CIVIL AVIATION AUTHORITY
OF THE CAYMAN ISLANDS

Civil Aviation Authority of the Cayman Islands
Financial Statements
For the year ended June 30, 2012

CIVIL AVIATION AUTHORITY
OF THE CAYMAN ISLANDS

CIVIL AVIATION AUTHORITY OF THE CAYMAN ISLANDS

Table of Contents

CIVIL AVIATION AUTHORITY
OF THE CAYMAN ISLANDS

STATEMENT OF RESPONSIBILITIES
30 June 2012

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 (2010 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 (2010 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 except for the effects of the defined pension liability fairly present the financial position, financial performance, and cash flows of the Civil Aviation Authority of the Cayman Islands for the financial year ended 30 June 2012.

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

a) Except for the effects of the defined pension liability, completely and reliably reflect the financial transactions of Civil Aviation Authority of the Cayman Islands for the year ended 30 June 2012;
b) Except for the effects of the defined pension liability, fairly reflect the financial position as at 30th June 2012 and performance for the year ended 30th June 2012;
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 has been provided access to all the information necessary to conduct an audit in accordance with International Standards of Auditing.

P.H. Richard Smith (Mr.)	Jane Panton (Mrs.)
Director-General	Director of Finance
Date: 29 Oct 2012	Date: Oct 29, 2012

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CAYMAN ISLANDS

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AUDITOR GENERAL'S REPORT

To the Board of Directors of the Civil Aviation Authority

I have audited the accompanying financial statements of Civil Aviation Authority of the Cayman Islands (the "Authority") , which comprise of the statement of financial position as at 30 June 2012, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory notes as set out on pages 4 to 18 in accordance with the Section 60(1)(a) of the Public Management and Finance Law (2012 Revision).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

As disclosed in Note 7 of the financial statements, pension contributions for eligible employees of the Authority are paid to the Public Services Pension Fund which is administered by the Public Service Pensions Board. The management of the Authority is currently in discussions with the Public Sector Pensions Board in order to obtain a comprehensive understanding of the details supporting the June 30, 2011 valuation recommended by the appointed Actuary. Management is not confident with regards to the integrity of the supporting information used within the report and as such has opted not to record the recommended liability of $1,020,000 until the issue has been resolved. The impact of such an increase would effectively reduce profits and equity reported by $387,543 and allow for a corresponding increase in the pension liabilities in the Statement of Financial Position.

As a result of the above mentioned issues, I am also unable to determine whether the net worth at 30 June 2012 is fairly stated.

International Accounting Standards (IAS 24) requires the identification and disclosure of related party transactions and outstanding balances in the financial statements. This is to ensure that the entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and financial performance may have been affected by the existence of related parties and by transactions and outstanding balances of such parties. I was unable to determine the Authority's compliance with this standard due to the absence of related party representations from the Board of Directors.

Qualified Opinion

In my opinion, except for the possible effects described above, these financial statements present fairly, in all material respects, the financial position of the Civil Aviation Authority of the Cayman Islands as at June 30, 2012 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

A S Swarbrick

Alastair Swarbrick, MA (Hons), CPFA
Auditor General

October 30, 2012
Cayman Islands

Civil Aviation Authority of the Cayman Islands
Statement of Financial Position
As at June 30, 2012
Stated in Cayman Islands dollars

	Note	2012	2011
Assets			
Current assets			
Cash and cash equivalents	3(a)	1,576,822	1,243,670
Short term investments	3(b)	6,547,736	5,676,291
Trade and other receivables (net)	4	1,134,090	1,320,944
Total Current Assets		9,258,648	8,240,905
Capital assets (Net of accumulated depreciation)	5	162,629	139,710
Total Assets		9,421,277	8,380,615
Equity and Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	6(a)	777,688	550,354
Dividend payable to Cayman Islands Government	6(b)	1,532,583	1,000,000
Total Current Liabilities		2,310,271	1,550,354
Defined benefit pension liability	7	632,458	454,458
		632,458	454,458
Total Liabilities		2,942,729	2,004,812
Equity		6,478,548	6,375,803
Total Equity and Liabilities		9,421,277	8,380,615

Approved for issuance on behalf of Civil Aviation Authority's Management on

29 Oct 2012 Director General

Janet Panton, Oct 29, 2012 Chief Financial Officer

Civil Aviation Authority of the Cayman Islands

The accompanying notes form an integral part of these financial statements

Civil Aviation Authority of the Cayman Islands
Statement of Comprehensive Income
For the year ended June 30, 2012
Stated in Cayman Islands dollars

