



CIVIL AVIATION AUTHORITY
OF THE CAYMAN ISLANDS

**Financial Statements of
Civil Aviation Authority of
The Cayman Islands**

For the years ended June 30, 2006 and 2005



CIVIL AVIATION AUTHORITY
OF THE CAYMAN ISLANDS

FINANCIAL STATEMENTS

FOR THE YEARS ENDED June 30, 2006 and 2005

TABLE OF CONTENTS

Statement of Responsibility	Page 1
Audit Opinion	Page 2
Balance Sheet	Page 4
Statement of Income and Expenses	Page 5
Statement of Cash Flows	Page 6
Statement of Changes in Equity	Page 7
Notes to Financial Statements	Pages 8-17



CIVIL AVIATION AUTHORITY
OF THE CAYMAN ISLANDS

Financial Statements 30 June 2006

STATEMENT OF RESPONSIBILITY FOR FINANCIAL STATEMENTS

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, (2005 Revision). The financial statements comply with generally accepted accounting practice as defined in International Public Sector Accounting Standards and International Financial Reporting Standards.

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, (2005 Revision).

To the best of my knowledge the statements are:

- (a) complete and reliable;
- (b) fairly reflect the financial position as at 30 June 2006 and performance for the financial year ended 30 June 2006; and
- (c) comply with generally accepted accounting practice.

DA B. 2008 - Hurst
Chairman
Civil Aviation Authority of the Cayman Islands

Date: March 19, 2009

[Signature]
Director - General
Civil Aviation Authority of the Cayman Islands

Date: March 19, 2009



Cayman Islands

Civil Aviation Authority of the Cayman Islands
CERTIFICATE OF THE AUDITOR GENERAL

To the Board Members of the Civil Aviation Authority and the Financial Secretary

In accordance with the provisions of Section 24 (1) (b) of the Civil Aviation Authority Law, (2005 Revision) and Section 52 (3) of the Public Management and Finance Law (2005 Revision), I have audited the financial statements of the Civil Aviation Authority of the Cayman Islands (the "Authority") which comprise the balance sheet as at 30 June 2006, and the related income statement, statement of changes in equity and cash flow statement for the year then ended as set out on pages 4 to 17.

Management's Responsibilities for the Financial Statement

Management is responsible for the preparation and fair representation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend upon the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

I obtained a fixed assets register from the Authority. However, that register did not properly reflect the fixed assets in the Authority's custody as at 30 June 2006, therefore, I cannot determine whether the 'Fixed Assets' book value of \$177,008, the related depreciation expense of \$63,052 and disposal of \$57,563 noted in the financial statements is fairly stated. I was unable to apply alternative procedures to satisfy myself as to the completeness of fixed assets.

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I been able to satisfy myself as to the completeness of fixed assets the financial statements present fairly in all material respects, the financial position of the Civil Aviation Authority of the Cayman Islands as of 30 June 2006, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the Civil Aviation Authority Law, (2005 revision).



Dan Duguay MBA, FCGA
Auditor General

19 March 2009
Cayman Islands

Civil Aviation Authority of the Cayman Islands

Balance Sheet
for the years ending June 30, 2006 and 2005

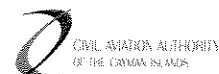
(stated in Cayman Islands dollars)

	Note	30-Jun-06	30-Jun-05
Assets			
Current Assets			
Cash and Cash Equivalents	3	803,399	2,012,522
Accounts Receivable	4	587,297	584,738
Other Receivables	5	356,036	341,101
		<u>1,746,732</u>	<u>2,938,361</u>
Fixed Assets	6	<u>177,008</u>	<u>176,433</u>
Total Assets		<u><u>1,923,740</u></u>	<u><u>3,114,794</u></u>
Liabilities and Reserves			
Current Liabilities			
Accrued Expenses		171,650	45,895
Due to CIAA	7a	0	1,476,000
Due to Cayman Islands Government	7b	<u>1,000,000</u>	<u>1,000,000</u>
		<u>1,171,650</u>	<u>2,521,895</u>
Long Term Liabilities			
Defined Benefit Pension Liability	8	633,000	607,000
Reserves			
Accumulated Reserves /(Deficit)		119,090	(14,101)
		<u>752,090</u>	<u>592,899</u>
Total Liabilities and Reserves		<u><u>1,923,740</u></u>	<u><u>3,114,794</u></u>

