

BUILDING ON OUR FOUNDATION

ANNUAL REPORT 2017-18



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Message from the Chairman of the Board



Dear stakeholders,

I am delighted to have the privilege of addressing you in this annual report covering the important first full year of operations for the Bermuda Civil Aviation Authority (BCAA or Authority). In addition to the Authority's financial statements for the period covering 1st April 2017 to 31st March 2018, the pages that follow offer insight into the organisation's operations and achievements for that year as we worked hard to continue to regulate and provide safety oversight for Bermuda's aviation industry.

BCAA's Board of Directors is tasked with ensuring that the Authority's operations are conducted under a robust governance structure that ensures efficiency and accountable leadership, with a keen focus on customer service and the ongoing development of our team. This approach proved to be successful through BCAA's first six months of operations as a semi-autonomous administration and was equally effective through our first full year.

Throughout the year ended 31st March 2018, one of our priorities was the expansion of our team as we continued to build our resources across the organisation. To that end, we increased our staff by 20%, adding new employees in both Bermuda and the UK in a variety of functions, including Director of Airworthiness, Management Accountant and Administration Assistant. The Authority also focussed on succession planning for staff members, including one member of our Operations team being stationed in Hong Kong to fly as a First Officer with Hong Kong Airlines. After furthering his international experience, he will return to the Authority to work as a Flight Operations Inspector. These types of initiatives will help ensure that we continue to have access to the specialised technical expertise our operations require.

In January 2018, I was honoured to take over as Chair of the BCAA Board of Directors and would like to thank my predecessors, Jack Durner and John Tomlinson, for their deft leadership. At that time, Lynesha Lightbourne and Anthony Whaley also joined the Board and have added their insight and guidance to our team's extensive knowledge and experience. These capabilities are reflected in the range of subcommittees that the Board established in March 2018, including Human Resources, Business Development and Finance.

In closing, I would like to extend my gratitude and appreciation to the staff, in both Bermuda and the UK for their hard work, commitment and focus. Thanks to you, we are succeeding in our goal of growing the Bermuda Aircraft Registry and enhancing the position of the BCAA as a premier safety oversight organisation.

A handwritten signature in black ink, appearing to read 'Kim Wilkerson', with a stylized, flowing script.

Kim Wilkerson, *Chairman*

Message from the Director General



I am very pleased to be writing this message as part of the Annual Report covering the Bermuda Civil Aviation Authority's first full year of operations as a semi-autonomous administration (from 1st April 2017 to 31st March 2018). This was a critical time for the Authority: we shifted from making the transition to a Quasi-Autonomous Non-Governmental Organisation (QUANGO) to building on that foundation and continuing to evolve.

Over that period of change and development, our commitment to our priorities remained constant: growing the aircraft registry; acting as an independent, reliable safety regulator, both locally and overseas; and streamlining our processes so we can meet the needs of operators on an ongoing basis. As described in further detail below, BCAA's focus on these objectives is reflected in our achievements and milestones reached for the 31st March 2018 year end.

One of the Authority's primary goals is the continued growth of the organisation. We aim to enhance our presence while maintaining our robust regulatory oversight and solid reputation in the industry. Over the course of the year, we increased our number of staff members from 29 to 35, with the new employees divided between our operations in Bermuda and the UK. The aircraft registry also grew during this time period, with the addition of 70 aircraft, representing an increase of 9% over the 2017 year end. Geographic diversification is a key element of our business development strategy, and throughout the year, we made it a priority to lay the groundwork for extending our messaging about the benefits of registering in Bermuda to new markets – India, Tajikistan and Iran in particular. Combined with the legislative changes that relaxed the registration eligibility criteria and made the BCAA more competitive in the industry, these efforts will certainly make a difference in establishing Bermuda as the aircraft registration jurisdiction of choice in the years ahead.

Another significant milestone from the year was the relocation of the UK office to the Farnborough Airport, effective 1st December 2017. The move of BCAA's operations from central London to Farnborough allows us to provide more efficient support and access for operators who use the airport there. Having an office in the UK extends our working day by four hours, enabling us to increase both our productivity and our availability to clients, and we are thrilled to be working in a town so steeped in aviation history.

In January 2018, the adoption of the Cape Town Convention in Bermuda had a high-level impact as it provides an additional level of security for aircraft owners. The Convention is an international legal framework that enables parties to protect and recover their mobile assets with greater certainty and ease by creating an international registry, thereby eliminating any uncertainty as to applicable jurisdiction. The extension of the Convention to Bermuda will, for example, allow lenders who provide finance to Bermuda companies to protect their interests in any relevant aircraft asset by registering that interest on the international registry.

Finally, we continued to focus on maintaining and enhancing our IT infrastructure to ensure business continuity and seamless service to operators – an increasingly important aspect of our offering.

I would like to close by extending my heartfelt appreciation to the management and staff at BCAA, as well as to our Board of Directors. Thanks to your tireless hard work and dedication, the Authority's first full year of operations was an unqualified success. Team, I am very grateful for all your efforts!

Thomas Dunstan, Director General

Our Directors



Thomas Dunstan <i>Ex-Officio</i>	Lynesha Lightbourne	James Dockeray	Kim Wilkerson <i>Chairman</i>	Herman Tucker <i>Deputy Chairman</i>	Julie Grant	Anthony Whaley	Clive Langley
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Our Vision & Mission

OUR VISION

To attain the highest international standards of civil aviation whilst maintaining a sustainable aircraft register.

OUR MISSION

Collaboratively, with our industry partners, we develop and implement clear regulations, procedures and standards throughout the Bermuda civil aviation industry. Our approach is to be responsive, proactive and pragmatic to continuously improve safety.

Overview of Organisation

The Bermuda Civil Aviation Authority (BCAA) was established on 1st October 2016 as a Quasi-Autonomous Non-Governmental Organisation (QUANGO) in the form of a Body Corporate to continue with the work that was previously carried out by the Department of Civil Aviation of the Bermuda Government.

BCAA has a responsibility for the safety oversight of all local aviation activity which includes the aerodrome (including Air Traffic Management, Meteorological Services, Communications Navigation and Surveillance); certifying/inspecting one Bermuda air operator; dangerous goods oversight; foreign air operator oversight; and issuing of flight permits. BCAA does little cost recovery for the provision of these services which are essentially paid for with the revenue from the aircraft registry services.

In delivering its services, BCAA is guided by the advice of the Governor in regards to the regulatory and statutory functions it undertakes on behalf of the United Kingdom. Business matters are governed by the Board of Directors which provides strategic direction to the Director General (DG) of the Bermuda Civil Aviation Authority. The DG is responsible for the implementation of this direction and the day-to-day operational and business matters.



