

ANNUAL REPORT

FISCAL YEAR ENDING 31 DECEMBER 2017



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 eighteen month financial period ending 31 December 2017. As in the previous financial year, the Authority's regulatory obligations were met and its financial performance exceeded targeted net income estimates.

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. Safety is maintained through the implementation of International Civil Aviation Organisation (ICAO) standards and recommended practices overseen by the Civil Aviation Authority of the Cayman Islands (CAACI), which has been designated by the Governor as the aviation regulatory authority of the Cayman Islands

The innovative advancement of drone technology over a relatively short period has created new challenges for aviation safety regulators globally, including the CAACI. During the period, the local aviation industry saw increasing numbers of drone operations including entrepreneurs providing commercial services and hobbyist. While it is recognized that drones can and will enhance the provision of many essential services, it is crucial that their operations do not jeopardise the safety of aircraft operations within our airspace. The Authority is cognizant of these risks and has taken measures to mitigate such hazards through media awareness campaigns, restricting operations near airports and licensing of commercial service providers. The Authority has also taken a pro-active approach to recognise the activities of the local drone community, encouraging them to organize and work with the Authority to safely integrate their operations into the national airspace.

The Cayman Islands Aircraft Registry ("the Registry") continues to be an attractive registry of choice for high net-worth individuals and corporations. The Registry is also a lucrative source of revenue for the Authority and is the foundation for the Authority's self-sustaining status. The Authority has not required Government assistance for its operations since July 2004, when the CAACI was established as a pure regulatory authority.

During the period, the Authority collaborated with Cayman Enterprise City (CEC) to include aviation services within the Cayman Islands Special Economic Zone, which resulted in Cabinet approving the establishment of the Maritime and Aviation Services Park ("the Park"). The Park will allow various offshore aviation services to be provided under the regulatory jurisdiction of the Cayman Islands, including aircraft operators conducting ad-hoc charters offshore. It is anticipated that the Park will attract new aviation businesses and aircraft operators to the Cayman Islands.

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 upgrading its IT capabilities that allows 24/7/365 access to the aircraft registry services. Our VP-C Online electronic data management system continues to be a signature tool that assists the Authority in achieving its strategic objectives and is thereby an integral factor in the success of the Registry.

Another milestone reached during the period was the granting of planning permission for the construction of the CAACI office building. The development of permanent offices for the CAACI has been in the works since 2015.

The office complex will be built on the site of the former Cayman Airways headquarters on Owen Roberts Drive and will comprise a two story building suitable for accommodating staff for the foreseeable future. The complex will be financed from cash reserves held by the Authority and will therefore not require a bank loan or Government funding. Scheduled date for completion of this project is July 2019.

During the period the CAACI was subjected to a biennial assessment by Air Safety Support International, the UK watchdog for the Overseas Territories Aviation Authorities (OTAA). The assessment was a positive experience and resulted in the CAACI retaining the Governor's designation for safety regulation in all functional areas of the Cayman Islands' aviation industry.

The management and staff of the Authority enjoys 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 'R. Smith', with a stylized flourish at the end.

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

FOREWORD BY THE BOARD OF DIRECTORS

The Board is pleased with the exceptional performance of the management and staff of the Civil Aviation Authority. The Authority continues to fulfil its statutory regulatory obligations for oversight of the aviation industry throughout the Cayman Islands and for aircraft entered on the C.I. Aircraft Registry that are based off-shore and operated globally. We are pleased with the 2016 Air Safety Support International (ASSI) assessment that resulted in the continuation of full designation by Her Excellency the Governor for regulation of all civil aviation matters.

Following on from the strategic retreat and the generation of a new 5-year strategic business plan, “One Team, One Mission, One Vision,” the management team has continued its efforts to improve and enhance its operational plans that guide its every day initiatives for staff so that there is cohesive and consistent efforts at realizing the organization’s objectives and goals contained in the business plan.

We are also excited that CAACI management has taken the initiative to partner with the Cayman Special Economic Zone (SEZ)/Cayman Enterprise City to create an aviation park within the zone. This opportunity promises to be beneficial to not only the CAACI and CEC, but also to the jurisdiction in general as it creates a mechanism to attract other aviation businesses via the SEZ. We look forward to the future business this partnership presents for the Authority.

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

SECTION 1.0

ORGANIZATIONAL OVERVIEW



1.1 CAACI STRUCTURE AND FUNCTIONS

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

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

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

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

The **Air Safety Regulation (ASR)** division oversees the technical and safety regulation of all aircraft on the CI Aircraft Registry and all Cayman approved organisations globally.

The **Air Navigation Services Regulation (ANSR)** division is responsible for the certification and licensing of aerodromes, air traffic control and air navigation services provided within the territory.

The **Economic Regulatory and Administration** division provides economic regulatory oversight for commercial air transport operations to/from the territory, including scheduled and non-scheduled operations, and oversees that airport operations are conducted within economic guidelines of the ICAO.

The **Finance and Compliance** division manages the CAACI's finances in accordance with local legislative requirements and international accounting standards, and ensures relevant due diligence is carried out on beneficial owners of aircraft applying for registration to the CI Aircraft Register.

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

SAFETY REGULATORY OVERSIGHT

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

ECONOMIC REGULATION

- Granting of air transport operating permits for scheduled and non-scheduled foreign carriers;
- Regulation of charges levied by airport operators to ensure equality in application;
- Provide advice to the Cayman Islands Government (CIG) regarding 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 2016-2017 were:

NAME	ROLE
Mr. Ian Pairaudeau	Chairman
Mr. Randy Merren	Deputy Chairman
Ms. Shamar Ennis	Member
Mr. William McTaggart	Member

Note:

Christine Rose-Smyth resigned on 18 October 2016

Anna McLean resigned on 2 June 2017

Eric Bush relocated to the C.I. Government Office in London, UK



CAACI Corporate Office contract signing with Architect Chalmers Gibbs

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.

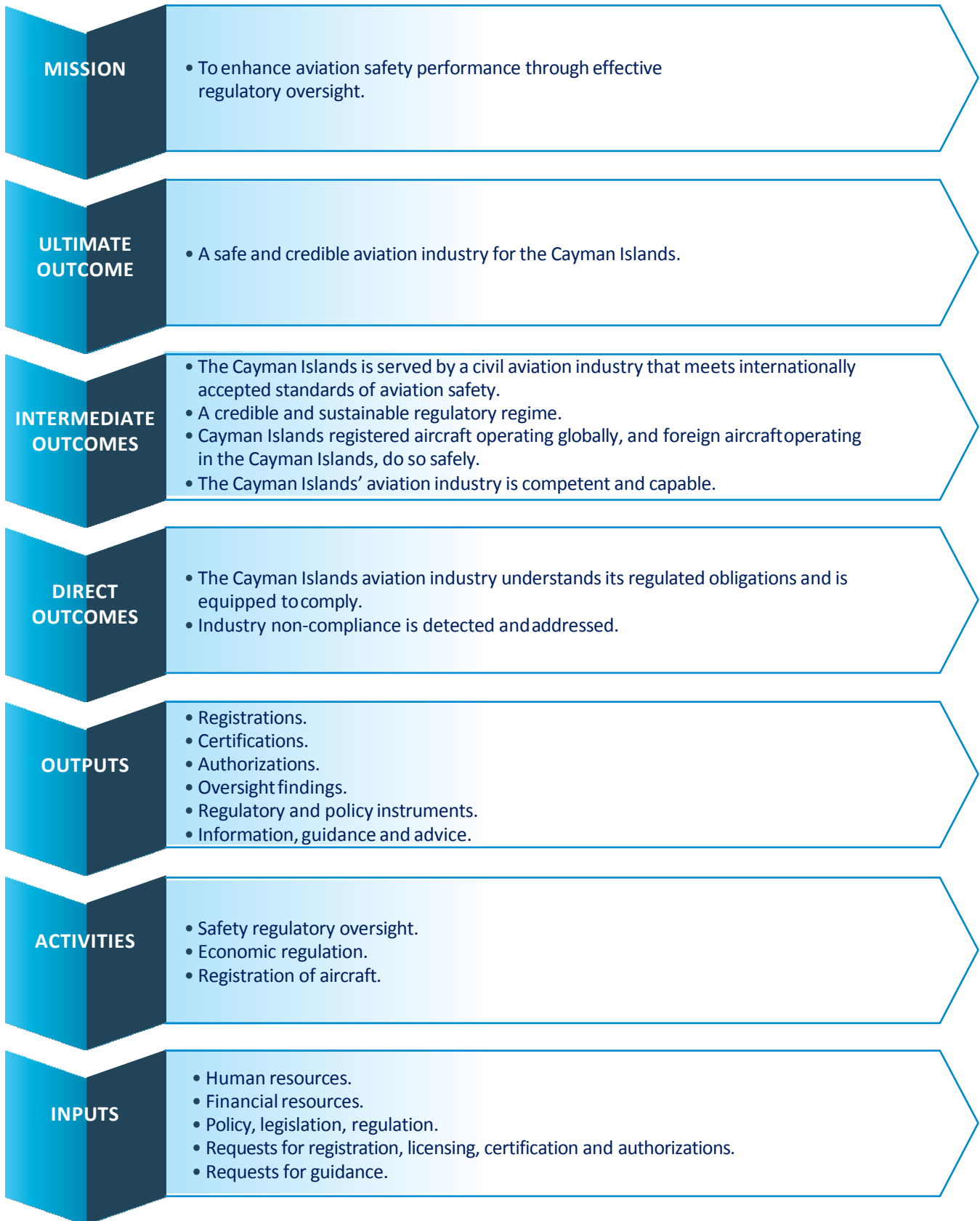
Managing our program based on these underlying principles, we contribute to the following goals:

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.