	Note	2012	2011
Revenue			
Air Safety Regulation and Certification fees	9 (b)	3,410,149	2,755,630
Aerodrome oversight fees	9 (a)	1,000,000	1,000,000
Surveyor fees and net reimbursable expenses	9 (c)	766,113	686,336
Aircraft operating permits	9 (d)	234,250	214,150
Other income	9 (e)	195,903	152,235
Total Revenue		**5,606,415**	**4,808,351**
Expense			
Personnel costs	10 (a)	2,811,947	2,197,312
Office administration and business development	10 (b)	438,475	397,993
Professional and licensing fees	10 (c)	180,381	154,515
Travel – Official, training and administrative	10 (d)	100,252	138,140
Depreciation	5	37,879	38,203
Bad Debt Expense	4	4,153	18,141
Total Expenses		**3,573,087**	**2,944,304**
Net income		2,033,328	1,864,047

Civil Aviation Authority of the Cayman Islands
Statement of Cash Flows
For the year ended June 30, 2012
Stated in Cayman Islands dollars

	2012	2011
Cash flows from operating activities		
Net income for year	2,033,328	1,864,047
Adjustments for:		
Depreciation expense	37,879	38,203
Decrease in accounts receivable	186,854	128,198
Increase in accounts payables and accrued liabilities	227,335	109,348
Increase / (Decrease) in defined pension liability	178,000	(47,690)
Net cash from operating activities	2,663,396	2,092,106
Cash flows used in investing activities		
(Increase) in short term investments	(871,445)	(1,673,532)
Purchase of capital assets	(60,799)	(68,694)
Net cash used in investing activities	(932,244)	(1,742,226)
Cash flows used in financing activities		
Dividends Paid	(1,398,000)	-
Net cash used in financing activities	(1,398,000)	-
Increase in cash and cash equivalents	333,152	349,880
Cash and cash equivalents at beginning of the year	1,243,670	893,790
Cash and cash equivalents at end of the year	1,576,822	1,243,670

**The current year dividend has not been paid as at June 30, 2012 and has not been included in the cash flow.*

The accompanying notes form an integral part of these financial statements

Civil Aviation Authority of the Cayman Islands
Statement of Changes in Equity
For the year ended June 30, 2012
Stated in Cayman Islands dollars

	Note	2012	2011
Balance, beginning of year		6,375,803	5,511,756
			-
Net income for the year		2,033,328	1,864,047
Dividend Paid	6(b)	(398,000)	
Dividend Payable	6(b)	(1,532,583)	(1,000,000)
Balance, end of year		6,478,548	6,375,803

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.

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

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

The registered address of the Civil Aviation Authority is P.O. Box 10277 APO, Grand Cayman, Cayman Islands and is located at Cayman Grand Harbour. The Civil Aviation Authority has 22 employees as at June 30, 2012 (2011:19).

2. Significant Accounting Policies

Basis of Presentation

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 Board (IASB) and interpretations issued by the Standing Interpretations Committee of the International Accounting Standards Committee (IASC). The reporting currency is Cayman Islands dollars.

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

a) Depreciation

Capital assets are recorded at their 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

b) Foreign currency translation

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.

2. Significant Accounting Policies (continued)

c) 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.

d) Revenue recognition

Fees charged for services rendered during the year are non-refundable and are recognised as revenue in the income statement in the period in which these are earned.

e) Financial Assets and Liabilities

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 favorable or an equity instrument of another enterprise. Financial assets in the Authority's financial statements comprise of cash and cash equivalents, accounts receivable and short term investments.

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 favorable. Financial liabilities in the Authority's financial statements comprise of long and short term debt.

ii) Recognition

The Authority recognises 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 statement of comprehensive income.

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 amortized cost, being the amount at which the liability was initially recognised less any principal repayments plus any amortisation (accrued interest) of the difference between that initial amount and the maturity amount.

f) 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.

g) Lease of premises - The lease expense of premises is recognised when incurred.

3. Cash and short term investments

a) Cash and cash equivalents

	2012	2011
Cash on hand	4,301	4,299
Current and call accounts	1,572,521	1,239,371
Total cash and cash equivalents	1,576,822	1,243,670

b) Short term investments

Fixed Deposits	6,547,736	5,676,291

All fixed deposits are held with Cayman National Bank and have maturity dates over 90 days but within 365 days. See Note 11.