BUILDING ON
OUR FOUNDATION

728
COMMERCIAL
AIRCRAFT

112
PRIVATE
AIRCRAFT

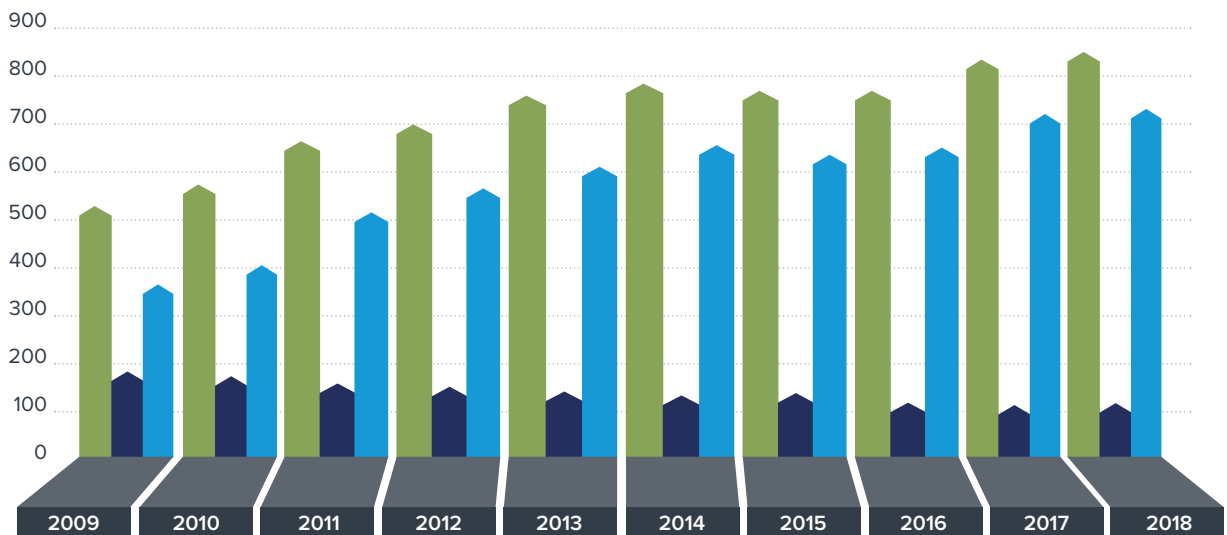
840
TOTAL

The Bermuda Aircraft Registry enjoys a high reputation internationally as a safe, well-regulated register. Significant growth in the Registry over many years reflects the status of Bermuda as a preferred jurisdiction for certification, with excellent credibility, and high standards of regulation. The Bermuda Aircraft Registry includes private aircraft (112 aircraft) and commercial aircraft (728 aircraft).

The major portion of growth over the past 10 years has been with commercial air transport category aircraft. Normally such aircraft would have to be registered in their country of operation, however, through the use of ICAO Article 83 *bis* Agreements, certain aircraft can be registered in one State while operating in another. Through these agreements, some of the responsibilities of the State of Register are transferred to the State of Operator. Three such Agreements are currently active with the Russian Federation (712 aircraft), Azerbaijan (11 aircraft) and Uzbekistan (4 aircraft).

BCAA REGISTERED AIRCRAFT

TOTAL PRIVATE COMMERCIAL



Safety Plan

The UK has established legislation relating to civil aviation in the Overseas Territories. The Governor, as the appointed representative of the UK in Bermuda, has specific responsibilities for fulfilling the obligations of the UK as defined in the ICAO Convention on International Civil Aviation. The UK Department for Transport establishes overall aviation policy in the UK, in cooperation with the Foreign and Commonwealth Office (FCO) for the Overseas Territories (OTs).

First and foremost BCAA is an aviation safety regulator. In conjunction with the Business Plan, BCAA develops the Safety Plan which communicates the activities that the organisation plans to implement in order to ensure continuous improvement in aviation safety. The resources required to implement the objectives of the Safety Plan are an integral part of the Business Plan.

By outlining the priorities for the BCAA and for Bermuda's aviation industry, and by highlighting the BCAA accomplishments, the Safety Plan achieves two important results. First, it provides information that allows the various organisations that make up Bermuda's aviation industry to align their activities with each other and with their regulator. In this way, the effectiveness and efficiency of the civil aviation system will be improved. Second, it holds the BCAA accountable to the Governor, to the Board and to the industry for achieving its objectives. Each contributes to the continued strengthening of Bermuda's safety oversight system, and to ongoing improvements in the systematic and proactive management of safety.

The Safety Plan has been developed for the same three-year period as for the business plan and will be updated as required on an annual basis. To achieve its vision, the BCAA will remain focused on the following three strategic safety aims:

- To enhance the performance of safety management systems (SMS) being operated by the aviation industry;
- To improve the effectiveness and sustainability of BCAA's regulatory and oversight programmes; and
- To enhance safety culture of all stakeholders throughout the Bermuda civil aviation system.

To ensure that the Safety Plan receives the widest possible distribution, an electronic version of the plan is available on the BCAA website.



BUILDING ON
OUR FOUNDATION

Strategic Objectives

34

FULL-TIME
EMPLOYEES

1: ENHANCE THE EFFECTIVENESS OF THE BCAA SMS ACCEPTANCE PROCESS.

- Consolidate and modify BCAA guidance material on SMS, so it aligns with the ICAO SMS framework, and the guidance contained in the ICAO Safety Management Manual (SMM); ☒ *Completed*
- Publish and promote BCAA's policy regarding equivalencies of SMS evaluation and regulatory audit; ☒ *Completed*
- Train staff and designated inspectors on ICAO's SMS framework, evaluating SMS, and on safety culture. ☒ *Completed*

2: ENHANCE THE PERFORMANCE OF THE BCAA SOMS (SSP).

- Establish acceptable level of safety performance (ALoSP) as defined by selected safety indicators with corresponding target and alert levels as appropriate. ☐ *Ongoing*
- Conduct an internal audit of the Aerodromes, Registration, Licensing and Air Traffic Management safety oversight programmes. ☒ *Completed*

3: PRO-ACTIVELY IDENTIFY AND ADDRESS AREAS REQUIRING INCREASED SAFETY-RISK MANAGEMENT (BY THE INDUSTRY, AND BY THE DEPARTMENT).