CJI Miami, Florida
December 2016

CAACI Delivery Model



1.4 MISSION, VISION AND VALUES STATEMENTS

OUR VISION

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

OUR MISSION

“To enhance aviation safety performance through effective regulatory oversight”

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

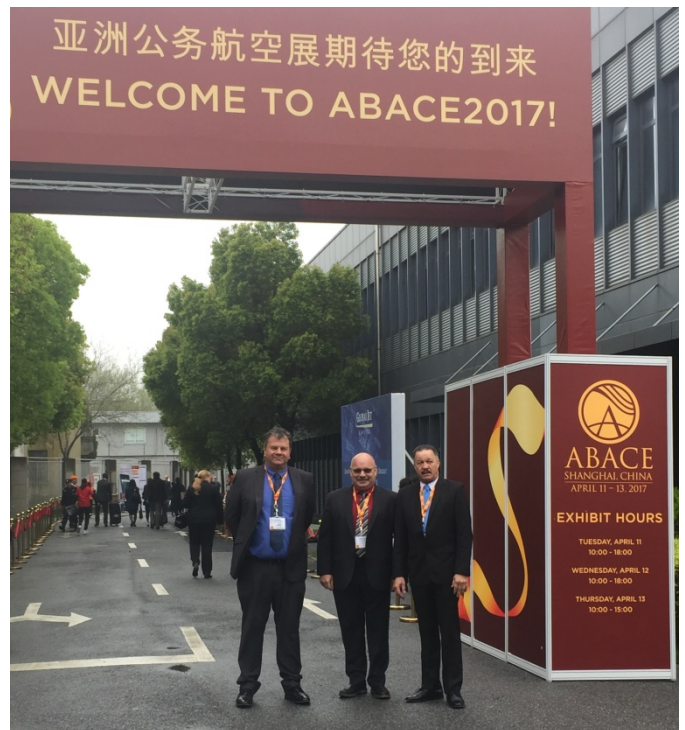
Active collaboration: we work with others to engage their knowledge and expertise and to generate effective solutions where we are jointly accountable for the end results

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 11 – 13, 2017

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

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

For the period 1 July 2016 – 31 December 2017 the ANSR division focused on continuing oversight of the Cayman Islands Airports Authority (CIAA) with the 2017 biennial audit of the two airports on Grand Cayman (Owen Roberts International Airport) and Cayman Brac (Charles Kirkconnell International Airport) which included:

- Assessment of aerodrome 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)

Oversight of Edward Bodden Airfield on Little Cayman emergency exercise which included:

- A review of the Cayman Airways Express (CAE) manual
- Assessment of CAE personnel actions against the manual
- Assessment of Rescue and Fire Fighting Services against the manual
- Assessment of third party organisations involved during an accident as practiced
- Recommendation to the ASR division to support the reissue of the Exemption permitting CAE to operate into an unlicensed aerodrome.

Other notable ANSR oversight activities:

1. Inspection of Cayman Islands Helicopters operations and GT Heliport
2. Inspection of the Ritz Carlton Heliport
3. Issuance of approximately 40 fireworks display approvals in accordance with ATC and AIS
4. Logging and distribution of approximately 300 Mandatory Occurrence Reports (MORs) including the development of a specific Cayman Islands bird strike database
5. Assessment of investigation reports produced by CIAA
6. Attendance at the annual competency and recurrent training assessments for the CIAA Air Traffic Control Officers (ATCOs) and the subsequent production and issuance of their certificates of competence.
7. Conducting ATC license validation boards leading to the issue of licenses to four ATCOs and three ATC examiners to facilitate the CIAA's involvement in the ATCO validation process.
8. Involvement with ASR in the regulation of Small Unmanned Aircraft (SUA)/drone operations including:
 - a. The approval process
 - b. Providing operators with appropriate legislation and advice
 - c. Ensuring coordination between operators and ATC
 - d. Investigating the potential for Beyond Visual Line of Sight operations
 - e. Development public awareness documents to be used in a general media campaign focusing on the safe operations of SUAs.
- 9) On-going development of Quality Management Systems (QMS) and the State Safety Programme (SSP).
10. Ongoing mentoring of the Aviation Safety Officer and succession planning within ANSR.

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).



International Aviation Women's Association (IAWA) - NBAA-BACE October 2017

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

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

To complement the ASR team in airworthiness

activities, there is one UK Manager Airworthiness, four UK contracted airworthiness surveyors, one in the USA, one in Germany and one in Switzerland who carry out the required airworthiness oversight functions in support of required aircraft surveys and maintenance facility inspections globally.

The Flight Operations oversight activities are performed by the Director ASR, and the 3 Flight Operations Inspectors. The ASR Flight Operations staff members perform the following: VP-C Online help desk support to approximately 60 Operators and their management, technical coordinators, pilots and administrative assistants. They carry out technical safety audits and flight crew proficiency checks of local AOC holders, operational audits for OTAR Part 125 operators and the issuing of numerous regulatory approvals required for aircraft operations internationally.



05th December 2017 Annual Safety Seminar – Grand Cayman

The Air Safety Regulation Division has been very active during this reporting period. In addition to a significant organisation restructuring, there has been significant staff turnover due to individual staff departures and retirement. By the end of 2017, the processes to fill the post vacancies had been completed and ASR is expected to be fully staffed by the end of the first quarter of 2018.

In spite of the human resource challenges faced by ASR, the levels of service and oversight associated with both Private and Commercial air operations were maintained in accordance with the organization's Strategic Objectives.

With respect to regulatory Certification, the following activities were carried out by ASR staff:

- Flight Crew License issuance and Flight Crew/Maintenance Licence Validations;
- Initial and Annual Aircraft Surveys;
- Major and Minor Aircraft Design Approvals;
- Certification of Continuing Airworthiness Management and Airworthiness Maintenance Organizations;
- Five (5) 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
- Associated supporting aircraft documentation issuance for the above (i.e. Noise certificates, Minimum Equipment List approvals, etc.)

In late 2016, Cayman Airways Limited added a leased Boeing 737-800NG aircraft to their fleet and Cayman Express added a second Saab 340 aircraft.

With respect to regulatory Oversight, the following activities were carried out by ASR Staff:

- Coincident with aircraft surveys, sampling compliance for the associated aircraft CAMOs;

- Approximately 20% of the Option 2 AMOs were assessed for regulatory compliance;
- ASR Staff conducted ten (10) Private Operator Audits to support the renewal of their Private Air Operator Certificate. The remainder were renewed based on a successful IS-BAO Assessment;
- Airworthiness and Flight Operations Audit of CHC Global at their base in Equatorial Guinea in September 2016;
- Airworthiness and Flight Operations Audit of Cayman Airways Limited and Cayman Express. This assessment was conducted in phases over the course of the 2017 calendar year;
- Annual Designated Flight Examiner monitoring of individuals delegated flight check authority by the CAACI. These individuals work for CAL, CAX, CHC Global, RCIPS and MRCU

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;
- Met with the FAA in Miami to finalise a Memorandum of Understanding to provide a Cayman Registered aircraft to be added to a United States commercial Air Operator Certificate;
- Provided technical expertise in support of AAIB Investigation of an aircraft incident involving a Cayman registered private aircraft; and
- Participated in NBAA (Orlando and Las Vegas), ABACE in Shanghai and EBACE in Geneva.

In 2018 ASR will be focused on

- Further development of VP-C Online with the key objective of integrating the Master Register;
- Conducting formal oversight of current SUA Operators holding aerial permissions;
- Working with Cayman Airways to support the addition of the new Boeing B-737-8X aircraft scheduled for arrival in November 2018; and
- Monitoring the resource impact of additional potential off shore Air Operator Certificate holders due to the addition of aviation to the Cayman Special Economic Zone



Farewell VP-CKY
08th November 2017



STATISTICS FOR THE CI AIRCRAFT REGISTRY FOR THE PERIOD 1 JULY 2016 – 31 DECEMBER 2017

- Total aircraft entered on the register as at 31 December 2017=229
- De-registrations during the period = 60 (including 9 dormant aircraft)
- New aircraft registrations during the period = 48
- Net loss of aircraft since 01 July 2016 = -12
- Total approved Maintenance organizations= 234
- Total Continued Airworthiness Management Organizations= 117
- Total Pilot Licence Validation Certificates issued (initial and renewals) for the period: =1370

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:

- AIRVU Cayman Limited
- AERIAL INNOVATIONS Ltd
- Dart Enterprises
- Caribbean Life & Travel
- Wright Holdings
- Deep Blue Images
- The Security Centre Limited
- World Wide Premiere
- Omari Rankine
- 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, B727 and B777

Bombardier: CL300, Global Express Series (5000, 6000, 7000 etc.)

Bombardier: Lear 60

Canadair Challenger: CL600 Series (600, 601, 604 etc.)

Cessna: Citation Series (C500, C680, Citation Jet, etc.)

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

Embraer: 135/145 and 190

Gulfstream: G450, G550, G650, etc.