Approved for issuance on behalf of Civil Aviation Authority's Board on 19/3/09 by:

Mr B. Y. Hurre Chairman of the Board

[Signature] Director – General



The accompanying notes form an integral part of these financial statements

Civil Aviation Authority of the Cayman Islands
Income and Expense Statement
for the years ending June 30, 2006 and 2005
(stated in Cayman Islands dollars)

	Note	June 30, 2006 CIS	June 30, 2005 CIS
Income			
Regulatory and Oversight Fees	11	1,476,000	861,000
Air Safety Regulation and Certification Fees	12	490,029	804,346
Surveyor Fees and Reimbursable Expenses	13	618,647	92,866
Other Income		98,239	66,369
Total Income		2,682,915	1,824,581
Expenses			
Personnel Costs		1,581,851	1,102,512
Bad Debt Expense		65,511	853,847
Travel & Subsistence Cost - Surveyors	13	370,185	166,317
General Office Expenses		325,080	120,907
Professional & Licensing Fees & Insurance		133,902	118,524
Depreciation Expense	6	63,053	50,327
Other Expenses		10,142	12,059
Total Expenses		2,549,724	2,424,493
Net Income/(Deficit)		133,191	(599,912)

The accompanying notes form an integral part of these financial statements

Civil Aviation Authority of the Cayman Islands
Statement of Cash Flows
for the years ending June 30, 2006 and 2005
(stated in Cayman Islands dollars)

	June 30, 2006 \$	June 30, 2005 \$
Cash Flows from Operating Activities		
Net income/(deficit) for the year	133,191	(599,912)
Add items not affecting working capital:		
Depreciation	63,053	50,327
	196,244	(549,585)
Net changes in non-cash working balances and non-current assets related to operations:		
(Increase)/Decrease in Accounts Receivable	(2,559)	5,786,616
(Increase)/Decrease in Other Receivables	(14,935)	20,965
(Decrease) in Due to CIAA	(1,476,000)	(7,838,074)
Increase in Accrued Expenses	125,755	25,000
Net cash used in operating activities	(1,367,739)	(2,005,493)
Cash Flows in Investing Activities		
Increase in Defined Pension Liability	26,000	0
Purchase of Fixed Assets	63,628	(176,760)
Decrease in Cash and Cash Equivalents during year	(1,209,123)	(2,731,838)
Cash and Cash equivalents at Beginning of Year	2,012,522	4,744,360
Cash and Cash equivalents at the end of the year	<u>803,399</u>	<u>2,012,522</u>

The accompanying notes form an integral part of these financial statements

Civil Aviation Authority of the Cayman Islands
Statement of Changes in Equity
for the year ending June 30, 2006
(stated in Cayman Islands dollars)

	2006 \$	2005 \$
Accumulated (Deficit)/Reserves Brought Forward Balance	(14,101)	570,811
Increase in Defined Benefit Plan Payable	0	15,000
Net Income/(Deficit) for period	133,191	(599,912)
Accumulated Reserves/(Deficit) Carried Forward Balance	<u>119,090</u>	<u>(14,101)</u>

The accompanying notes form an integral part of these financial statements

Civil Aviation Authority of the Cayman Islands
Notes to Financial Statements
for the years ending June 30, 2006 and 2005
(stated in Cayman Islands dollars)

1. Background Information

The Civil Aviation Authority of the Cayman Islands ("the Civil Aviation Authority" or "the Authority") is a statutory body established on June 1, 1987 under the Civil Aviation Authority of the Cayman Islands Law as amended. On July 1, 2004, the regulatory and operational divisions were split into two separate authorities based on the Civil Aviation Authority Law 2004 and the Airports Authorities Law 2004 respectively: Civil Aviation Authority of the Cayman Islands – retained responsibility for the regulation of aviation in the islands and the Cayman Islands Airports Authority was given the operational authority for airports, air traffic control and air navigation services. The Air Navigation (Fees) Regulations, November 2006 was enacted to govern the fee structure of the new Civil Aviation Authority of the Cayman Islands.

The Authority is principally engaged in the regulation of aircraft operations, aerodromes, air traffic control and air navigation services within the Cayman Islands. The Authority is also engaged in the registration and regulation of aircraft, which are based and operated outside the Cayman Islands.