- Employ hazard analyses and risk assessments to ensure BCAA policy decisions are risk-based; ☐ *Ongoing*
- Develop a data-driven, performance-based surveillance programme for Article 83 *bis* airworthiness oversight; ☐ *Ongoing*
- Determine BCAA requirements for trending and analyzing safety-related data. ☐ *March 2018*

4: ENHANCE SAFETY CULTURE.

- Publish, promote and implement a BCAA enforcement policy that establishes the conditions and circumstances under which providers may use their SMS to deal with and resolve events involving specified safety deviations; ☒ *Completed*
- Train staff and designated inspectors on the enforcement policy, and on the importance of safety culture in proactive safety management - both to assist them in evaluating SMS, and to enhance the sharing of safety-related information with the service providers they regulate. ☒ *Completed*

5: IMPLEMENT THE APPROVED ORGANISATIONAL STRUCTURE BY FILLING ALL VACANT STAFF POSITIONS.

- Conduct a review and update all BCAA job descriptions; ☐ *Ongoing*
- Complete an independent Compensation Assessment and Performance Pay Scheme; ☒ *Completed*
- Staff all vacant positions ☐ *Ongoing*
- Improve the employment levels of Bermudians; ☐ *Ongoing*

6: ESTABLISH A BRAND RECOGNITION STRATEGY FOR BCAA.

- Develop BCAA branding strategy and guidelines ☒ *Completed*
- Ensure consistent application in all aspects of BCAA business ☒ *Completed*
- Review and rebuild the BCAA website ☒ *Completed*

7: DIVERSIFY THE REGISTER OF AIRCRAFT TO MAINTAIN CURRENT REVENUE STREAMS AND IDENTIFY NEW REVENUE STREAMS.

- Identify the impediments to diversification ☒ *Completed*
- Develop a diversification strategy to overcome these impediments ☒ *Completed*
- Implement the strategy ☐ *Ongoing*

8: DEVELOP A COMMUNICATIONS STRATEGY AND IMPLEMENTATION PLAN.

- Identify stakeholders and determine the communications strategies for each ☒ *Completed*
- Determine the gaps that exist between the communications strategy and current communications activities ☒ *Completed*
- Develop an implementation plan to address the gaps. ☒ *Completed*

2017/2018 Achievements

BCAA office
established at
Farnborough Airport.

Skyports Aerodrome
Certificate was
issued.

RFP was issued
for Airworthiness
services in Russia.

Board established
HR; Business
Development;
and Finance
subcommittees.



Aircraft Registry
Growth 9%.

Major IT Security
Upgrade
implemented.

ASSI Audit of BCAA
completed.

Collective
Bargaining
Agreement 2017 -
20 signed.

Six posts in the
approved BCAA
organisation
structure were filled.

Internal Quality
Assurance Audit
of Registration, Air
Navigation Services
and Personnel
Licensing sections
completed.

Cape Town
Convention
implemented in
Bermuda.

Risk assessment
completed of America's
Cup Aviation Activity.
Safety Risk Mitigation
Plan implemented.

Online payment
system went live.

BCAA voted – Best
Aviation Regulatory
Safety Authority
in the Caribbean
by Aerospace and
Defence Awards.

Financial Section





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BERMUDA CIVIL AVIATION AUTHORITY

Summary of Financial Performance

For the year ended 31st March 2018

Operational Results

Operating revenue consists primarily of income from the issuance of Certificates of Airworthiness. Other operating revenue is from Registrations, Flight Operations licenses and the issuance of other Airworthiness certificates.

Total revenues were consistent with budget and 138% higher than the previous six-month period.

General Administration expenses consist of salaries and employee benefits for thirty-four employees, travel, advertising and promotion, rent and other administrative expenses. The underspend in this category is due mainly from vacant positions.

Professional Services consist primarily of consulting costs for the provision of airworthiness inspection services by consultant airworthiness inspectors and the majority of these costs are reimbursable. Also included are legal, human resource and information technology consulting services to support operations.

Operating Surplus was \$19 million, 1.30% below budget and 300% higher than the Operating Surplus of the previous period. This increase is due to the fact that most of the annual surplus is earned during the first six months of the fiscal year and for the 2016/17 comparative period, the revenue was paid to the Government of Bermuda during the April to September 2016 period.

In accordance with the BCAA Act 2016 the Authority is required to transfer its net surplus to the Consolidated Fund, Paid-up Capital and the Reserve Fund as agreed between the Board and the Minister of Tourism & Transport. One hundred percent of the 2017/18 Net Surplus has been paid to the Consolidated Fund.

Financial Position

Cash increased to \$29.7 million at the end of March 2018 up from \$9.8 million for the period ended March 2017. The Distribution to the Consolidated Fund consists of amounts payable to the Government of Bermuda from Net Surplus.

During the year the Board approved benefits payable to retirees. The health, life and disability liabilities have been actuarially determined and are adjusted annually.

The Accumulated Surplus remains unchanged from last year at \$1.5 million, with \$1 million in General Reserve and \$500,000 Paid-up Capital.

BERMUDA CIVIL AVIATION AUTHORITY

Statement of Management's Responsibilities

Management's Responsibility for the Financial Statements

These financial statements have been prepared by management, who are responsible for the reliability, integrity and objectivity of the information provided. The preparation of financial statements necessarily involves using management's best estimates and judgments, where appropriate.

Management is responsible for maintaining a comprehensive system of accounting records, internal controls, policies and management practices, designed to provide reasonable assurance that transactions are properly authorised and in compliance with legislation, assets are safeguarded, and reliable financial information is available on a timely basis.

The Bermuda Civil Aviation Authority's Board of Directors through the Finance Committee is responsible for ensuring that management fulfills its responsibility for financial reporting and internal controls. The Finance Committee meets periodically with management to discuss matters relating to financial reporting, internal control and audits. The Finance Committee also reviews the financial statements before recommending approval by the Board of Directors. The financial statements have been approved by the Board of Directors and have been examined by the Office of the Auditor General.

The accompanying Independent Auditor's Report is presented herein.



Thomas Dunstan

Director General



Delia Basden

Director of Finance and Administration

Date: 23rd April 2020

Auditor General's Report



Office of the Auditor General

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3 Reid Street
Hamilton HM 11, Bermuda

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Website: www.oagbermuda.bm

INDEPENDENT AUDITOR'S REPORT

To the Minister of Tourism and Transport

I have audited the accompanying financial statements of the Bermuda Civil Aviation Authority, which comprise the statement of financial position as at March 31, 2018, and the statements of operations and accumulated surplus, change in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with public sector accounting standards generally accepted in Bermuda and Canada 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 auditing standards generally accepted in Bermuda and Canada. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Bermuda Civil Aviation Authority as at March 31, 2018, and the results of its operations, changes in its net financial assets, and its cash flows for the year then ended, in accordance with public sector accounting standards generally accepted in Bermuda and Canada.