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

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

Pilatus: PC12



STRATEGIC OBJECTIVE 2: CONTINUOUS IMPROVEMENT OF SERVICE DELIVERY

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

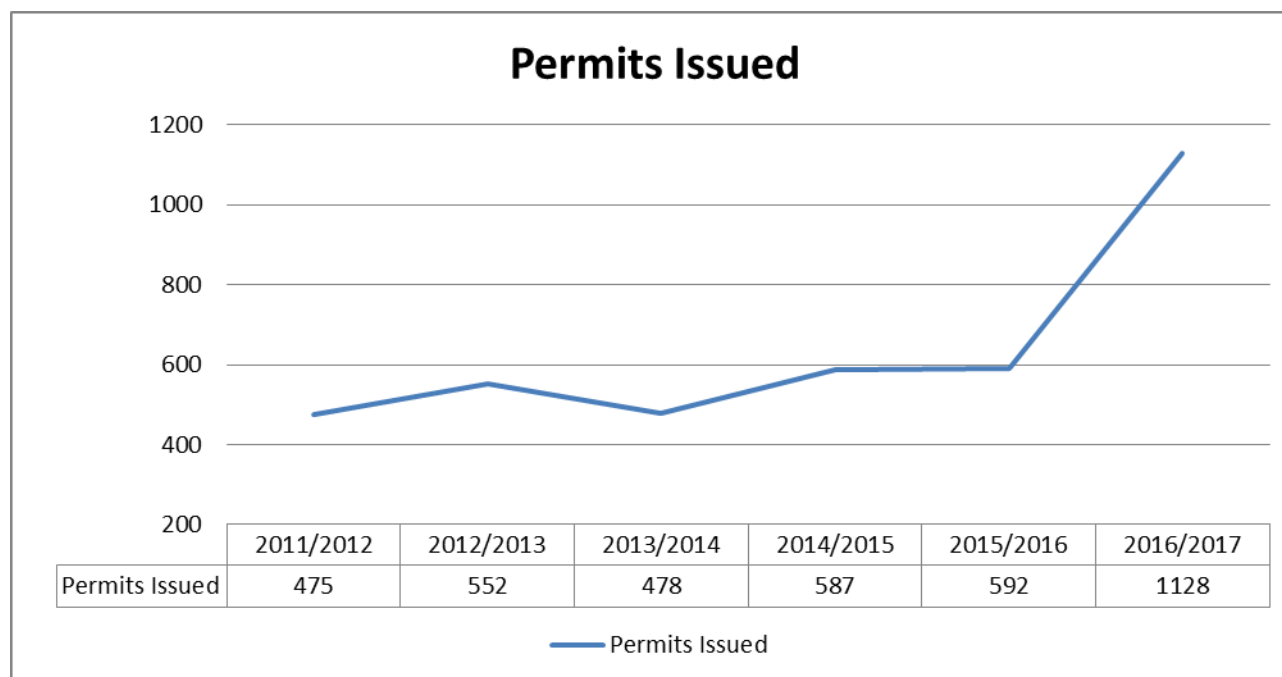
PERFORMANCE ANALYSIS AND LESSONS LEARNED

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.
- Operating permit figures: July 2016 – June 2017 permits issued = 748; July 2017 – December 2017 = 380

The movement in activity of non-scheduled/charter arrivals is closely tied to the recovering tourism and the stay-over sector of the tourism market. 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 was an addition to the seasonal scheduled operating permits during this period with Southwest Airlines beginning daily operations from Ft. Lauderdale, Florida in June 2017. The usual scheduled permits were issued to Air Canada, American Airlines/US Airways (merging), Express Jet, IBC Cargo, Delta Airlines, Jet Blue, United Airlines and West Jet.

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 this period however there was an increase in the number of non-scheduled permits issued by the DGCA (delegated authority by the ATLA) on behalf of the ATLA. A total of 7 non-

scheduled permits to other UK Overseas Territories' airlines/operators were issued between January – December 2017, to VI Airlink and InterCaribbean Airlines for the purpose of hurricane relief flights relating to Hurricane Irma.

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 that will focus on implementing electronic business solutions for all public service entities.

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.

STRATEGIC OBJECTIVE 3: AN ADAPTABLE, CAPABLE, HIGH PERFORMING ORGANIZATION

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:

Corporate Jet Investor (CJI) - Official Guide to Aircraft Registration and Tax 2017. Half page advertising and listing in the September 2017 edition of the guide

NBAA 2016 –The CAACI exhibited at the 69th annual National Business Aviation Association (NBAA) tradeshow, held at the Orange County Convention Centre and the Atlantic Aviation at Orlando Executive Airport , 1-3 November. 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 nine fixed-wing airplanes and six helicopters. The CAACI delegation comprised of DG Richard Smith, Nicoela McCoy, Taron Smith, Joni Wood and Lindsay Cadenhead.

Aviation Business Daily (ABD) - CAACI was featured in the NBAA periodical of the ABD magazine which was distributed during the NBAA show in Orlando. The full page advertorial provided an overview of the Authority. This was in addition to a pre-show e-mail blast of a digital issue sent to 50,000 key industry executives one week prior to the show which included a hyperlink from our ad to our website.

CJI Miami – 30th November – 1st December, Jane Panton and Joni Wood attended the CJI Miami Conference at the Biltmore Hotel in Coral Gables. The CAACI was a sponsor of the conference.

World Commerce Review – Spring 2017 edition, article entitled ‘Registering your aircraft in the Cayman Islands: the Registration process. . The magazine was distributed to Political Heads of State and to major conferences, trade shows, seminars and to over 50,000 High Net Worth readership.

ABACE 2017 – The 2017 Asian Business Aviation

Convention & Exhibition (ABACE 2017) was held at the Hawker Pacific Business Aviation Service Centre on 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 150 exhibitors, 38 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.

EBACE 2017 - CAACI recently exhibited at the 17th annual European Business Aviation Convention & Exhibition (EBACE) tradeshow, which is held annually at the Palexpo Centre in Geneva, Switzerland. As EBACE concluded on 24th May, show organizers reported that there were 413 exhibitors representing nearly 40 different countries, on the show floor. Many of the exhibitors unveiled new products and services at EBACE2017, and more than 450 journalists from Europe and around the world covered the event. At EBACE2017, 56 aircraft were on display at Geneva International Airport, and three more aircraft were displayed inside the Palexpo exhibit hall. CAACI representatives included Deputy DGCA, Mrs. Nicoela McCoy, Melanie Hulse, Joni Wood, Lindsay Cadenhead and Mike Wilcox.

Chamber of Commerce (CoC) ‘Business After Hours’ co-sponsored event with Maritime Authority – The June 22nd promotional and awareness event was held outside the CAACI offices and invitations were extended to the CoC members. DGCA, Richard Smith and Mr. Joel Walton, (CEO of the Maritime Authority) each presented on the attributes of the CAACI and MACI respectively.

Round table with Indian High Commission – private – public sector round table discussion hosted by Ernst & Young on 15 September, focused on providing information on asset management options of the jurisdiction. The CAACI presented information on the Aircraft Registry.

AIN Online (AIN) – CAACI was featured in the September 2017 issue of the AIN online magazine. The special feature titled ‘Cayman Creates Aviation Park To Attract New Business’ was based on the addition of the aviation park within the Cayman Special Economic Zone/CEC. The magazine was distributed to Political Heads of State and to major conferences, trade shows, seminars and to over 50,000 High Net Worth readership.

NBAA 2017 –The CAACI exhibited at the 70th annual National Business Aviation Association (NBAA) tradeshow, held at the Las Vegas Convention Center and Henderson Executive Airport, Las Vegas, NV, Oct 10-12, 2017. The event featured about 1,100 exhibitors. Attendees represented 50 U.S. states, and dozens of countries. NBAA-BACE remains the preeminent venue for manufacturers to unveil new models. For example, this year, the Bombardier Global 7000, Gulfstream G600 and Pilatus PC-24 made their debut at the show. All three days of the show were packed with well-attended education sessions, including half-day programs at the NBAA National Safety Forum and Single-Pilot Safety Standdown. Discussions featured top safety experts and representatives from the Federal Aviation Administration (FAA) and National Transportation Safety Board (NTSB). The CAACI delegation included DGCA Richard Smith, Nicoela McCoy, Melanie Hulse, Lindsay Cadenhead and Guy Healey.

Aviation Business Daily (ABD) - CAACI was featured in the NBAA periodical of the ABD magazine which was distributed during the NBAA show in Las Vegas. The special feature entitled ‘Cayman Creates Aviation Park To Attract New Business’ was based on the addition of the airline park in the special Economic Zone of the CEC. A print ad was also included in this edition.

Business and Commercial Aviation (BCA) - CAACI was featured in the September 2017 issue of the ‘BCA’ with an article entitled ‘Business Jet Owners Embrace Offshore Registration’. Business & Commercial Aviation published since 1958, has been the premier source of analysis providing unique and award-winning editorial to the business aviation market place, making it the number one publication among the world's most influential business aviation decision-makers.



IATA Wings of Change Conference
Miami, Florida May 2017

Cayman Finance Magazine - CAACI was featured in the October 2017 issue of Cayman Finance magazine. The special feature titled highlighting the addition of the airline park in the special Economic Zone of the CEC. The magazine was distributed locally and overseas to medium- to high-net worth potential financial services clients located in Europe, USA, Latin America, and Asia.

Corporate Jet Investor (CJI)

- **CJI London** – January 30th and 31st, Mr. Smith and Mrs. Panton attended on behalf of the Authority.
- **CJI Asia (Singapore)** – June 14th and 15th. Mr. Smith attended on behalf of the CAACI. The CAACI were a sponsor of the event which included Mr. Smith participating in a panel discussion with Danielle Roman of Maurant Ozannes.
- **CJI - Official Guide to Aircraft Registration and Tax 2017**. Two page advertising spread and listing in the September 2017 edition of the guide.