4. Trade and other receivables

	2012	2011
Accounts receivables - Trade	1,087,370	1,442,213
Other receivables	71,179	43,494
Allowance for doubtful accounts	(24,459)	(164,763)
Trade and other receivables (net)	$1,134,090	$1,320,944

A bad debt policy was approved in the Board of Director's Meeting of March 28, 2012. The Policy included 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 $4,153 for 2012 represents amounts owed that were over a year old or due from certain related parties and thus provided for in the allowance for doubtful accounts for the year.

Of the total accounts receivable outstanding at June 30, 2012, $250,000 was due from the Cayman Islands Airports Authority for the quarterly fee due for Regulatory services under the Memorandum of Understanding (MOU) referred to in note 10 and $66,924 was due from Cayman Airways for various services.

The total Trade Receivables below represents the net between Accounts Receivables – Trade (1,087,370) and Allowance for doubtful accounts (24,459).

Aging Profile of Trade Receivables

Period Outstanding (Days)	Amount
1-30	863,885
30-90	206,843
Over 90	(7,817)
Total	**1,062,911**

4. Trade and other receivables (continued)

The movement in allowance for doubtful accounts is detailed as follows:

	2012	**2011**
Opening provision	164,763	293,445
Bad debts provided for during the year	4,153	18,141
Less recoveries	(144,457)	(118,781)
Write off accounts previously provided	-	(28,042)
Closing provision	$24,459	$164,763

5. Capital Assets

	Leasehold Improvements	Furniture & Fixtures	Computers & Equipment	Vehicles	Total
Historical cost of assets:					
Cost at beginning of year	122,077	104,762	198,582	50,312	475,733
Additions during the year	-	10,179	50,620		60,799
Disposals during the year	-	-			
Cost at end of year	122,077	114,941	249,202	50,312	536,532
Accumulated Depreciation:					
At the beginning of the year	118,427	48,659	121,926	47,012	336,024
Depreciation expense	3,650	10,820	21,609	1,800	37,879
Disposed during the year	-	-			
At end of year	122,077	59,479	143,535	48,812	373,903
Net value at June 30, 2011	3,650	56,103	76,657	3,300	139,710
Net value at June 30, 2012	0	55,462	105,667	1,500	162,629

6. Liabilities and related party transactions

a) Accounts payable and accrued liabilities

	2012	2011
Unearned Income	407,014	198,190
Payroll Liabilities	145,700	157,550
Accrued Expenses	179,663	119,857
Accounts Payable	34,743	74,757
Unidentified deposits and unresolved issues	10,568	-
Total Accounts payable / Accrued liabilities	777,688	550,354

Related party balances and transactions

b) Dividend payable to Cayman Islands Government

This line item has been reclassified from accounts payable and accrued liabilities in 6(a) in prior year for fairer presentation.

Under section 18(4) of *The Civil Aviation Act,* the Authority is required to make an annual payment into the general revenue of the Cayman Islands Government which is to be calculated by a formula determined by the Financial Secretary. In March 2012, a directive was issued by the Financial Secretary and agreed by the Authority detailing the formula and the terms of the dividend repayment to the Cayman Islands Government. The directive indicated that the Authority would pay 75% of the annual Net Income first reported to the Office of the Auditor General within three months of the end of the financial year. After the directive was issued in the current financial year, it was determined that an additional $398,000 was payable to the Cayman Islands Government based on this formula. A total dividend of $1,398,000 for the 2011 fiscal year was paid out before the end of this financial year end.

	2012	2011
Dividend payable to Cayman Islands Government	1,532,583	1,000,000

c) The Authority also has transactions through standard employment contracts with family members of key management personnel and a member of its Board of Directors. These contracts relate to non-managerial positions which already form part of the organizational structure of the Authority. For the financial year 2012 these salaries totaled $ 52,331. Contracts related to short term holiday employment of key management personnel relatives amount to $ 2,632 during the year for a total of 26 days. The amount is considered to be immaterial and represent essential administrative and support services during the period.

d) The Authority's Register of Interests signed by all of its Managing/Divisional Directors indicates no other related party transactions with key management personnel. However, Register of Interests have not been submitted by members of the Board of Directors (BOD) as of the issuance date of the financial statements; therefore, other related party transactions involving members of the BOD are indeterminate at this time.