Hamilton, Bermuda

April 23, 2020

Heather Thomas, CPA, CFE, CGMA

Auditor General

BERMUDA CIVIL AVIATION AUTHORITY

Statement of Financial Position

As at 31st March 2018

	2018 \$	2017 (Notes 19 and 20) \$
FINANCIAL ASSETS		
Cash and cash equivalents (Note 3)	29,672,748	9,807,654
Accounts receivable (Note 4)	1,074,436	1,028,333
Accrued interest	21,156	—
Due from related parties (Note 5)	—	245,875
	30,768,340	11,081,862
LIABILITIES		
Accounts payable and accrued liabilities (Note 6)	1,496,142	1,415,156
Due to the Government of Bermuda (Note 5)	58,101	43,116
Deferred revenue	2,995,544	2,536,640
Distribution to the Consolidated Fund of the Government of Bermuda (Note 5)	24,749,017	5,724,692
Post-employment benefits and compensated absences (Note 7)	402,749	247,356
Life and disability benefits (Note 8)	349,130	—
	30,050,683	9,966,960
NET FINANCIAL ASSETS	717,657	1,114,902
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 9)	428,906	298,881
Prepaid expenses	353,437	86,217
	782,343	385,098
ACCUMULATED SURPLUS (Note 10)	1,500,000	1,500,000

CONTRACTUAL OBLIGATIONS (Note 14)

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

BERMUDA CIVIL AVIATION AUTHORITY

Statement of Operations and Accumulated Surplus

For the year ended 31st March 2018

	2018 Budget (Note 17) \$	2018 \$	2017 (Notes 19 and 20) \$
REVENUE (Note 11)			
Airworthiness	30,590,000	30,160,380	12,271,593
Flight operations	335,000	236,685	173,125
Registrations	75,000	108,863	34,250
Reimbursements	—	2,321	66,725
Other income	6,000	31,762	312,598
	31,006,000	30,540,011	12,858,291
EXPENSES			
General administration (Note 12)	7,301,888	6,891,205	2,815,232
Professional services (Note 13)	4,248,000	4,526,635	2,162,664
Amortization of tangible capital assets (Note 9)	170,000	56,555	20,598
Bad debts (Note 4)	11,000	41,291	310,463
Voided accounts receivable (Note 4)	—	—	2,430,820
Impairment of capital assets under development (Note 9)	—	—	354,930
	11,730,888	11,515,686	8,094,707
OPERATING SURPLUS	19,275,112	19,024,325	4,763,584
ACCUMULATED SURPLUS, BEGINNING OF YEAR			
		1,500,000	—
Add: Accumulated surplus transferred from the Department of Civil Aviation (Note 18)		—	3,187,593
Add: Paid-up capital (Note 10)		—	500,000
Less: Distribution to the Consolidated Fund of the Government of Bermuda (Note 5)		(19,024,325)	(6,951,177)
ACCUMULATED SURPLUS, END OF YEAR		1,500,000	1,500,000

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

BERMUDA CIVIL AVIATION AUTHORITY

Statement of Changes in Net Financial Assets

For the year ended 31st March 2018

	2018 Budget (Note 17) \$	2018 \$	2017 \$
NET FINANCIAL ASSETS, BEGINNING OF YEAR	—	1,114,902	—
Operating Surplus	19,275,112	19,024,325	4,763,584
Distribution to the Consolidated Fund of the Government of Bermuda	—	(19,024,325)	(6,951,177)
Acquisition of tangible capital assets (Note 9)	(305,000)	(186,580)	(197,938)
Amortization of tangible capital assets (Note 9)	—	56,555	20,598
Change in prepaid expenses	—	(267,220)	(86,217)
Net financial assets transferred from Department of Civil Aviation	—	—	3,187,593
Paid-up capital	—	—	500,000
Impairment of capital assets under development	—	—	354,930
Donated capital assets	—	—	(270,060)
Transfer of tangible capital assets from Department of Civil Aviation (at net book value)	—	—	(206,411)
(DECREASE) INCREASE IN NET FINANCIAL ASSETS	18,970,112	(397,245)	1,114,902
NET FINANCIAL ASSETS, END OF YEAR	18,970,112	717,657	1,114,902

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

BERMUDA CIVIL AVIATION AUTHORITY

Statement of Cash Flows

For the year ended 31st March 2018

	2018 \$	2017 (Notes 19 and 20) \$
Cash flows from Operating Activities		
Operating Surplus	19,024,325	4,763,584
Adjustment for items not affecting cash:		
Amortization of tangible capital assets	56,555	20,598
Bad Debts	41,291	310,463
Actuarial (gain) loss	(6,119)	107,250
Voided accounts receivable	—	2,430,820
Impairment of capital assets under development	—	354,930
Net financial assets transferred from Department of Civil Aviation	—	3,187,593
Changes in non-cash working capital:		
Increase in accounts receivable	(87,394)	(3,769,616)
Decrease (increase) in due from related parties	245,875	(245,875)
Increase in accrued interest	(21,156)	—
Increase in accounts payable and accrued liabilities	80,986	1,415,156
Increase in deferred revenues	458,904	2,536,640
Increase in post-employment benefits and compensated absences	161,512	140,106
Increase in life and disability benefits	349,130	—
Increase in due to the Government of Bermuda	14,985	43,116
Increase in prepaid expenses	(267,220)	(86,217)
Net Cash generated from Operating Activities	20,051,674	11,208,548
Cash flows from Capital Activities		
Acquisition of tangible capital assets	(186,580)	(197,938)
Transfer of tangible capital assets from Department of Civil Aviation	—	(206,411)
Donated capital assets	—	(270,060)
Net Cash used in Capital Activities	(186,580)	(674,409)
Cash flows from Financing Activities		
Net distribution to the Consolidated Fund of the Government of Bermuda	—	(1,226,485)
Paid-up capital	—	500,000
Net Cash used in Financing Activities	—	(726,485)
NET INCREASE IN CASH AND CASH EQUIVALENTS	19,865,094	9,807,654
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	9,807,654	—
CASH AND CASH EQUIVALENTS, END OF YEAR	29,672,748	9,807,654
SUPPLEMENTARY INFORMATION:		
Interest received	10,606	—

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

Notes to the Financial Statements

31st March 2018

1. AUTHORITY

The Bermuda Civil Aviation Authority (the "Authority" or "BCAA"), was established by the Bermuda Civil Aviation Authority Act 2016 (the "Act"). The Authority is responsible for the regulation and safety oversight of aviation in Bermuda and all aircraft on the Bermuda Aircraft Registry. Previously known as the Department of Civil Aviation, the BCAA became an Authority on 1st October 2016.