Corporate Jet Investor London 2017

MANAGING FOR RESULTS

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

The CAACI staff complement at 31 December 2017 was 20. During the period of this past fiscal year, the following staff changes occurred:

- The second Flight Operations Inspector post was filled on 7 November 2017
- The Director of Air Safety Regulation post was filled in August 2017 (after the previous post holder resigned)
- In addition the following contract renewals occurred:
 - Manager Technical Programs & Regulatory Initiatives contract was renewed for a further 24 months in August 2017.
 - Director Air Navigation Services contract was renewed for a further 36 months in October 2017
 - One of the HQ based Flight Operations Inspectors' contract was renewed for a further 24 months in August 2017.

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 in support of maintaining a healthy and compliant aircraft registry. At 31 December 2017 the CAACI contracted four contractors in the UK,

A KEY PRIORITY TO CONTINUE THE MANAGED GROWTH OF THE REGISTRY TO INCREASE REVENUES BY 4% PER ANNUM WAS ACHIEVED. THE TARGETED REVENUE WAS BASED ON A 4% INCREASE OVER 2015 REVENUE. EFFECTIVELY, ACTUAL REVENUE FROM THE AIRCRAFT REGISTRY INDICATED A GROWTH IN REVENUES OVER THE PRIOR PERIOD OF 4.4%.

one in Switzerland, one in Germany and two in the North American marketplace (includes Canada).

Other significant developments include a restructuring of the ASR division with the two Technical Officers assuming the primary responsibility for the quality assurance processing via VP-C Online, leaving the Dangerous Good Inspector/Data Coordinator to fully focus on his DG role and the continuing role of development, refinement and ongoing maintenance of the electronic data management platforms (VP-C Online and others as they rise). There is ongoing development of the Centrik system which will help the Authority meet its goal to have a functioning QMS system. an integrated computer based system that provides real time risk information based on safety performance data obtained through routine oversight. This will allow the authority to focus our regulatory work where it is most needed while still monitoring those organisations that meet or exceed the minimum regulatory requirements. The Centrik System will collect and provide the data necessary for effective QMS system.

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 2017 EBACE,
Geneva Switzerland



These included:

- Dangerous Goods Refresher Training, Human Factors training, IS-BAO Audit training, Air Navigation Services and Air Traffic Services training, Aerodrome Operations training, Crew Resource Management Trainer Core course, etc .
- The Economic Regulatory staff attended IATA seminars and conferences specific to the air transport industry, I.e., IATA Wings of Change
- The Administrative and Finance staff also attended applicable training such as Professional Ethics, local annual HR conference, IT/Cybersecurity workshops, Business Aviation Finance, Registration & Legal Conference, CIG Procurement workshops, CIG/AICPA professional development seminar, Performance Measurement & Reporting Technology workshop, etc.
- 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.

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 impersonalisation etc.

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, Cabinet approved the Strategic Outline Case and Business Outline Case for his planned development. Through the end of December 2017 architects Chalmers Gibbs and project managers from PWD, completed initial plans and obtained initial planning approval in October 2017. Demolition plans for the old CAL building are anticipated by late-February when an official ground breaking can take place and the new construction begin.



Air Traffic Controller
Refresher Training
May 2016

2.2 FINANCIAL PERFORMANCE AND ANALYSIS

SUMMARY INCOME STATEMENT: Actual vs Budget for the 18 month period ending 31 December 2017 in CI\$ ('000's)

	18 mths Dec 2017 Actual	18 mths Dec 2017 Budget (Ownership Agreement)	Over/(Under) Budget	% Variance
REVENUE				
Aircraft Registry - Other	8,989	8,989	0	0.0%
Aircraft Registry - CIG (Govt companies)	497	495	2	0.4%
Aerodrome Certification Fee(SAGC – CIAA)	1,500	1,500	0	0.0%
Operating permits - foreign entities	493	493	0	0.0%
Deposit interest	99	40	59	147.5%
Total Revenue from operations	11,578	11,517	61	.5%
TOTAL EXPENSES from operations	6,385	6,904	(519)	-7.5%
NET INCOME FROM OPERATIONS	5,193	4,613	580	12.6%

INCREASE IN REVENUE

- **Revenue** achieved was on target for all areas.
- **Aircraft Registry revenue** target was based on a 4% increase over the 2015 actual revenue. Growing the Aircraft Registry Revenues by 4% year over year was listed as the first strategic objective in the 2016-2017 Ownership Agreement with the CIG. Actual growth in revenue achieved over the prior period was 4.4%.
- The target for Aircraft Registry Revenue being achieved with no overages indicates the increased competition from the growth of aircraft registers over the past five years. The management of the CAACI is very cognizant of the increasing competition from these newer offshore Aircraft Registers which have much greater marketing budgets and are otherwise supported by the industries and governments of their jurisdictions. Such competition may have resulted in the decreasing number of aircraft being registered during the last 6 months of the period.
- Revenue from **Operating Permits** has also been increasing year over year. The targeted revenue for this stream was based on 15% growth over prior year. This increasing trend for operating permits being 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.
- Fixed Deposit interest was significantly more over the targeted amount due to increasing interest rates and increased cash reserves over the 18 month period.

SAVINGS IN EXPENSES

The savings in expenses (\$519k) relative to the budgeted amount are largely due to: (savings in thousands are shown next to the line item):

- **Contracts (\$174k)** – this line item makes up most of the savings in expenses. The contract for VP-C Online (CAACI's online Aircraft Register) support was initially budgeted before chargebacks to clients for the relevant user fees was initiated. A full chargeback for the fee contracted to support VP-C Online is now made through an annual fee to each user.
- **Legal / Professional Fees (100k)** – annual fees for Air Safety Support International were lower than prior year on which the budget was based and most of the provision for unexpected legal and professional fees not required to be utilised.
- **Overseas Contractors/Surveyors (\$87k)** – savings due to efficient scheduling between part time and full time surveyors. Part Time surveyors are only paid for time worked but full time surveyors are paid a standard monthly contract fee regardless of hours worked. However, a large part of the savings is due to budgeted amount for part time surveyors not used.
- **Insurance premiums (\$76k)** - lower premiums were negotiated for Accident Investigation Insurance and Indemnity Insurance.
- **Training expenses (\$53k)** 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.
- **Travel & Subsistence (\$38k)** –unused business development travel makes up the bulk of the savings on this line item as some travel to aviation industry shows were combined with cost recoverable travel to inspect aircraft and aircraft maintenance organisations.
- **General Office expense/Supplies/Utilities/ (\$58k)** –less than budgeted

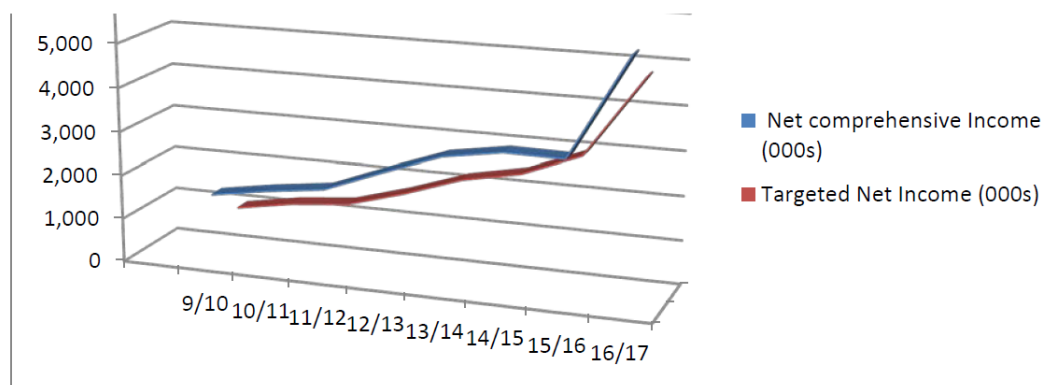
OVERAGES IN EXPENSES

There was only one overage in expenses during the 18 month period which could not be forecasted.

- **Personnel costs (\$67k)**–This is the largest expense item of the Authority and there were initial savings totalling \$258k due to vacant positions budgeted but not filled during the 18 month period as well as self-underwritten staff medical costs being less than provisioned for. However, when the Valuations for the Defined Benefit Pension and the Post Retirement were received, the IAS19 adjustments from these two valuations resulted in an increase to the personnel costs of \$325k in the final audited financial statements which then resulted in \$67k over budgeted amounts for personnel costs.