The registered address of the Civil Aviation Authority is P.O. Box 10277 APO, Grand Cayman, Cayman Islands and is located at Grand Harbor. The Civil Aviation Authority had 16 employees as of June 30, 2006. (2005;15)

2. Significant Accounting Policies

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

a) Basis of accounting

The financial statements of the Authority are prepared on the accrual basis under the historic cost convention in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Committee (IASC) and interpretations issued by the Standing Interpretation Committee of the IASC.

b) Depreciation

Fixed assets are stated at historical cost less accumulated depreciation. Depreciation is calculated using the straight-line method at the following rates estimated to write off the cost of the assets over their expected useful lives:

Computer Equipment	3 years
Office Equipment, Vehicles and Leasehold Improvements	5 years
Furniture and Fixtures	10 years

c) Foreign currency translation

Foreign currency transactions are recorded at the exchange rates prevailing on the date of the transactions. Gains and losses on exchange are credited or charged in the statement of income. Gains and losses resulting from the

Civil Aviation Authority of the Cayman Islands
Notes to Financial Statements
for the years ending June 30, 2006 and 2005
(stated in Cayman Islands dollars)

Note 2 (c) continued...

settlement of such transactions and from the translation of monetary assets and liabilities are recognized in the income statement.

Assets and liabilities denominated in currencies other than Cayman Islands dollars are translated at exchange rates in effect at the balance sheet dates.

d) Cash and cash equivalents

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

e) Revenue Recognition

The Authority recognizes revenues in the period in which they are earned. All income from short term deposits is credited to the Income and Expense Statement in the period in which it is earned

f) Financial Instruments

i) Classification

A financial asset is classified as any asset that is cash, a contractual right to receive cash or another financial asset, exchange financial instruments under conditions that are potentially favourable or an equity instrument of another enterprise. Financial assets comprise of cash and cash equivalents and accounts receivable.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial instrument or to exchange financial instruments with another enterprise under conditions that are potentially favourable. Financial liabilities comprise long and short term debt.

ii) Recognition

The Authority recognizes financial assets and financial liabilities on the date it becomes party to the contractual provisions of an instrument. From this date, any gains and losses arising from changes in fair value of the assets and liabilities are recognised in the statements of income and expense.

iii) De-recognition

A financial asset is de-recognised when the Civil Aviation Authority realizes the rights to the benefits specified in the contract or loses control over any right that compromise that asset. A financial liability is de-recognised when it is extinguished, that is, when the obligation is discharged, cancelled or expires.

iv) Measurement

Financial instruments are measured initially at cost, which is the fair value of the consideration given or received. Subsequent to initial recognition, all financial assets are measured at their estimated fair value.

Financial liabilities are subsequently measured at amortised cost, being the amount at which the liability was initially recognized less any principal repayments plus any amortization (accrued interest) of the difference between that initial amount and the maturity amount.

g) Accounts Receivable.

The receivables are stated at original invoice amount less provision for doubtful debts. (See also note 4)

Civil Aviation Authority of the Cayman Islands
Notes to Financial Statements
for the years ending June 30, 2006 and 2005
(stated in Cayman Islands dollars)

Note 2 continued...

h) Accounts Payable.

The payables are stated at historical cost

i) Use of estimates.

The preparation of financial statements, in conformity with International Financial Reporting Standards, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

j) Lease of premises

The lease expense of premises is recognised when payment comes due.

3. Cash and Cash Equivalents

	2006	2005
Cash on hand	4,300	2,249
Current and call accounts	223,163	145,076
Fixed deposit accounts	<u>575,936</u>	<u>1,865,197</u>
Total cash and cash equivalents	<u>\$803,399</u>	<u>\$2,012,522</u>

4. Accounts Receivable

The majority of the accounts receivable is the remainder of an allocation of accounts receivable following the directives of a Cabinet Resolution addressing the final separation of assets and liabilities between the two authorities noted in note 1 of the financial statements. In June 2007, Cabinet mandated that all of the remaining Accounts Receivable at the end of June 2005 be transferred to the Civil Aviation Authority for collection. At the end of the

Civil Aviation Authority of the Cayman Islands
Notes to Financial Statements
for the years ending June 30, 2006 and 2005
(stated in Cayman Islands dollars)

Note 4 continued....

fiscal year it was determined that 59% of the CI\$1,438,585 of Accounts Receivable that was taken over from Cayman Islands Airports Authority was uncollectible. Many were already three to four years old when the transfer took place and some business debtors are no longer in existence. Bad debt allowance has been made for all accounts that are over two years old. Of the Accounts Receivable total at June 30, 2006 and 2005, the amount relating to Cayman Islands Government Departments, Ministries or Statutory Authorities is \$505,841.