Bermuda is a United Kingdom ("UK") Overseas Territory and although it is regulated by the UK Department for Transport, the safety oversight system is separate from that of the UK. The regulatory requirements are established as the Overseas Territories Aviation Requirements which are in full compliance with the standards and recommended practices of the International Civil Aviation Organisation.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

Pursuant to standards established by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada, the Authority is classified as an Other Government Organisation. These financial statements have been prepared by management in accordance with public sector accounting standards ("PSAS") generally accepted in Bermuda and Canada. The accounting policies considered particularly significant are set out below.

(b) Functional and presentation currency

These financial statements are presented in Bermuda Dollars, which is the Authority's functional currency. All amounts have been rounded to the nearest dollar, unless otherwise indicated.

(c) Measurement uncertainty

These financial statements are prepared in accordance with PSAS generally accepted in Bermuda and Canada. These standards require 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 revenues and expenses during the year. Significant areas requiring the use of estimates include the estimated useful lives of tangible capital assets, bad debt allowance, tangible capital assets impairment, pension and other post-employment benefits costs.

Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Actual results could differ from these estimates. Revisions to estimates are recognised prospectively.

(d) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the Statement of Operations and Accumulated Surplus.

(e) Tangible capital assets and amortization

Tangible capital assets are carried at cost less accumulated amortization and are classified according to their functional use. Tangible capital assets are amortized from the time an asset is substantially completed and ready for productive use. Tangible capital assets are not amortized while under development.

The cost of tangible capital assets under development includes materials, labor and other costs that are directly attributable to the development of a capital asset.

Tangible capital assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in the normal course of business.

Notes to the Financial Statements

31st March 2018

(e) Tangible capital assets and amortization (continued)

Amortization of tangible capital assets is calculated on a straight-line basis using the following estimated useful lives:

	Years
Computer equipment	3
Vehicle	5
Capital lease	5 or lease-term, whichever is shorter
Furniture and office equipment	5-7
Software	10

A month's amortization is charged in the month the asset is brought into use.

(f) Accounts receivable

Accounts receivable are initially recognised at cost and subsequently carried at amortized cost, less any impairment losses. A provision for impairment of accounts receivable is established when there is objective evidence that the Authority will not be able to collect all amounts due according to the original terms of the receivables. Indicators that the accounts receivable is impaired are: significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 365 days overdue). The carrying amount of accounts receivable is reduced using a provision account, and the amount of the loss is recognised in the Statement of Operations and Accumulated Surplus. When a trade receivable is uncollectible, it is written off against the provision account for accounts receivable.

(g) Cash and cash equivalents

Cash and cash equivalents include all cash held with financial institutions that can be withdrawn without prior notice or penalty, and call accounts with an original maturity of three months or less from the date of acquisition.

(h) Financial instruments

The Authority classifies its financial instruments under cost or amortized cost category.

i. Cash and cash equivalents

Cash and cash equivalents are recognised at cost.

ii. Receivables

Accounts receivable, accrued interest and due from related parties are initially recognised at cost and subsequently carried at amortized cost, less any impairment losses.

iii. Liabilities

Accounts payable and accrued liabilities, due to the Government of Bermuda, distribution to the Consolidated Fund of the Government of Bermuda, post-employment benefits and compensated absences and life and disability benefits, are initially recognised at cost and subsequently carried at amortized cost.

Transaction costs related to the financial instruments are added to the carrying value of financial instruments in the cost or amortized cost category when they are initially recognised.

Write-downs on financial assets are recognised when the amount of a loss is known with sufficient precision, and there is no realistic prospect of recovery. Financial assets are then written down to net recoverable value with the write-down being recognised in the Statement of Operations and Accumulated Surplus.

It is management's opinion that the Authority is not exposed to significant interest rate, currency or credit risks arising from these financial instruments.

Notes to the Financial Statements

31st March 2018

(i) Employee benefits

i. *Short-term employee benefits*

The cost of short-term employee benefits (wages, salaries, social insurance contributions, annual leave, bonuses and non-monetary benefits) is recognised in the year in which the service is rendered and is not discounted. The expected cost of short-term accumulating compensated absences is recognised as an expense as the employees render service that increases their entitlement, or in the case of non-accumulating absences, when the absences occur.

ii. *Post-employment benefits – pension obligations (note 7)*

A defined contribution plan is a pension plan under which the Authority pays fixed contributions into a separate entity. With respect to the Authority's defined contribution plan, the Authority pays contributions into the plan and has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due.

iii. *Other post-employment obligations*

In addition to pension benefits, the Authority provides post-retirement benefits for health care to qualified employees who have retired. 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 years of employment using an accounting methodology similar to that for defined benefit pension plans. Independent qualified actuaries value this obligation annually.

The present value of the obligations depend on several factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the obligations for defined contribution pension and healthcare plans 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 Dollar (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 7.

(j) Provisions

Provisions are recognised when the Authority has a present legal or constructive obligation because of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses. Where there are several similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. Provisions are measured at the present value of the expenditure expected to be required to settle the obligation. The movement in the provision is recognised within the Statement of Operations and Accumulated Surplus.

(k) Revenue

Revenue comprises the fair value of the consideration received or receivable for services in the ordinary course of the Authority's activities. Revenue is shown net of credits and discounts. The Authority recognises revenue when the amount of revenue can be reliably measured, and it is probable that future economic benefits will flow to the Authority. The amount of revenue is not considered to be reliably measurable until all relevant contingencies have been met for the Authority's activities described in Note 11. Amounts received prior to the end of the year, which relate to revenues that will be earned in the subsequent year, are reported as deferred revenue.

(l) Government of Bermuda grants and contributions

Operating grants are recorded as revenues. Contributed capital assets are recorded at their fair value at the date of contribution. When fair value cannot be reasonably determined, the contributed capital asset is recorded at nominal value.

Notes to the Financial Statements

31st March 2018

(m) Expenses

Operating expenses are reported on the accrual basis. The cost of all goods consumed, and services received during the year are expensed. Advanced payments for goods or services to be received in the future are recognised as prepaid expenses.