NET INCOME

The audited operating net income of \$5,193k surpasses the adjusted Targeted Net Income of \$4,613k (by 12.6%)

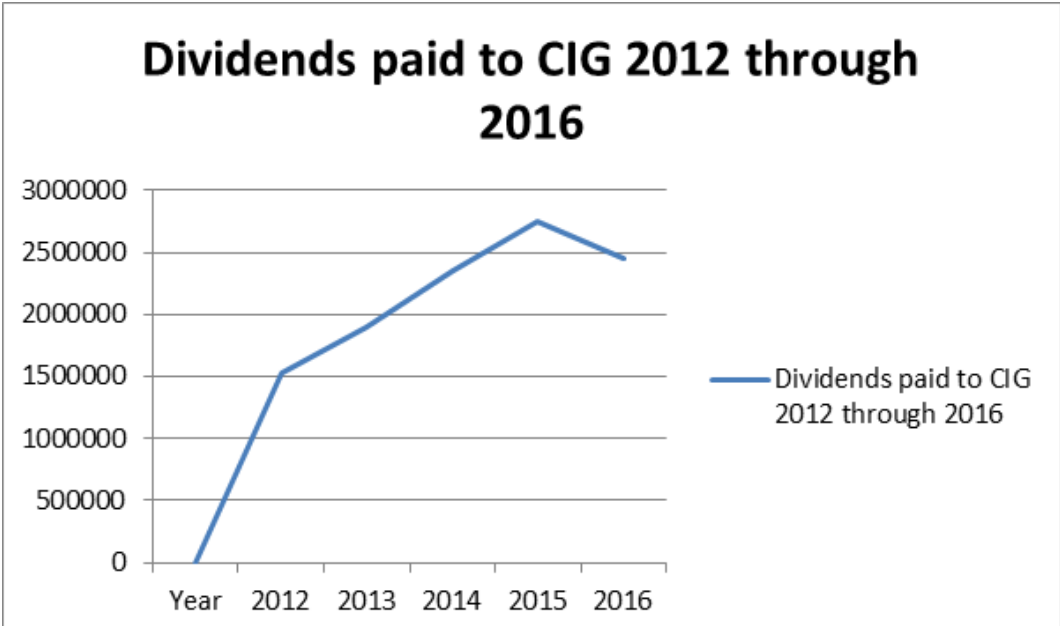


Key Performance Indicator Results and Analysis

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 an increase in initial registration revenue (new aircraft being added to the register) over the targeted amount by 36%. Targeted amount is based on the prior year's revenue with a 4% increase factor	The increase over targeted amount is due to temporary registrations by leasing companies. The aircraft are "parked" on the register being readied for a new leasing arrangement. The CAACI is currently working with some leasing companies to attract more aircraft registrations of this type.
Percentage of audits with minimal deficiencies	The 2015-16 financial statements were issued with an unqualified audit opinion	Financial Statements: Unqualified audit opinion
Savings in controllable expenses to budgeted amounts	Total savings in controllable expenses in relation to budget is \$519k. Key areas of savings were in contracted services – overseas aircraft surveyors and IT contracts - which accounts for almost half of the savings.	The savings in contracted services underpins management's ability to adjust its business model to respond to market demands. Recruiting additional full time surveyors in order to adjust scheduling to lower costs to clients and thus make the CAACI more competitive. User fees for the CAACI developed software were implemented to defray the monthly support costs. Minimal fees to clients resulted in large savings to the CAACI.
Levels of industry self-sufficiency/ Annual Net Income	Targeted annual net income in the 2016-17 Ownership Agreement (OA) is \$4,612,706. Actual audited comprehensive net income adjusted for effects of pension/post-retirement healthcare valuations net income \$5,950,133	The net income achieved is 12.6% more than the targeted Net Income in the OA. The Aircraft Registry is continuing to grow despite fierce competition from other offshore aircraft registers. However, decreasing number of aircraft on the register indicates we will have to outlay increased business development costs to meet and surpass the increasing competition.

Dividends paid to CIG

Dividends paid to 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 which are both funded from the reserves of the CAACI for a few long serving employees.



Summing up the finances of the CAACI

The CAACI’s financial results surpassed the targets set in the 2016-17 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 are continually strategizing to meet the demands of this increasing challenge. These financial results are achieved by a combination of several factors including prudent management of the CAACI and hardworking, qualified and dedicated staff. 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.

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

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:

HOW WE WILL KNOW WE ARE MAKING PROGRESS

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

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

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



SECTION 3.0

SUPPLEMENTARY INFORMATION



LIST OF ACRONYMS AND ABBREVIATIONS

ACRONYM	DESCRIPTION
ABACE	Asian Business Aviation Convention & Exhibition
AN(OT)O	Air Navigation (Overseas Territories) Order
ANSR	Air Navigation Services Regulation
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

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

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

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

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

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

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

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

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

Risk Category	Risk Description	Inherent Risk			Existing Controls, Risk Responses	Residual Risk			Further Risk Responses	Risk Owner
		Likelihood	Impact	Total		Likelihood	Impact	Total		
	There is a risk to air navigation safety due to the Ponds underlying the approach to Rwy 08 being an attractant to wildlife and presenting operational challenge for ARFFS response.	3	5	15	CIAA directed to fill the ponds. Estimated date of completion 31 December 2018.	2	3	6	CAACI oversight emphasis on related programs such as maintenance of required grass cutting length and ARFFS preparatory planning for responses into the areas of 1000 meters beyond the runway threshold.	ANSR
	CAACI may not be able to effectively recruit and retain qualified technical, administrative and financial staff due to CIG policy (administrative or human resources), resulting in high turnover.	3	3	9	Continual education and awareness with CIG.	3	3	9		Economic Regulatory and Administration Division
	Loss of confidence/damage to reputation of the CAACI due to external factors that impact our ability to meet our mandate.	2	4	8	Public relations initiatives to remediate any issues that occur as well as on-going proactive tactics at building positive awareness	2	2	4		Economic Regulatory and Administration Division
	The CAACI may not be able to quickly and adequately react to market conditions or act autonomously in the best interest of its business due to CIG fiscal policy that undermines or negatively impacts financial resources and results in reductions in CAACI reserves and operating cash.	3	3	9	Education and awareness measures with CIG to maintain financial autonomy.	3	3	9		Economic Regulatory and Administration Division

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

Risk Category	Risk Description	Inherent Risk			Existing Controls, Risk Responses	Residual Risk			Further Risk Responses	Risk Owner
		Likelihood	Impact	Total		Likelihood	Impact	Total		
	CAACI's ability to conduct its statutory responsibilities is jeopardised due to global shortage of technical experts to fill required posts (Airworthiness, Flight Operations and Air Navigation Services) or loss of key personnel as a result of competition from other employers	3	4	12	Liaison with other NAAs to share resources and also succession planning internally to continually train resources at CAACI. Adoption of robust HR policies and practises, i.e., compensation and benefits, training etc. Succession planning for critical posts.	3	2	6		Economic Regulatory and Administration Division
	CAACI's ability to provide economic regulatory assurance is compromised due to invalid verification documents received from foreign permit applicants (Article 135 applicants) or expired or revoked documents being used in applications for operating permits, resulting in inadvertent grant of permits in those instances.	2	2	8	Liaison with other NAAs to research and verify validity of documents submitted.	2	2	4		Economic Regulatory and Administration Division
	There is a risk of serious injury, death or kidnapping of CAA personnel due to criminal/terrorist activity when on overseas assignments on behalf of the CAACI.	2	4.5	9	Careful planning of travel assignments based on risk assessment by credible sources; employment of travel services firm that specialises in data/intelligence and perhaps extraction in case of emergencies; internal HR policies/practises that support trip planning such as identification of appropriate foreign embassies in countries of travel.	1	4	4		Economic Regulatory and Administration Division

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

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

SECTION 4.0

Financial statements





Financial Statements

31 December 2017

Civil Aviation Authority of the Cayman Islands
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STATEMENT OF RESPONSIBILITIES 31 December 2017

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 (2017 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 (2017 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 **31 December 2017** and its comprehensive income and cash flows of the Civil Aviation Authority of the Cayman Islands for the financial period ended **31 December 2017**.

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 **31 December 2017**;
- b) Fairly reflect the financial position as at **31 December 2017** and its comprehensive income for the 18 months ended **31 December 2017** 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: **30 April 2018**



Jane Panton (Mrs)
Director of Finance and Compliance
Date: **30 April 2018**

AUDITOR GENERAL'S REPORT

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

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 31 December 2017 and the statement of comprehensive income, statement of cash flows and statement of changes in equity for the 18-month period from 1 July 2016 to 31 December 2017, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 8 to 26.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Authority as at 31 December 2017 and its financial performance and its cash flows for the 18-month period from 1 July 2016 to 31 December 2017 in accordance with International Financial Reporting Standards.

Basis for Opinion

I conducted my audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Authority in accordance with the International 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 who performed their work in accordance with ISAs.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the 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)

Auditor's 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 auditor's 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 my 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 my auditor's 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 my auditor's 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 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)(ii) of the *Public Management and Finance Law (2017 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.



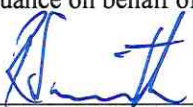
Sue Winspear, CPFA
Auditor General

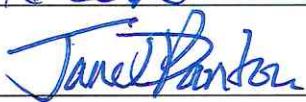
30 April 2018
Cayman Islands

Civil Aviation Authority of the Cayman Islands
Statement of Financial Position
As at December 31, 2017
Stated in Cayman Islands Dollars

	Note	December 31, 2017	June 30, 2016
Assets			
Current assets			
Cash and cash equivalents	4(a)	5,805,651	3,235,493
Short term deposits	4(b)	7,997,861	6,668,504
Trade and other receivables	5	1,470,604	2,049,958
Total current assets		15,274,116	11,953,955
Non-current assets			
Capital assets	6	542,153	149,820
Total non-current assets		542,153	149,820
Total Assets		15,816,269	12,103,775
Liabilities and Equity			
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	7(a)	1,226,896	1,001,263
Dividend payable to Cayman Islands Government	7(b)	3,467,870	2,031,272
Total current liabilities		4,694,766	3,032,535
Non-current liabilities			
Defined benefit (pension) obligation	8(a)	1,405,750	2,061,750
Defined benefit (healthcare) obligation	8(b)	2,082,000	1,858,000
Total non-current liabilities		3,487,750	3,919,750
Total Liabilities		8,182,516	6,952,285
Equity		7,633,753	5,151,490
Total Liabilities and Equity		15,816,269	12,103,775

Approved for issuance on behalf of Civil Aviation Authority's management on 30 April 2018


 _____ (Director General)


 _____ (Director of Finance & Compliance)

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

Civil Aviation Authority of the Cayman Islands
Statement of Comprehensive Income
For the period July 1, 2016 to December 31, 2017
Stated in Cayman Islands Dollars