6. Liabilities and related party transactions (continued)

e) 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 2012 were $868,734 (2011: $780,526). The Director General and the Deputy Director-General, Economic Regulation and Administration have the benefit of having an additional 7% of their base pay paid into their pension fund by the Authority in addition to the base 6% contribution. The Director General is provided with a vehicle for business and personal use and fuel allowance. Both the Director-General and the Deputy Director General are the holders of fuel cards which can be utilized to fuel their vehicles and to also fuel CAACI vehicles that are also used in the business of the Authority. Under the medical coverage program, any approved claims not covered by insurance are fully subsidized by the Authority. For the year ended June 30, 2012 this amounted to $11,896 (the uninsured medical coverage figure was not included in the notes for the year ended June 30, 2011).

	June 30, 2012	June 30, 2011
Base salary	670,521	626,629
Pension	54,186	50,493
Medical coverage	72,343	37,936
Fuel allowance	5,894	4,805
Bonus Incentive	65,790	60,663
Total key employee benefits	$868,734	$780,526

Obligation to Air Safety Support International (ASSI)

Accrued expenses include professional fees of $40,803 which relates to an MOU between the Cayman Islands Government (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 130,000 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 will be reflected as an expense of the Authority and will commence on April 1, 2012 and will be billed by ASSI to the Cayman Islands Government (CIG) at the end of every quarter. The amount will be paid by the CIG to ASSI and invoiced by the CIG to the Authority for reimbursement.

7. 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 (PSPB) 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.

7. Employee pensions (Continued)

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 2008. 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 latest available actuarial valuation report was received for the 2011 year end. However, the management of the CAA has not accepted the results as some elements of the basis of the valuation are being disputed. The Director General has requested a meeting with the Managing Director of the Pensions Board and the Financial Secretary to resolve the policy issues in question. As of issue date of these Financial Statements, this meeting has not yet been set.

The defined benefit portion of the Fund has been valued by the Actuary to the PSPB. 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 latest actuarial valuation (of the defined benefit plan) recorded in the accounts of the CAA at June 30, 2008 including payments and internal adjustments through to June 30, 2012, reflects the following:

Net defined benefit obligations as at June 30, 2008 (per valuation report)	598,000
Cash payments on the DBO deficit for the year ending 2009	(47,578)
Cash payments on the DBO deficit for the year ending 2010	(48,274)
Cash payments on the DBO deficit for the year ending 2011	(47,690)
Cash payments on the DBO deficit for the year ending 2012	(47,000)
Estimated adjustment to increase defined benefit obligation (2012)	225,000
Estimated defined benefit obligations as at June 30, 2012	$632,458

The Distribution of the Plan Assets, based on the share of the total Fund allocated to the Authority was as follows:

	2008
	%
Global Equities	46
Bonds	43
Property	5
Cash/other	6

The principal Actuarial Assumptions at the date of valuation	**2008**
	%
A. Cost Method - Projected Unit Credit	
B.	
C. Economic Assumptions –	
1. Discount Rate –	6.25
2. Expected long-term rate of return (net of Expense) –	7.00
3. Salary Increase –	4.00
4. Rate of Inflation	2.50
5. Future Pension Increases –	2.50

D. Other Assumptions:
1. Mortality – Standard U.S. mortality rates
2. Retirement Age – completion of age 57 and 10 years of service

E. Asset Valuation –Fair (Market) Value

7. Employee pensions (Continued)

Subsequent valuations being challenged

The final Defined Benefit Plan valuation by the PSPB Actuary as at June 30, 2011 is as follows:

	June 30, 2011
Net present value of funded obligation	3,901,000
Fair value of plan assets	(1,753,000)
Unrecognised actuarial gains/(losses)	(1,128,000)
Net defined benefit obligations	1,020,000

The above has not been recorded in the financial statements for the year then ended. It is being challenged as the net present value of funded obligation of the plan has increased by 76% in three years with no employees joining the plan.

8. Lease of premises

The Authority currently leases offices located in Cayman Grand Harbour, Grand Cayman for its operations.

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 with a three month option to renew in agreement with the lessor and was signed on June 11, 2010 and expires August 15, 2013. Total space occupied is 3,530 square feet at lease rate of $30 per square ft.