(n) Statement of remeasurement gains and losses

A statement of remeasurement gains and losses has not been presented as the Authority does not have any significant financial assets or liabilities that would give rise to remeasurement gains or losses.

(o) Adoption of CPA Canada PSAS

On 1st April 2017, the Authority adopted the PSAS PS 3210 Assets, PS 3380 Contractual Rights and PS 3320 Contingent Assets. Adoption of these standards has not resulted in any disclosure changes to the financial statements.

The Authority early adopted PS 2200 Related Party Transactions for the year ended 31st March 2017, which resulted in the disclosures included in Note 5.

3. CASH AND CASH EQUIVALENTS

	2018	2017
	\$	\$
Cash in bank	19,672,748	9,807,654
Call accounts	10,000,000	—
Total cash and cash equivalents	29,672,748	9,807,654

Cash equivalents include two (2) interest-bearing call deposits with maturities of three (3) months. Upon maturity the accounts roll over. Interest rates at 31st March 2018 were 0.83% and 0.977%.

4. ACCOUNTS RECEIVABLE

	2018	2017
	\$	\$
Accounts receivable	1,078,262	1,149,044
Allowance for doubtful accounts	(3,826)	(120,711)
Accounts receivable (net)	1,074,436	1,028,333

The carrying amounts of accounts receivable approximate their fair value. As at 31st March 2018, trade receivables of \$774,162 (2017: \$457,953) were past their due date but were not considered doubtful.

On 1st October 2016, accounts receivable transferred from the Department of Civil Aviation were reviewed for probable bad debts and voids. To maintain consistency with the accounting treatment in the Consolidated Fund of the Government of Bermuda, for which an audit was conducted subsequent to BCAA transitioning from the Department of Civil Aviation, invoices to be voided amounting to \$2,430,820 and bad debts of \$189,752 were identified and written off in the period ended 31st March 2017. Bad debts expense for the year ended March 31, 2018 amounted to \$41,291 and is included in the Statement of Operations and Accumulated Surplus.

Accounts receivable balances amounting to \$158,176 were written-off in the year ended March 31, 2018.

BERMUDA CIVIL AVIATION AUTHORITY

Notes to the Financial Statements

31st March 2018

5. RELATED PARTY TRANSACTIONS

The Authority is related to all Government of Bermuda (the "Government") departments, ministries, agencies, funds and quasi-autonomous non-governmental organisations under the common control of the Government. Also, the Authority is related to organisations that the Government jointly controls or significantly influences.

The Authority enters into transactions with these entities in the normal course of business and such transactions are measured at the exchange amount which is the amount of consideration established and agreed by the related parties. The Authority had the following transactions with the Government:

	2018 \$	2017 \$
Transactions during the year:		
Paid-up capital (Notes 9 and 10)	—	500,000
Accounts payable written-off (Note 11(e))	—	183,823
Donated tangible capital assets (Note 9)	—	128,775
Advance to Bermuda Shipping and Maritime Authority	—	68,050

	2018 \$	2017 \$
Balances at the end of the year:		
Due from Quango (Bermuda Shipping and Maritime Authority)	—	3,279
Due from the Consolidated Fund of the Government of Bermuda	—	242,596
Due from related parties	—	245,875
Due to the Government of Bermuda	58,101	43,116
Distribution to the Consolidated Fund of the Government of Bermuda	24,749,017	5,724,692

Details of distribution to the Consolidated Fund of the Government of Bermuda:

	2018 \$	2017 \$
Balance beginning of the year	5,724,692	—
Net surplus to be transferred to the Consolidated Fund of the Government of Bermuda	19,024,325	6,951,177
Due from the Consolidated Fund of the Government of Bermuda	—	(1,226,485)
	24,749,017	5,724,692

Notes to the Financial Statements

31st March 2018

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The account consists of:

	2018 \$	2017 \$
Trade accounts payable	708,924	727,961
Accrued liabilities	482,051	238,123
Customer advance	187,549	403,667
Pension payable	106,618	45,405
Lease payable	11,000	—
	1,496,142	1,415,156

On 5th April 2017, the Authority entered into a capital lease for the use of an office equipment. The lease period is for 36 months ending on 31st March 2020 with a monthly rental fee of \$440. The lease payable amounting to \$11,000 represents the remaining balance for this obligation. In calculating the value of the lease payable, the minimum lease payments has not been discounted to its present value as the interest expense is not deemed to be significant.

7. POST-EMPLOYMENT BENEFITS AND COMPENSATED ABSENCES

(a) Pension plans

Defined contribution

The Authority has two different pension plans which are defined contribution plans. The Registered Plan is for Bermudian employees and members of staff that are the spouse of a Bermudian, and is in accordance with the National Pensions Scheme (Occupational Pensions) Act 1998. The Non-Registered pension plan which is for non-Bermudian employees and spouses mirrors the Registered Plan in all ways except that vested contributions can be withdrawn at the end of employment with the Authority. The plans are administered by a local pension provider.

The Authority has an enhanced pension plan for employees that transferred from Government to compensate for the change from a Defined Benefit Plan to a Defined Contribution Plan. The employee's contribution is 5% however the Authority's contribution is 8%, 12.5% or 19% depending on the age and length of service of the employee. Employees hired since 1st October 2016 have employee contributions of 5% and this is matched by the Authority. For the year ended 31st March 2018, the amount of \$117,636 (2017: \$95,730) was contributed by the Authority.

(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 defined benefit pension schemes with the addition of actuarial assumptions relating to long-term increases in healthcare costs.

The principal actuarial assumptions at the date of valuation:

	2018	2017
1. Discount Rate	5%	5%
2. Medical trend rate	7% decreasing by 1% per annum to an ultimate rate of 3% after 5 years	7% decreasing by 1% per annum to an ultimate rate of 3% after 5 years
3. Expected Average Remaining Service Lifetime (EARSL)	11.5 years	11.6 years

BERMUDA CIVIL AVIATION AUTHORITY

Notes to the Financial Statements

31st March 2018

The probability of various employees remaining employed and becoming eligible for post-employment medical benefits for both males and females:

	2018	2017
Age	%	%
25 and under	5	5
26-30	10	10
31-35	15	15
36-40	30	30
41-45	50	50
46-50	70	70
51-55	90	90
56-60	95	95
61 and over	100	100

The amount of \$323,907 (2017: \$168,699) is recognised in the Statement of Financial Position upon the advice of a professionally qualified actuary. Further details of the valuation are presented below:

	2018	2017
	\$	\$
Present value of obligation:		
Balance, beginning of year	168,699	—
Current service cost	155,460	137,725
Interest cost	8,534	—
Actuarial (gain) loss	(8,786)	30,974
Balance, end of year	323,907	168,699

(c) Retirement leave benefit

Employees are entitled to retirement leave benefit based upon their years of service at the time of retirement. The retirement leave accumulates and is vested. A liability is accrued each year. During the year, no retirement leave benefits were paid. Further details are presented below.