	Note	18 months ended December 31, 2017	Year ended June 30, 2016
Revenue			
Air safety regulation and certification fees	10 (a)	7,968,573	5,131,216
Aerodrome oversight fees	10 (b)	1,500,000	1,000,000
Surveyor fees and net reimbursable expenses	10 (c)	1,516,788	1,014,106
Aircraft operating permits	10 (d)	493,470	279,650
Other income	10 (e)	99,381	27,126
Total revenue		11,578,212	7,452,098
Operating expenses			
Personnel costs	11 (a)	4,064,429	2,707,440
Office administration and business development	11 (b)	870,043	608,647
Professional and licensing fees	11 (c)	1,152,648	700,590
Travel – official, training and administrative	11 (d)	208,345	156,407
Total operating expenses		6,295,465	4,173,084
Other expenses			
Depreciation expense	6	89,614	60,924
Bad debt expense	5	-	6,165
Total expenses		6,385,079	4,240,173
Operating net income for the period		5,193,133	3,211,925
Other comprehensive gains / (losses)			
Re-measurement of defined benefit (pension) obligation	8(a)	788,000	(728,000)
Re-measurement of defined benefit (healthcare) obligation	8(b)	(31,000)	(110,000)
Total comprehensive income for the period		5,950,133	2,373,925

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

Civil Aviation Authority of the Cayman Islands
Statement of Cash Flows
For the period July 1, 2016 to December 31, 2017
Stated in Cayman Islands Dollars

	18 month period ended December 31, 2017	Year ended June 30, 2016
Cash flows from operating activities		
Operating net income for the period	5,193,133	3,211,925
Adjustments for:		
Gain on disposal of capital assets	-	-
Depreciation expense	89,614	60,924
Decrease/(Increase) in accounts receivable	579,354	(404,141)
Increase/(Decrease) in accounts payables and accrued liabilities	225,633	(48,599)
Net adjustment for defined benefit obligation and interest costs	325,000	254,000
Net cash from operating activities	6,412,734	3,074,109
Cash flows from investing activities		
Increase in short term deposits	(1,329,357)	(1,664,734)
Proceeds on disposal of capital assets	-	-
Purchase of capital assets	(481,947)	(33,052)
Net cash used in investing activities	(1,811,304)	(1,697,786)
Cash flows used in financing activities		
Dividends paid	(2,031,272)	(2,168,520)
Net cash used in financing activities	(2,031,272)	(2,168,520)
Net increase/(decrease) in cash and cash equivalents	2,570,158	(792,196)
Cash and cash equivalents at beginning of the period	3,235,493	4,027,690
Cash and cash equivalents at end of the period	5,805,651	3,235,493

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 period July 1, 2016 to December 31, 2017
Stated in Cayman Islands Dollars

	Note	18 month period ended December 31, 2017	Year ended June 30, 2016
Balance at beginning of the period		5,151,490	4,808,837
Operating net income for the period		5,193,133	3,211,925
Other comprehensive (loss)/gain	8	757,000	(838,000)
Dividends	7(b)	<u>(3,467,870)</u>	<u>(2,031,272)</u>
Balance at end of the period		<u>7,633,753</u>	<u>5,151,490</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, 2017

1. Background information

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

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

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

The registered address of the Civil Aviation Authority is P.O. Box 10277 APO, Grand Cayman, Cayman Islands and is located at Cayman Grand Harbour. The Civil Aviation Authority has 20 employees as at December 31, 2017 (2016: 21).

Pursuant to the Public Management and Finance Law (PMFL) (Amendment) 2015, the Authority was required to prepare its financial statements for the period from July 1, 2016 to December 31, 2017 and for each calendar year ending thereafter on December 31. As a result of the change in the financial reporting period, the amounts presented in these financial statements are not entirely comparable.

2. Significant Accounting Policies

a) Basis of Presentation

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

b) New standards, amendments and interpretations issued but not effective for the financial year beginning July 1, 2016 and not early adopted

IFRS 9, ‘Financial instruments’, addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
December 31, 2017

2. Significant Accounting Policies (continued)

b) New standards, amendments and interpretations issued but not effective for the financial year beginning July 1, 2016 and not early adopted (continued)

economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Authority has assessed this standard and has concluded that it is not expected to have a material impact on the financial statements.

IFRS 15, issued May 2014 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Authority has assessed the effects of this standard and has concluded that the standard has effectively been followed for revenue recognition by the Authority and no changes in accounting policy are necessary. The Authority has assessed this standard and has concluded that it is not expected to have a material impact on the financial statements.

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

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

c) Property, plant and equipment

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

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

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
December 31, 2017

2. Significant Accounting Policies (continued)

d) Foreign currency translation

- i) Functional and presentation currency - Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Cayman Islands dollars, which is the entity's presentation currency.
- ii) Foreign currency transactions are recorded at the exchange rates prevailing on the date of the transactions. Assets and liabilities recorded in currencies other than Cayman Islands Dollars are translated at exchange rates in effect at the statement of financial position date.

e) Cash and cash equivalents

Cash and cash equivalents include cash held on demand and on short notice and all deposits with an original maturity date of three months or less.

f) Short-term deposits

Short-term deposits represent term deposits with banks or other financial institutions with original maturities of greater than three months but less than twelve months.

g) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for the sale of goods and services stated net of discounts. The Authority recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Authority's activities as described in Note 10.

h) Financial assets and liabilities

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

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

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

i) Accounts payable and accrued liabilities

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

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

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
December 31, 2017

2. Significant Accounting Policies (continued)

j) Offsetting financial instruments

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

k) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect:

- reported amounts of assets and liabilities
- disclosure of contingent assets and liabilities at the date of the financial statements
- the reported amounts of revenue and expenses during the reporting period.

Actual results could differ from those estimates, the impact of which would be recorded in future periods.

l) Leases

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

Leases of property, plant and equipment where the Authority has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. The Authority did not have any finance leases during 2017 (2016: \$nil).

m) Employee benefits

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

(i) Pension obligations

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

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

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

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
December 31, 2017

2. Significant Accounting Policies (continued)

m) Employee benefits (i) Pension obligation (continued)

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.

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.

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

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in Note 8.

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
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4. Cash and short term investments

	December 31, 2017	June 30, 2016
a) Cash and cash equivalents		
Cash on hand	602	788
Current and call accounts	5,805,049	3,234,705
Total cash and cash equivalents	<u><u>5,805,651</u></u>	<u><u>3,235,493</u></u>
b) Short term deposits		
Fixed Deposits	<u><u>7,997,861</u></u>	<u><u>6,668,504</u></u>

Current and call account holdings are:	December 31, 2017	June 30, 2016
- Cayman National Bank	\$ 5,192,447	3,105,868
- Bank of Butterfield	\$ 496,450	14,166
- NatWest UK (GBP 102,311)	\$ 116,152	114,671
<i>(Exchange Rate of GBP to KYD 1.135)</i>		

Fixed deposit holdings are:

- Cayman National Bank	\$ 5,925,141	4,640,333
- Cayman Islands Government	\$ 2,072,720	2,028,171

Fixed deposits are held with Cayman National Bank and with the Cayman Islands Government and have maturity dates over 90 days but within 365 days. See Note 12.

5. Trade and other receivables

	December 31, 2017	June 30, 2016
Accounts receivables - Trade	1,385,811	1,865,610
Other receivables	99,277	206,947
Allowance for doubtful accounts	(14,484)	(22,599)
Trade and other receivables (net)	<u><u>1,470,604</u></u>	<u><u>2,049,958</u></u>

CAA currently has a bad debt policy in place that includes; the approval process, those appointed to approve, the required evidence that needs to be produced, the level or maximum amount management can approve and the reporting process to the Board on those write offs. Bad debts are to be written off in the following year after provision if the account is still outstanding and determined uncollectable.

The bad debts expense recorded in the statement of comprehensive income of \$0 for 2017 (2016: \$6,165) represents amounts owed that were over a year old and thus provided for in the allowance for doubtful accounts for the year.

Of the total accounts receivable outstanding at December 31, 2017, \$250,000 (2016: \$250,000) was due from the Cayman Islands Airports Authority ("CIAA") for the quarterly fee due for Regulatory services under the Memorandum of Understanding (MOU) referred to in Note 10b, \$93,725 (2016: \$138,740) was due from Cayman Airways Limited and \$83,202 (2016: \$415,664) from National Air Services for various services. The CIAA and Cayman Airways Limited are related parties of the Authority.

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5. Trade and other receivables (continued)

The total Trade Receivables below represents the net of Trade Receivables of \$1,385,811, (2016: \$1,865,610) and Allowance for doubtful accounts of (\$14,484) (2016: (\$22,599)).

