2017		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.25%	Decrease by 5.6%	Increase by 6.0%
Healthcare cost trend rate	1%	Increase by 25.7%	Decrease by 19.6%
Mortality	10%	Decrease by 4.4%	Not Applicable

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
December 31, 2018

9. Post-retirement benefits (continued)

b) Post-retirement healthcare (continued)

The movement in the obligation over the period is as follows:

	Present value of obligation ('\$000)
As at June 30, 2016	1,858
Operating expenses:	
- Current service cost	122
- Interest expense	71
	193
Re-measurements:	
- Gain from change in demographic assumptions	(266)
- Loss from change in financial assumptions	93
- Experience losses	204
	31
As at December 31, 2017	2,082
Operating expenses:	
- Current service cost	127
- Interest expense	76
	203
Re-measurements:	
- Gain from change in demographic assumptions	(20)
- Gain from change in financial assumptions	(306)
- Experience gains	(5)
	(331)
As at December 31, 2018	1,954

10. Lease of premises

The Grand Cayman office is located in Cayman Grand Harbour and is leased from Cayman Grand Harbour Shoppes Ltd. The current lease is for three years and was signed on July 1, 2013 and 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 January 1, 2019 to August 14, 2019 (8.5 months of monthly rent and strata fees of \$14,126)	\$120,071
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Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
December 31, 2018

11. Revenue

a) Air Safety Regulation and certification fees (Aircraft Registry Revenue)

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. All revenue streams from the Cayman Islands Aircraft Register are considered to be derived from contracts with customers and recognised when the Authority's performance obligations have been met. Under IFRS 15 each revenue stream has different criteria to be met to determine the timing of the revenue recognition as follows:

Aircraft Registry revenue stream	Type of approval	Timing of revenue recognition	2018 revenue under IFRS 15	2018 revenue without IFRS 15	IFRS 15 adjustments
Certificates of Airworthiness & related surveyor fees	no specific performance required by CAACI after issue date	at issue date	4,183,726	4,093,346	90,380
Air Operators Certificates (AOC)	performance by CAACI required for the duration of validity period	over the course of the certificate's validity period (1 year)	363,672	363,672	0
Aerial Work Certificate	performance by CAACI required for the duration of validity period	over the course of the certificate's validity period (1 year)	9,000	9,000	0
Flight Operations approvals (other than AOC)	no specific performance required by CAACI after issue date	at issue date	313,925	313,675	250
Maintenance authorisations	no specific performance required by CAACI after issue date	at issue date	958,150	927,900	30,250
Mortgage Registration Revenue	no specific performance required by CAACI after issue date	at issue date	86,400	86,400	0
New registration revenue	no specific performance required by CAACI after issue date	at issue date	53,690	53,690	0
Other ASR approvals	no specific performance required by CAACI after issue date	at issue date	<u>330,550</u>	<u>327,550</u>	<u>3,000</u>
Total Aircraft Registry Revenue			<u>6,299,113</u>	<u>6,175,233</u>	<u>123,880</u>

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
December 31, 2018

11. Revenue (continued)

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, 2018 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, 2018 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 December 31, 2018, a fee of \$250 (2017: \$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:

	12 months ended December 31, 2018	18 months ended December 31, 2017
Surveyor fee billings	925,414	1,520,640
Survey reimbursable billings	485,839	852,075
Reimbursable expenses paid	(485,839)	(855,927)
Surveyor fees & net reimbursable expenses	925,414	1,516,788

During the financial periods ending 2018 and 2017, the Surveyors' Reimbursable Travel Expenses have been offset against the Surveyor Fees and Billable expenses as the expenses have been recovered through the revenue. Showing the net amount of surveyor travel expenses billed improves the clarity of presentation.

d) Aircraft operating permits

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

e) Other income

	2018 (12 months)	2017 (18 months)
Interest income	100,921	99,381
Miscellaneous income	7,302	-
Total other income	108,223	99,381