The principal actuarial assumptions at the date of valuation:

	2018	2017
1. Discount Rate	5%	5%
2. Rate of Salary Increase	2.5%	2.5%

Notes to the Financial Statements

31st March 2018

(c) Retirement leave benefit (continued)

Employees may leave prior to completing a sufficient number of years of service and hence forfeit their benefit. Assumed rates of termination prior to age 70 are indicated in the following table:

Age Nearest	2018		2017	
	Males %	Females %	Males %	Females %
23	0.03	0.01	0.03	0.01
28	0.06	0.04	0.06	0.04
33	0.16	0.10	0.16	0.10
38	0.30	0.20	0.30	0.20
43	0.47	0.32	0.47	0.32
48	0.70	0.50	0.70	0.50
53	0.92	0.65	0.92	0.65
58	0.94	0.70	0.94	0.70
63	0.98	0.95	0.98	0.95

A conservative approach is to assume all employees age 68 and over will retire immediately.

The amount of \$78,842 (2017: \$78,657) is recognised in the Statement of Financial Position with the advice of a professionally qualified actuary. Further details of the valuation are presented below:

	2018 \$	2017 \$
Accrued benefit obligation:		
Balance – beginning of year	78,657	—
Current service cost	2,220	2,381
Interest cost	3,933	—
Actuarial loss	2,667	—
New plan loss	—	76,276
Benefits paid	(8,635)	—
Balance – end of year	78,842	78,657

(d) Compensated absences

Full-time regular employees are eligible for a variety of benefits including Long-Term Disability coverage, Life insurance and Accidental Death and Dismemberment insurance (Note 8), and Medical insurance. Compensated absences include maternity leave, paternity leave, sick leave and vacation days. These benefits are unfunded.

Maternity and paternity leave does not accumulate nor vest and therefore an expense and liability are only recognised when extended leave is applied for and approved. There were no maternity benefits and paternity benefits applied for nor approved during the year and therefore, no liability has been accrued in the accounts.

Sick leave does not accumulate nor vest, and like maternity and paternity leave, a liability is recorded only when extended leave is applied for and approved. There was no extended sick leave applied for nor approved during the year and therefore, no liability has been accrued in the accounts.

Vacation days accumulate and vest and therefore a liability is accrued each year. The accrued vacation as of 31st March 2018 is \$134,573 (2017: \$52,665) and is included in accounts payable and accrued liabilities.

BERMUDA CIVIL AVIATION AUTHORITY

Notes to the Financial Statements

31st March 2018

8. LIFE AND DISABILITY BENEFITS

The Authority maintains a Group Life benefit plan with a local provider. The plan provides 100% salary to an employee's beneficiaries up to the age of 65. After age 65 the benefit reduces to 50%, after age 70 the benefit is \$50,000 and after age 75 the benefit terminates. The plan is supplemented for employees transferred from the Department of Civil Aviation that are over the age of 65. The Authority accrues the difference between the employee's salary and the benefit the Group Life provider will pay to covered employees over the age of 65. As at 31st March 2018, this benefit was \$349,130 (2017: \$Nil).

9. TANGIBLE CAPITAL ASSETS

	Capital lease	Furniture, office equipment	Computer equipment	Software	Vehicle	Capital assets under development	Total
	\$	\$	\$	\$	\$	\$	\$
Cost							
Transfer from the Department of Civil Aviation (Note 18)	23,524	105,428	71,606	510,444	30,000	200,467	941,469
Donated tangible capital assets	—	—	—	141,285	—	128,775	270,060
Additions	—	—	25,709	141,822	—	30,407	197,938
Impairment	—	—	—	—	—	(354,930)	(354,930)
At 31st March 2017	23,524	105,428	97,315	793,551	30,000	4,719	1,054,537
Additions	15,840	44,594	53,101	30,233	42,812	—	186,580
Transfers	—	—	—	4,719	—	(4,719)	—
Disposals	—	—	—	—	(30,000)	—	(30,000)
At 31st March 2018	39,364	150,022	150,416	828,503	42,812	—	1,211,117
Accumulated amortization							
Transfer from the Department of Civil Aviation (Note 18)	23,524	105,428	65,662	510,444	30,000	—	735,058
Amortization	—	—	6,443	14,155	—	—	20,598
At 31st March 2017	23,524	105,428	72,105	524,599	30,000	—	755,656
Amortization	3,207	1,986	18,462	28,619	4,281	—	56,555
Disposal	—	—	—	—	(30,000)	—	(30,000)
At 31st March 2018	26,731	107,414	90,567	553,218	4,281	—	782,211
Net Book Value 31st March 2017	—	—	25,210	268,952	—	4,719	298,881
Net Book Value 31st March 2018	12,633	42,608	59,849	275,285	38,531	—	428,906

In 2017, the net book value of the tangible capital assets transferred from the Department of Civil Aviation amounted to \$206,411 (Note 18).

In addition, in 2017, donated tangible capital assets of \$270,060 includes \$141,285 from the initial paid-up capital (Notes 5 and 10) and \$128,775 from other income (Notes 5 and 11e). There were no disposals of tangible capital assets as at 31st March 2017.

Notes to the Financial Statements

31st March 2018

10. ACCUMULATED SURPLUS

Section 12 of the Act states that the funds of the Authority shall consists of: (a) the authorised and paid-up capital, (b) the operating fund and (c) the reserve fund.

The paid-up capital together with the reserve fund is not to exceed the Authority's authorised capital of \$3,500,000. Any excess surplus must be paid to the Consolidated Fund of the Government of Bermuda.

In 2017, the paid-up capital of \$500,000 was paid to the Authority to fund start-up expenditures, of which \$141,285 was donated tangible capital assets (Note 9).

In 2017, a general reserve fund of \$1,000,000 has been established and maintained in accordance with Section 16 (1) of the Act. This reserve was designated from accumulated surplus and is not supported by any restricted assets. The reserve is intended to cover any immediate incident expenditures prior to insurance claims and to cover expenditures in case of loss of business.