Aging profile of trade receivables

Period Outstanding (Days)	December 31, 2017	June 30, 2016
0-30	836,940	1,154,281
30-90	299,146	478,171
90-365	235,241	210,559
Over 365	-	-
Total	1,371,327	1,843,011

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

	18 months ended December 31, 2017	Year ended June 30, 2016
Opening allowance for doubtful accounts	22,599	30,111
Bad debts provided for during the period	-	6,166
Less recoveries	-	(13,678)
Write off against accounts previously provided for	(8,115)	-
Closing allowance for doubtful accounts	14,484	22,599

The changes in trade receivables are as follows:

	December 31, 2017	June 30, 2016
Neither past due nor impaired	836,940	1,154,280
Total past due but not impaired	534,387	688,731
<i>Impaired:</i>		
31 – 365 days	-	3,497
Over 365 days	14,484	19,102
Total impaired	14,484	22,599
Total trade receivables	1,385,811	1,865,610

As of 31 December 2017, receivables of \$534,387 (2016: \$688,731) were past due but not impaired. These relate to a number of independent customers from whom there is no recent history of default or to related party customers guaranteed by the Cayman Islands Government. The ageing analysis of these receivables is as follows:

	December 31, 2017	June 30, 2016
31 – 365 days	534,387	688,731
Over 365 days	-	-
Total past due but not impaired	534,387	688,731

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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, 2015	144,793	119,201	143,766	144,968	36,947	5,258	71,754	666,687
Additions during 15/16	-	2,383	10,418	7,500	1,751	11,000	-	33,052
Disposals during 15/16	-	-	-	-	-	-	-	-
As at June 30, 2016	144,793	121,584	154,184	152,468	38,698	16,258	71,754	699,739
Additions during 16/17	-	-	17,353	18,405	2,437	443,752	-	481,947
Disposals 16/17	-	-	-	-	-	-	-	-
As at December 31, 2017	144,793	121,584	171,537	170,873	41,135	460,010	71,754	1,181,686
Accumulated depreciation:								
Brought Forward, as at July 1, 2015	137,221	87,036	126,767	79,009	35,921	-	23,041	488,995
Charge for year 15/16	7,572	8,881	6,079	23,381	660	-	14,351	60,924
Disposals during 15/16	-	-	-	-	-	-	-	-
As at June 30, 2016	144,793	95,917	132,846	102,390	36,581	-	37,392	549,919
Expense for year 16/17	-	11,017	21,196	34,510	1,365	-	21,526	89,614
Disposals 16/17	-	-	-	-	-	-	-	-
As at December 31, 2017	144,793	106,934	154,042	136,900	37,946	-	58,918	639,533
Net book value as at								
June 30, 2016	-	25,667	21,338	50,078	2,117	16,258	34,362	149,820
Net book value as at								
December 31, 2017	-	14,650	17,495	33,973	3,189	460,010	12,836	542,153

Civil Aviation Authority of the Cayman Islands
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December 31, 2017

7. Liabilities and related party transactions

a) Accounts payable and accrued liabilities

	December 31, 2017	June 30, 2016
Unearned income	391,491	474,121
Employee incentive awards accrued	178,437	176,014
Accrued expenses	152,760	201,370
Accounts payable	102,244	149,225
Other payables	400,000	-
Unidentified deposits and unresolved issues	1,964	533
Total accounts payable / accrued liabilities	<u>1,226,896</u>	<u>1,001,263</u>

b) Related party balances and transactions

Dividend payable to Cayman Islands Government

Under section 18(4) of The Civil Aviation Authority Law (2005 Revision), the Authority is required to make an annual payment into the general revenue of the Cayman Islands Government (CIG) which is to be calculated by a formula determined by the Financial Secretary. In March 2012, a directive was issued by the Financial Secretary and agreed by the Authority detailing the formula and the terms of the dividend repayment to the Cayman Islands Government. The directive indicated that the Authority would pay 75% of the annual Comprehensive Income first reported to the Office of the Auditor General within three months of the end of the financial year. A revision in the directive in July 2013 indicated that an adjustment be made in the subsequent year for any difference with the audited net income. On February 28, 2018 a total of \$3,467,870 (2016: \$2,031,272) was payable to the CIG as detailed below:

	December 31, 2017	June 30, 2016
Dividend payable for current year unaudited comprehensive income	4,138,599	2,451,173
Adjustment to dividend payable for prior years audited income	<u>(670,729)</u>	<u>(419,901)</u>
Total Dividend Payable	<u>3,467,870</u>	<u>2,031,272</u>

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.

Pursuant to an agreement between the Cayman Islands Airport Authority and the Civil Aviation Authority, the Civil Aviation Authority leased land in order to build its future office accommodation. The total consideration was \$400,000 which was unpaid at year end.

(c) Key Employee Benefits

The key employees of the Civil Aviation Authority are the Director General, the Director of Air Navigation Regulation, the Deputy Director-General, Economic Regulation and Administration, the Director of Finance and Compliance and the Director of Air Safety Regulation. Total salary and employee benefits expensed in the 18 months ended 31 December 2017 amounted to \$1,390,055 (2016: \$874,839). 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 2017 performance incentive award settled prior to year end was \$48,728. The Director General and the Deputy Director-General, Economic Regulation and Administration have the benefit of having an additional 7% of their base pay

Civil Aviation Authority of the Cayman Islands
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7. Liabilities and related party transactions (continued)
(c) Key Employee Benefits (continued)

paid into their pension fund by the Authority in addition to the base 6% contribution. The Director General, through his employment contract approved by the Governor and Board of Directors, is provided with a vehicle including running costs, insurance and maintenance. Under the medical coverage program, as is for all staff, claims not covered by the insurance provider and are deemed to be a medical necessity are fully subsidized by the Authority. For the 18 months ended December 31, 2017 this amounted to \$12,814 (2016: \$7,412) for all key employees.

	18 months ended December 31, 2017	Year ended June 30, 2016
Base salary	1,060,160	672,136
Pension	80,801	47,950
Medical coverage	145,226	99,224
Fuel allowance	2,262	2,262
Performance incentive award (estimated)	101,606	53,267
Total key employee benefits	<u>1,390,055</u>	<u>874,839</u>

(d) 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 84,908 (GBP 67,282 in 2016) 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.

8. Post-employment benefits

a) Pensions

Pension contributions are paid for all eligible employees on their pensionable emoluments. The majority of the employees are participants in the Public Service Pensions Plan, with a small number participating in other private plans.

Pension contributions for eligible employees of the Authority are paid to the Public Service Pensions Fund (the "Fund"). The Fund is administered by the Public Service Pensions Board (PSPB) and is operated as a multi-employer Fund, except that surpluses or deficits related to the Authority's Plan are not available to offset or be set off against other plan participants' deficits or surpluses. Prior to April 14, 1999 the scheme underlying the Fund was a defined benefit scheme. With effect from April 14, 1999 the Fund has both a defined benefit and a defined contribution element. Participants joining after April 14, 1999 become members of the defined contribution element.

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 18 months ended December 31, 2017 the amount of \$115,325 (2016: \$61,240) was contributed by the Authority.

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
December 31, 2017

8. Post-employment benefits (continued)

ii. Defined benefit plan

The defined benefit plan is a final salary pension plan which provides benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' length of service and their salary in the final years leading up to retirement. This benefit is available to certain long serving employees under 1987 Cayman Islands Government General Orders.

The defined benefit portion of the Fund has been valued by an Actuary engaged by the PSPB. The defined contribution part of the Fund is not subject to the actuarial valuations due to the nature of the benefits provided therein.

The table below outlines where the Authority's post-employment amounts and activity are included in the financial statements.

	December 31, 2017 \$'000	June 30, 2016 \$'000
Statement of financial position:		
Defined benefit obligation at end of period	4,918	4,934
Fair value of plan assets at end of period	(3,512)	(2,872)
Liability in the statement of financial position	1,406	2,062
	18 months ended December 31, 2017	Year ended June 30, 2016
Income statement charge included in operating profit for the period:		
Defined pension benefits – service cost and interest expense	(159)	(89)
Income statement charge included in Other Comprehensive Gains/(Losses):		
Defined pension benefits – re-measurements on returns and assumptions	788	(728)

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
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8. Post-employment benefits (continued)

a) ii. Defined benefit plan (continued)

	Present value of obligation \$'000	Fair value of asset plan \$'000	Net liability/ (asset) \$'000
At June 30, 2015	3,969	(2,710)	1,259
Current service cost	29	-	29
Interest expense/(income)	189	(129)	60
	218	(129)	89
Re-measurements:			
- Return on plan assets	-	(7)	(7)
- (Gain)/loss from changes in financial assumptions	735	-	735
	735	(7)	728
Contributions:			
- Employers	-	(14)	(14)
- Plan participants	12	(12)	-
Payments from plan:			
- Benefit payments	-	-	-
- Administrative expenses	-	-	-
As at June 30, 2016	4,934	(2,872)	2,062
Current service cost	54	-	54
Interest expense/(income)	252	(147)	105
	306	(147)	159
Re-measurements:			
- Return on plan assets	-	(455)	(455)
- (Gain)/loss from changes in financial assumptions	(36)	-	(36)
- Loss on changes in demographic assumptions	(297)	-	(297)
	(333)	(455)	(788)
Contributions:			
- Employers	-	(27)	(27)
- Plan participants	27	(27)	-
Payments from plan:			
- Benefit payments	(16)	16	0
- Administrative expenses	-	-	-
As at December 31, 2017	4,918	(3,512)	1,406

The principal actuarial assumptions at the date of valuation:

	2017 %	2016 %
1. Discount Rate	3.80	4.00
2. Rate of salary increase	2.50	3.50
3. Rate of price inflation	2.00	2.50
4. Rate of pension increase	2.00	2.50
5. Post-employment mortality table – 2017: RP-2014 scaled back to 2006 using MP-2014 then projected on a generation basis using scale MP-2016 (2016: RP-2014 projected on a generation basis using scale MP-2014).		

Civil Aviation Authority of the Cayman Islands
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8. Post-employment benefits (continued)
a) ii. Defined benefit plan (continued)

Other Assumptions regarding future mortality are based on actuarial advice in accordance with published statistics and experience in each territory. The sensitivity of the defined benefit obligation at December 31, 2017 and June 30, 2016 to changes in the weighted principal assumptions is:

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%

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

* The assumed life expectancy of a person retiring today at age 57 is 29.13 (2016: 30.21). 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 (2016: 0.91 and 1.02 years), respectively.