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
December 31, 2018

12. Expenses

	2018	2017
Operating expenses	(12 months)	(18 months)
a) Personnel costs		
Salaries/performance incentive expenses – Cayman	2,185,030	2,987,413
Medical insurance and expenses	354,339	482,306
Pension (including DB plan service costs)	212,341	317,234
Post-employment healthcare service costs- Note 9(b)	203,000	193,000
Training	45,763	79,147
Recruitment and relocation expenses	9,801	5,329
Total personnel costs	3,010,274	4,064,429
b) Office administration and business development		
General office administration expenses	352,914	439,489
Rental expenses	175,474	262,974
Business development expenses	129,588	156,460
Board of Directors expenses	4,994	11,120
Total office administration and business development	662,970	870,043
c) Professional & licensing fees		
Contractors fees	493,672	726,401
Air Safety Support International (ASSI)	95,179	116,097
Work permit fees	63,365	89,990
Insurance expenses	39,203	75,479
Audit and other professional fees	68,905	67,870
Professional dues and subscriptions	7,590	7,254
AAIB retainer Fee	27,746	46,937
Legal fees	6,007	22,620
Total professional & licensing fees	801,667	1,152,648
Travel – official, training and administrative		
d) Travel – business development	114,370	97,248
Travel – administration and training	82,396	111,097
Total travel – official, training and administrative	196,766	208,345
Total operating expenses	4,671,677	6,295,465

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
December 31, 2018

13. Financial Instruments Risk

Liquidity risk

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

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

The undiscounted cash flows payable by the Authority under financial instruments with contractual maturities of less than 1 year at December 31, 2018 are as follows:

Accounts payable and accrued expenses \$538,947 (2017: \$835,405)

Dividend payable \$3,132,832 (2017 (restated): \$3,791,870)

Credit risk

Financial assets that potentially subject the Authority to credit risk consist principally of bank current accounts, fixed deposits, trade 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 December 31, 2018 are National Air Services (NAS) with approximately 27% (2017: 6%) of total outstanding balances, Cayman Airways 6% (2017: 7%) and Cayman Islands Airports Authority (CIAA) 14% (2017: 18%) and are considered significant concentrations of credit risk. The CIG accounts are considered medium exposure risks due to possible CIG policy changes when new governments are elected.

Interest rate risk

Cash amounts held at Cayman National Bank over \$500,000 (2017: \$500,000) are placed on semi-annual and annual fixed deposits and generally earn an interest rate of between 0.8500% (2017: 0.5300%) and 1.1500% (2017: 1.0000%) per annum in the period ending December 31, 2018. There are two accounts held at NatWest Bank in the UK, an operating account and a credit card account for 3 (2017: 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 (2017: £16,000) was held as a deposit. This deposit earns 1% interest per annum. As at December 31, 2018 there is also a fixed deposit held with Cayman Islands Government Treasury. The amount is \$2,115,160 (US\$2,551,369) (2017: CI\$2,058,860) for twelve months to a rate of 2.6500% and matures on 26 July 2019. Management believes that a reasonable possible change in interest rates would not have a material impact on the Authority's net income.

Market Risk

The CAACI has maintained conservative growth year-over-year from the market for business and corporate aircraft registration despite the assertive competition from other jurisdictions which are highly financed and subsidized to promote their offshore registries. The Aircraft register revenues are closely aligned with global economic conditions are considered luxury service revenue due to the majority of the revenues being derived from private corporate jet operations. The market risk to the sustained revenues is considered to be significant.

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13. Financial Instruments Risk (continued)

Fair values

The current accounts, fixed deposits, accounts receivable and other liabilities and payables approximated their fair value due to short term maturities of these assets and liabilities. There were no significant financial effects of global economic conditions during the 12 month period.

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

14. Capital management

The Authority's objectives when managing capital are to safeguard its ability to continue as a going concern in order to fulfil its responsibilities as outlined in Note 1 for stakeholders and, as further discussed in Note 8(a), 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 \$2,737,591 of the dividends payable balance to the Cayman Islands Government which represents 75% of total comprehensive income first submitted for audit for the year ended 31 December 2018, and indicated in the first submission of the financial statements to the Office of the Auditor General.

16. Restatement of corresponding figures

As disclosed in note 8(a), the Authority is making an annual dividend payment to the Cayman Islands Government consistent with the directive issued by the Financial Secretary. In the year ended December 31, 2018 the Authority noted that the timing of the recognition of the dividend payable was following the directive for payment rather than the requirements of IAS 32 and IAS 39. The corresponding figures have therefore been restated as follows:

Statement of Financial Position:	Impact of restatement		
December 31, 2017	As previously reported	Adjustment	As restated
Dividend payable	3,467,870	324,000	3,791,870
Total current liabilities	4,694,766	324,000	5,018,766
Total liabilities	8,182,516	324,000	8,506,516
Equity	7,633,753	(324,000)	7,309,753

Statement of Changes in Equity:	Impact of restatement		
18 month period ended December 31, 2017	As previously reported	Adjustment	As restated
Balance at beginning of the period	5,151,490	670,729	5,822,219
Dividends	(3,467,870)	(994,729)	(4,462,599)
Balance at beginning of the period	7,633,753	(324,000)	7,309,753