	2006	2005
Accounts receivable	1,506,655	1,438,585
Bad debt allowance	<u>(919,358)</u>	<u>(853,847)</u>
Net Accounts Receivable	<u>587,297</u>	<u>584,738</u>

5. Other receivables

Other receivables include the remnants of the amount allocated to the Authority after the Cabinet Resolution and is also brought forward from a balance accrued at June 30, 2004. The amount from 2005 represents a receivable that was accrued from the Cayman Islands Government for the standard Meteorological (MET) Office subsidy. The additional amount of \$14,498 in 2006 represents accrued income billed in July 2006.

	2006	2005
Other receivables	<u>\$355,599</u>	<u>\$341,101</u>

Civil Aviation Authority of the Cayman Islands
Notes to Financial Statements
for the years ending June 30, 2006 and 2005
(stated in Cayman Islands dollars)

6. Fixed Assets

	Leasehold Improvements	Furniture & Fixtures	Computers & Equipment	Vehicles	Total
Historical cost of assets:					
Cost at beginning of year	71,133	98,747	106,659	25,312	301,851
Additions during the year	0	3,941	24,952	34,735	63,628
Disposals during the year	0	(39,977)	(17,586)	0	(57,563)
Cost at end of year	71,133	62,711	114,025	60,047	307,916
Accumulated Depreciation:					
At the beginning of the year	7,079	39,977	65,175	13,187	125,418
Charge for year	14,158	4,513	38,446	5,936	63,053
Disposed during the year	0	(39,977)	(17,586)	0	(57,563)
At end of year	21,237	4,513	86,035	19,123	130,908
Net book value at 30 June					
2006	49,896	58,198	27,990	40,924	177,008
Net book value at June 30, 2005	64,054	58,770	41,484	12,125	176,433

Fixed Assets brought forward are computers, equipment and vehicles that CAA staff were assigned before the separation of the two authorities and were retained by the staff members who remained with the new CAA. The value of the furniture and fixtures that remained was negligible and fully depreciated, and all were disposed of after hurricane Ivan therefore the cost and equal accumulated depreciation was not transferred to the new CAA accounts at July 1, 2004.

The fixed assets amounts disposed of during the year ending 2006 refer to adjustments to bring the net book value in line with fair value.

Civil Aviation Authority of the Cayman Islands
Notes to Financial Statements
for the years ending June 30, 2006 and 2005
(stated in Cayman Islands dollars)

7. Related Party Balances and Transactions

Included in the balance sheet and general reserve are the following items not disclosed elsewhere in the financial statements, with Cayman Islands Airports Authority and Cayman Islands Government, both of which are related parties.

	2006	2005
Current Liabilities		
a) Due to Cayman Islands Airports Authority	0	1,476,000
b) Due to Cayman Islands Government	<u>1,000,000</u>	<u>1,000,000</u>
Total due related parties	<u>1,000,000</u>	<u>2,476,000</u>

a) Due to Cayman Islands Airports Authority (CIAA) June 30 2005

The amount due to Cayman Islands Airports Authority is the residual balance after various transfers of assets, liabilities, payments and receipts between the CAACI and CIAA after the separation of the two authorities on July 1, 2004. During the year ended June 30, 2005 the Authority transferred \$1,500,000 in cash and \$424,504 in prepaid expenses to CIAA, and made payments on behalf of the CIAA equaling \$4,068,891, net. In addition, CIAA collected \$1,728,690 of the CAA's June 30, 2004 accounts receivable. The balance was derived after offsetting the various payments between the two authorities and can be summarized as follows:

Total Current Assets to be transferred to CIAA at Jul 1 2004	\$ 9,314,074
Less Cash transferred to CIAA	\$ (1,500,000)
Less payments on CIAA's behalf	\$ (4,068,891)
Less A/R Collections by CIAA	\$ (1,728,690)
Less debt payments by CAA	\$ (221,400)
Plus CAA collections of CIAA A/R	\$ 574,806
Less CAA invoices to CIAA	<u>\$ (893,899)</u>
Remaining Due to CIAA, net at June 30, 2005	<u>\$ 1,476,000</u>

The balance of \$1,476,000 due to the CIAA at June 30, 2005 was offset during 2006 by invoices raised to the CIAA during the year, as Regulatory and Oversight Fees.