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

The significant plan assets are comprised of:

	2017	2016
Global Equities	80%	80%
Debt securities	19%	19%
Cash	<u>1%</u>	<u>1%</u>
	<u>100%</u>	<u>100%</u>

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

Asset Volatility

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

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

Civil Aviation Authority of the Cayman Islands
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8. Post-employment benefits (continued)

a) ii. Defined benefit plan (continued)

Changes in bond yields

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

Inflation Risk

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

Life expectancy

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

As of December 31, 2017, June 30, 2016 and June 30, 2015, the Authority has not formally agreed on a contribution plan that would aim to eliminate the pension plan deficit over the forthcoming years.

The weighted average duration of the defined benefit obligation is 18.23 years (2016: 19.9 years).

b) Post-employment healthcare

The Authority operates an unfunded post-employment healthcare benefit scheme. The method of accounting, significant assumptions and the frequency of valuations are similar to those used for the defined benefit pension scheme set out above with the addition of actuarial assumptions relating to the long-term increase in healthcare costs which is 5% (2016: 5%).

Other significant assumptions include:

- a. Mortality rates – 2017: RP-2014 Mortality Table scaled back to 2006 using MP-2014 (2016: RP-2014 projected on a generation basis using scale MP-2014).
- b. Mortality improvement scale – 2017 Scale MP-2016 (2016: Scale MP-2015).
- c. Discount rate assumption 2017: 3.85% (2016: 4.05%)

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

The sensitivity of the defined benefit obligation at December 31, 2017 and June 30, 2016 to changes in the weighted principal assumptions is:

Impact on defined benefit 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
Impact on defined benefit obligation 2016			
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.25%	Decrease by 5.5%	Increase by 6.0%
Healthcare cost trend rate	1%	Increase by 25.8%	Decrease by 19.6%

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
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8. Post-employment benefits (continued)
(b) Post-employment healthcare (continued)

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

	Present value of obligation ('\$000)
As at June 30, 2015	1,569
Operating expenses:	
- Current service cost	105
- Interest expense/ (income)	74
	179
Re-measurements:	
- (Gain)/ loss from change in demographic assumptions	(80)
- (Gain)/ loss from change in financial assumptions	289
- Experience (gains)/ losses	(99)
	110
As at June 30, 2016	1,858
Operating expenses:	
- Current service cost	122
- Interest expense/ (income)	71
	193
Re-measurements:	
- (Gain)/ loss from change in demographic assumptions	(266)
- (Gain)/ loss from change in financial assumptions	93
- Experience (gains)/ losses	204
	31
As at December 31, 2017	2,082

9. Lease of premises

The Grand Cayman office is located in Cayman Grand Harbour and is leased from Cayman Grand Harbour Shoppes Ltd. The current lease is for three years and was signed on July 1, 2013 and expired August 15, 2016, this lease has been renewed with new expiration date of August 15, 2019. Total space occupied is 4,530 square feet at lease rate of \$30 per square ft. and additional strata fees of not more than \$6.50 per square foot per annum (excluding sewage costs) are to be charged during first two years.

Lease payments under the operating leases are charged to the statement of comprehensive income over the period of the lease and any associated fit-out costs are classified as a Leasehold Improvement and are depreciated over the life of the leases on a straight line basis.

The future obligations of existing lease and strata fee payments for the office lease is as follows:

Cayman Grand Harbour, Cayman Islands from January 1, 2018 to August 14, 2019 (20 months of monthly rent and strata fees of \$14,126)	\$282,520
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Civil Aviation Authority of the Cayman Islands
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10. Revenue

a) Air Safety Regulation and certification fees

These fees represent the main operational revenue of the Authority, which is generated from all aircraft on the Cayman Islands Aircraft Register. Each document that is issued by the Air Safety Regulations department is associated with a fee which is governed by Air Navigation (Fees) Regulation (2010) Amended passed by the Legislative Assembly in November 2010. There are thirty one (31) sections in this Law which detail the various regulations and associated fees chargeable to all aircraft registered on the Cayman Islands Aircraft Registry. The fees within the regulations range from Certification of Airworthiness to Pilot Licence Validations.

b) Aerodrome oversight fees

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

On July 1, 2015 a Memorandum of Understanding (MOU) between CAA and CIAA was signed whereby CAA would charge the CIAA \$1,000,000 per annum for regulatory and oversight fees of the ORIA and CKIA. The MOU stated that this fee commenced on July 1, 2015 and would be effective for a period of three years, with an agreement to review annually. This MOU has been in place since July 1, 2004 and has been renewed every year at the same fee.

c) Surveyor fees and net reimbursable expenses

The Air Navigation (Fees) Regulations, November 2010 (Amended) also dictate that an hourly rate up to \$250 can be charged for surveys carried out on all the aircraft on the Cayman Islands Aircraft Register. During the year ended December 31, 2017, a fee of \$250 (2016: \$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:

	18 months ended December 31, 2017	Year ended June 30, 2016
Surveyor fee billings	1,520,640	1,004,392
Survey reimbursable billings	852,075	626,790
Reimbursable expenses paid	(855,927)	(617,076)
Surveyor fees & net reimbursable expenses	1,516,788	1,014,106

During the financial periods ending 2017 and 2016, 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.

Civil Aviation Authority of the Cayman Islands
Notes to the Financial Statements
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10. Revenue (continued)

e) Other income

	2017	2016
Interest income	99,381	24,755
Bad debt recovery	-	13,678
Unrealised gain (loss) on foreign currency accounts	-	(11,307)
Total Other Income	99,381	27,126

11. Expenses

Operating expenses

a) Personnel costs

	2017	2016
Salaries/performance incentive expenses – Cayman	2,987,413	1,982,494
Insurance and medical expenses	482,306	311,848
Pension (including DB plan service costs)	317,234	189,323
Post-employment healthcare- Note 8(b)	193,000	179,000
Training	79,147	29,655
Recruitment and relocation expenses	5,329	15,120
Total personnel costs	4,064,429	2,707,440

b) Office administration and business development

	2017	2016
General office administration expenses	439,489	313,238
Rental expenses	262,974	188,335
Business development expenses	156,460	104,960
Board of Directors expenses	11,120	2,114
Total office administration and business development	870,043	608,647

c) Professional & licensing fees

	2017	2016
Contractors fees – overseas	726,401	398,197
Air Safety Support International (ASSI)	116,097	88,629
Work permit fees	89,990	48,094
Insurance fees	75,479	67,605
Audit and other professional fees	67,870	50,607
Professional dues and subscriptions	7,254	4,564
AAIB retainer Fee	46,937	34,583
Legal fees	22,620	8,311
Total professional & licensing fees	1,152,648	700,590

d) Travel – official, training and administrative

	2017	2016
Travel – business development	97,248	52,249
Travel – administration and training	111,097	104,158
Total Travel – official, training and administrative	208,345	156,407

Total operating expenses

6,295,465	4,173,084
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Civil Aviation Authority of the Cayman Islands
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12. Financial Instruments Risk

Liquidity risk

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

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

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

As at 31 December 2017:

	≤ 1 Year	>1 ≤ 5 Years	> 5 Years
Accounts payable and acc. expenses	1,226,896	-	-
Dividend payable	<u>3,467,870</u>	<u>-</u>	<u>-</u>
Total cash outflows	\$ <u>4,694,766</u>	\$ <u>-</u>	\$ <u>-</u>

As at 30 June 2016:

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

Credit risk

Financial assets that potentially subject the Authority to credit risk consist principally of bank current accounts, fixed deposits, accounts receivable and other receivables. The Authority's fixed deposits are placed with accredited financial institutions and due diligence conducted on clients before they are accepted on the register. Local credit clients are sufficiently regulated. The Authority is responsible for managing and analysing the credit risk for each of their new customers before standard payment terms and conditions are offered. The Authority's clients with the largest outstanding balances as at December 31, 2017 are National Air Services (NAS) with approximately 6% (2016: 23%) of total outstanding balances, Cayman Airways 7% (2016: 8%) and Cayman Islands Airports Authority (CIAA) 18% (2016: 14%) and are considered significant concentrations of credit risk.

Interest rate risk

Cash amounts held at Cayman National Bank over \$500,000 (2016: \$500,000) are placed on semi-annual and annual fixed deposits and generally earn an interest rate of between 0.5300% (2016: 0.3500%) and 1.0000% (2016: 0.4500%) per annum in the period ending December 31, 2017. There are two accounts held at NatWest Bank in the UK, an operating account and a credit card account for 5 (2016: 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 (2016: £16,000) was held as a deposit. This deposit earns between 0.5% and 1% interest per annum. As at December 31, 2017 there is also a fixed deposit held with Cayman Islands Government Treasury. The amount is \$2,058,860.30 (US\$2,510,805) (2016: CI\$2,029,114), for twelve months to a rate of 1.6200% and matures on 27 July 2018. Management believes that a reasonable possible change in interest rates would not have a direct material impact on the Authority's profit/ (loss).

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12. Financial Instruments Risk (continued)

Fair values

The current accounts, fixed deposits, accounts receivable and other liabilities and payables approximated their fair value due to short term maturities of these assets and liabilities. There was no significant effects of global economic conditions during the 18 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.

13. Capital management

The Authority's objectives when managing capital are to safeguard its ability to continue as a going concern in order to fulfil its responsibilities as outlined in Note 1 for stakeholders and, as further discussed in Note 7(b), to make an annual payment into the general revenue of the Cayman Islands Government. The Authority is not subject to externally imposed capital requirements.

14. Subsequent events

Subsequent to year end, the Authority has paid \$3,467,870 of dividends payable to the Cayman Islands Government.