Lease payments under the operating leases are charged to the income statement 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 payments for the office lease is as follows:

	July 2012 – August 15, 2013
Cayman Grand Harbour, Cayman Islands	$141,566

9. Fees

a) Aerodrome Oversight fees

These fees represent mainly 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).

On July 30, 2009 a Memorandum of Understanding (MOU) between CAA and CIAA was signed whereby CAA would charge the CIAA CI$1,000,000 per annum for regulatory and oversight fees of the ORIA and GSIA. The MOU stated that this fee commenced on July 1, 2009 and would be effective for a period of three years, with an agreement to review annually. See Note 13.

9. Fees (Continued)

b) 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. These regulations range from Certification of Airworthiness to Pilot Licence Validations.

c) Surveyor fees and reimbursable expenses

The Air Navigation (Fees) Regulations, November 2010 (Amended) also dictate that an hourly rate up to 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, 2012, a fee of $250 per hour was charged. Travel, subsistence and postage expenses associated with surveys are billed back at cost to the aircraft account. Surveyors fees are derived as follows:

	June 30, 2012	June 30, 2011
Surveyor fee billings	781,127	694,286
Survey reimbursable costs billings	447,099	341,722
Surveyor fees & reimbursable expense	(462,112)	(349,672)
Surveyor fees & reimbursable expenses (Net)	$766,113	$686,336

During the financial year ending 2012, 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 represent permits granted to foreign registered air carriers in compliance with article 135 of the AN(OT)O (see note 1). These carriers provide both scheduled and non-scheduled/charter air transport to/from the territory.

e) Other income

Other income comprises interest on fixed deposits and bad debt recovery.

	June 30, 2012	June 30, 2011
Bad Debt Recovery	144,457	118,781
Interest Income	51,446	33,454
Total Other Income	195,903	152,235

10. Expenses

Operating Expenses	**2012**	**2011**
a) Personnel costs		
• Salaries - Cayman	1,933,216	1,560,401
• Contractors fees – overseas	296,665	311,821
• Pension	116,210	104,580
• Pension – adjustment to defined benefit liability	225,000	0
• Insurance and Medical Expenses	185,497	140,192
• Training	50,923	56,183
• Recruitment and Relocation expenses	4,436	24,137
Total Personnel costs	**2,811,947**	**2,197,314**
b) Office administration and business development		
• Rental expenses	134,094	145,682
• General office administration expenses	234,824	201,165
• Business development expenses	64,468	43,942
• Board expenses	5,089	5,110
Total Office administration and business development	**438,475**	**397,993**
c) Professional & licensing fees		
• Insurance fees	27,834	35,112
• Work permit fees	68,550	61,520
• Air Safety Support International (ASSI)	40,803	-
• Audit and other professional fees	25,472	39,000
• Legal fees	8,862	11,302
• Professional dues and subscriptions	8,860	7,581
Total Professional & licensing fees	**180,381**	**154,515**
d) Travel – official, training and administrative		
• Travel – Administration and Training	43,548	60,188
• Travel – Business Development	56,704	77,952
Total Travel – Official, training and administrative	**100,252**	**138,140**

11. 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. 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 on semi-annual and annual fixed deposits and generally earn an interest rate of between 0.55 and 1.1875% per annum in the year ending 2012. 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, CI $20,613 (£16,000) 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.

12. Contingent Liabilities

During the year ending June 30, 2012, Axis International Ltd. filed a Notice of Originating Motion against the Authority to quash the decision of the CAACI to grant Aerodrome Certificate ANS14/AD/04/2011 to Cayman Islands Helicopters Ltd. (CIHL). The Attorney General's Chambers has retained aerodrome specialist counsel in the United Kingdom to assist with the defense of this motion. The case is ongoing at balance sheet date and is expected to be heard in the Grand Court of the Cayman Islands in February 2013.

A provision has not been accrued as it cannot be fairly estimated how much the defense of this case will cost. However, the Professional Indemnity Policy in place through the Risk Management Unit of the Cayman Islands Government will cover legal fees in excess of US$50,000.

13. Subsequent Events

On July 30, 2012 a Memorandum of Understanding (MOU) between CAA and CIAA was signed whereby CAA would charge the CIAA CI$1,000,000 per annum for regulatory and oversight fees of the ORIA and GSIA. The MOU stated that this fee commenced on July 1, 2012 and would be effective for a period of three years, with an agreement to review annually.