Civil Aviation Authority of the Cayman Islands
Notes to Financial Statements
for the years ending June 30, 2006 and 2005
(stated in Cayman Islands dollars)

Note 7 cont'd....

b) Due to Cayman Islands Government

The amount due the Cayman Islands Government of \$1,000,000 is an amount that was accrued for income distribution to the Government at June 30, 2004, prior to the separation of the two authorities. In a letter dated June 7, 2007 from the Minister of Tourism, Environment, Investment & Commerce it was indicated that 'of the CAA's total long-term debt, the Government agrees to waive C\$1million which was budgeted as a Government contribution by the former CAA, if such amount is consequently deemed to be accrued from the 2003/04 financial year'. In point 7 of the Cabinet Paper, it is stated that "in the interest of certainty, it is proposed that the Cabinet give formal approval that the \$1million be written off". However, at the date of the final signing of these financial statements, the CAA was still awaiting final confirmation from the Financial Secretary that the \$1million would not be due and collectable from the CAA in the future.

8. Employee pensions

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

Public Service Pensions Plan

Pension contributions for eligible employees of the Authority are paid to the Public Service Pensions Fund (the "Fund"). The Fund is administered by the Public Service Pensions Board (the "Pensions Board") and is operated as a multi-employer Fund. 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.

Using the projected unit credit method of measuring costs and obligations, the actuarial assessment for the Authority assessed the minimum normal annual contribution to be 13 % in 2006. This rate included a 1% for the cost of all of the benefits that are provided over and above those related the participant's total account balance. Certain participants are reimbursed for their contributions.

The Plans are funded at rates of: -

		2006	2005
Defined Contribution Plans	- Employer	6%	6%
	- Employee	7%	7%
Defined Benefit Plans	- Employer	6%	6%
	- Employee	7%	7%

The defined contribution portion of the Fund has been valued by the Actuary to the Pensions Board. The defined contribution part of the Fund is not subject to the special actuarial valuations due to the nature of the benefits provided therein.

The total amount recognized as a pension expense during the year ended 2006 was \$83,152 (2005: 156,940).

Civil Aviation Authority of the Cayman Islands
Notes to Financial Statements
for the year ending June 30, 2006 and 2005
(stated in Cayman Islands dollars)

Note 8 cont'd...

The latest actuarial valuation (of the defined benefit plan) was done as at 30 June 2006 and reflects the following:

	30 June 2006	1 July 2005
Net Present Value of Funded Obligation	1,463,000	1,609,000
Fair Value of Plan Assets	(847,000)	(740,000)
Unrecognised Assets	0	(262,000)
Unrecognised Past Service Cost	0	0
Unrecognised Actuarial (Gains)/Losses	<u>17,000</u>	<u>0</u>
 Net Defined Benefit Obligations	 <u><u>\$ 633,000</u></u>	 <u><u>\$607,000</u></u>

The Distribution of the Plan Assets, at 30 June 2006/2005, based on the share of the total Fund allocated to the Authority was as follows: -

	2006	2005
	%	%
Global Equities	59	47.8
Bonds	37	37.9
Other	-	3.8
Cash	4	4.6
Cash - Term Deposits	-	5.9

The principal Actuarial Assumptions at the date of valuation	2006	2005
	%	%
A. Cost Method - Projected Unit Credit		
B. Economic Assumptions ---		
1. Discount Rate -	6.25	5.25
2. Expected long-term rate of return (net of Expense) -	7.00	7.00
3. Salary Increase ---	4.00	4.00
4. Rate of Inflation	2.50	2.50
5. Future Pension Increases -	2.50	2.50
C. Other Assumptions:		
1. Mortality - Standard U.S. mortality rates		
2. Retirement Age - completion of age 57 and 10 years of service		
D. Asset Valuation - Fair (Market) Value		

Civil Aviation Authority of the Cayman Islands
Notes to Financial Statements
for the year ending June 30, 2006 and 2005
(stated in Cayman Islands dollars)

9. Lease of premises

The Authority leases office space from Cayman Grand Harbour, Grand Cayman and the Executive Centre in Brighton, England. Any fit-out costs are classified as a Leasehold Improvement and are depreciated over the life of the leases. The lease of the Grand Cayman office is for five years beginning December 1, 2004 and for the UK London Office for three years commencing July 1, 2007.

The current and future obligations of lease payments for the two office leases are as follows:

	<u>July 2007 to June 2010</u>
Cayman Islands Government Offices, London, UK	\$112,474
	<u>July 2007 to November 2009</u>
Cayman Grand Harbour, Cayman Islands	\$297,005

10. Key Employee Benefits

The key employees of the Civil Aviation Authority are the Director General, The Director of Air Navigation Regulation, the Director of Commercial Affairs and Administration and the Director of Air Safety Regulation. For purposes of IAS24 disclosure the salary and short term benefits expensed in 2006 was \$491,837, and in 2005: 440,713. The Director General, the Director of Air Navigation regulation and the Director of Commercial Affairs have the benefit of having an additional 7% of their base pay paid into their pension fund by the Authority. The Director General, The Director of Air Navigation regulation and The Director of Air Safety Regulation are all provided with vehicles for business and personal use and full fuel allowance.

11. Regulatory and Oversight fees

This fee represents the charge for regulatory oversight by the Authority to Cayman Islands Airports Authority (CIAA) on Owen Roberts International Airport (ORIA) and Gerrard Smith International Airport (GSIA) for the period from December 1, 2004 through June 30, 2006. The fee of \$123,000 per month was mutually agreed by the Director General of the Civil Aviation (DGCA) and the Chief Executive Officer (CEO) of CIAA.

On February 13, 2007 a Memorandum of Understanding (MOU) was signed by the DGCA (CAA) and the CEO of the CIAA agreeing that a CAA would charge the CIAA C\$1,000,000 per annum on a quarterly basis, in arrears, for regulatory and oversight fees of the ORIA and GSIA. The MOU stated that this fee would commence on July 1, 2006 and would be effective for a period of three years thence, with an agreement to review annually.

12. Air Safety Regulation and Certification fees

These fees represent the main operational revenue of the Authority. Each document that is issued by the Air Safety Regulations department is associated with a fee which is governed by The Air Navigation (Fees) Regulations passed by the Legislative Assembly in November 2006. 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. These regulations range from Certification of Airworthiness to Pilot Licence Validations.

Civil Aviation Authority of the Cayman Islands
Notes to Financial Statements
for the year ending June 30, 2006 and 2005
(stated in Cayman Islands dollars)

13. Surveyor fees and reimbursable expenses

The Air Navigation (Fees) Regulations, November 2006 also dictate that an hourly rate of CI\$250 can be charged for surveys carried out on all the aircraft on the Cayman Islands Aircraft Register. During the year ended June 30, 2006, a fee of \$227 per hour was charged. The associated disbursements and travel costs by the Authority of each survey are also recharged to the aircraft operators.

14. Financial Instruments

Credit risk.

Financial assets that potentially subject the Authority to credit risk consist principally of bank current accounts, fixed deposits, accounts and other receivables and prepaid expenses. 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 does not have any significant concentrations of credit risk.

Interest rate risk

Cash amounts held at Cayman National Bank over CI\$200,000 are placed in bi-weekly and one month fixed deposits and generally earn an interest rate of between 2.25% and 3.8% per annum. There are two accounts held at NatWest Bank in the UK, an operating account and a credit card account for the surveyors operating in the Brighton office. 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 balance sheet date, GBP 26,000 was held as a deposit. This deposit earns between 1 and 2% interest per annum.

Fair values

The current accounts, fixed deposits, accounts receivable and other liabilities and payables approximated their fair value due to short term maturities of these assets and liabilities. The fair values of other assets and liabilities not materially different from other carrying values.

15. Subsequent Events

The Authority paid for severing a UK based consultant's agreement in February 2008. The total paid approximates the total amount budgeted for that year for the said agreement. The total effect on the financial statements for the year ending June 30, 2008 would be CI\$50,000 in unbudgeted legal fees and CI\$40,000 in additional consultant fees to replace the agreement while settlement negotiations were ongoing.

The Authority still retains a loan in name only at Cayman National Bank. The loan was originally extended to the Civil Aviation Authority in June 2001. After the separation of the two Authorities into Civil Aviation Authority and Cayman Islands Airports Authority in June 2004, the repayment of the loan has been assumed by the Cayman Islands Airports Authority. Subsequently, the loan transfer was to be approved by the Financial Secretary and as at date of printing of these financial statements, the approval documentation had not yet been submitted to Cayman National Bank from the Financial Secretary's office.