The movements in the operating fund, paid-up capital and reserve fund were as follows:

	Operating Fund	Paid-up capital	Reserve Fund	Total
	\$	\$	\$	\$
ACCUMULATED SURPLUS, BEGINNING OF THE YEAR	—	500,000	1,000,000	1,500,000
Operating surplus for the year	19,024,325	—	—	19,024,325
Distribution to the Consolidated Fund of the Government of Bermuda (Notes 5 and 20)	(19,024,325)	—	—	(19,024,325)
ACCUMULATED SURPLUS, END OF THE YEAR	—	500,000	1,000,000	1,500,000

11. REVENUE

(a) Airworthiness

These fees represent the main operational revenue of the Authority, which is generated from all aircraft on the Bermuda Aircraft Register. Each certificate that is issued by the Airworthiness section is associated with a fee which is governed by Air Navigation (Fees for Certificates and Services) Regulation 2012 effective on 1st October 2012.

(b) Flight operations

This source of revenue is derived from the issuance of Air Operator's Certificates, Private Aircraft Operating Approvals, Aerial Work Permissions and certain Flight Operational approvals. The single certified Air Operator conducts ad hoc VVIP charter flights on demand.

(c) Registrations

These fees are derived from aircraft mortgage transcripts and registrations.

(d) Reimbursements

This relates to a reimbursement of legal fees incurred for Aerodrome contract review.

(e) Other Income

Other income resulted from the following:

	2018 \$	2017 \$
Interest income	31,762	—
Accounts payable written-off	—	183,823
Donated capital assets	—	128,775
	31,762	312,598

BERMUDA CIVIL AVIATION AUTHORITY

Notes to the Financial Statements

31st March 2018

12. GENERAL ADMINISTRATION

	2018 \$	2017 \$
Salaries and employee benefits	4,444,181	1,789,389
Travel	596,303	224,625
Advertising & promotion	457,184	206,943
Communications	378,894	116,706
Rent	350,844	164,907
Insurance	231,576	8,011
Repairs and maintenance	121,003	27,081
Materials and supplies	119,315	150,931
Training	65,169	57,545
Office equipment	30,522	29,677
Miscellaneous	96,214	39,417
	6,891,205	2,815,232

13. PROFESSIONAL SERVICES

	2018 \$	2017 \$
Consulting fees	4,237,159	1,930,848
Legal fees	159,758	68,602
Information technology support	71,718	131,214
Audit fees	58,000	32,000
	4,526,635	2,162,664

14. CONTRACTUAL OBLIGATIONS

The Authority has entered into various contracts relating to supporting services and information technology. These contracts have commencement terms prior to 31st March 2018 and the latest contract termination date is 18th February 2021. The contractual obligations will become liabilities in the future when the terms of the contracts are met. The remaining obligation of the contracts are as follows:

	2019 \$	2020 \$	2021 \$
Supporting services	3,168,396	1,497,528	538,146
Information technology	108,144	105,216	—
	3,276,540	1,602,744	538,146

Notes to the Financial Statements

31st March 2018

15. FINANCIAL RISK MANAGEMENT

The Authority has exposure to counterparty credit risk, liquidity risk and market risk associated with its financial assets and liabilities. The Board of Directors (the "Board") have overall responsibility for the establishment and oversight of the Authority's risk management framework. The Board has established the Finance Committee which is responsible for developing and monitoring the Authority's compliance with risk management policies and procedures. The Finance Committee regularly reports to the Board on its activities. The Authority's risk management program seeks to minimize potential adverse effects on the Authority's financial performance. The Authority manages its risks and risk exposures through a combination of insurance and sound business practices. The following analysis provides a measure of the risks at the reporting date, 31st March 2018.

(a) Credit risk

Credit risk arises from cash and cash equivalents held with banks and receivables. The maximum exposure to credit risk is equal to the carrying value (net of allowances) of the financial assets. The objective of managing counterparty credit risk is to prevent losses on financial assets. The Authority assesses the credit quality of counterparties, taking into account their financial position, past experience and other factors. It is management's opinion that the Authority is not exposed to significant credit risk.

i. Cash and cash equivalents

Credit risk associated with cash and cash equivalents is minimized substantially by ensuring that these financial assets are invested with highly rated financial institutions.

ii. Receivables

Receivables consist primarily of trade accounts receivable from billings of services provided and due from related parties. The Authority's credit risk arises from the possibility that a counterparty which owes the Authority money is unable or unwilling to meet its obligations in accordance with the terms and conditions in the contracts with the Authority, which would result in a financial loss for the Authority. This risk is mitigated through established credit management techniques, including monitoring counterparty's creditworthiness and obtaining references. As at 31st March 2018, the maximum credit risk to which the Authority is exposed represents the carrying value of its accounts receivable and accrued interest.

The amounts outstanding at the year-end were as follows:

	Current	31-60 Days	61-90 Days	91-120 Days	120+ Days	Total
	\$	\$	\$	\$	\$	\$
Accounts receivable	300,274	102,646	77,595	32,401	565,346	1,078,262
Less: provision for bad debts	—	—	—	—	(3,826)	(3,826)
Net receivables	300,274	102,646	77,595	32,401	561,520	1,074,436

iii. Accrued interest

Credit risk associated with accrued interest is minimized substantially by ensuring that the two call accounts are invested with a highly rated financial institution.

Notes to the Financial Statements

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(b) Liquidity risk

Liquidity risk is the risk the Authority will not be able to meet its financial obligations as they fall due. The Authority's objective in managing liquidity is to ensure that it will always have sufficient liquidity to meet its commitments when due, without incurring unacceptable losses or risking damage to the Authority's reputation. The Authority manages exposure to liquidity risk by closely monitoring supplier and other liabilities, focusing on generating positive cash flows from operations and establishing and maintaining good relationships with various financial institutions.

The following table sets out the expected cash flows of financial liabilities:

	< 1 year	>1 < 5 Years	Total
	\$	\$	\$
Expected cash outflows			
Accounts payable and accrued liabilities	1,496,142	—	1,496,142
Due to the Government of Bermuda	58,101	—	58,101
Distribution to the Consolidated Fund of the Government of Bermuda	—	24,749,017	24,749,017
Retirement leave benefits payable	—	78,842	78,842
Post-employment healthcare payable	—	323,907	323,907
Life and disability benefits	—	349,130	349,130
Total expected cash outflows	1,554,243	25,500,896	27,055,139

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the fair value of recognised assets and liabilities or future cash flows of the Authority's results of operations.

(i) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Authority's business transactions are mainly conducted in United States and Bermuda dollars. However, operating expenses for the UK office resulted in exposure to currency risk. As at 31st March 2018, the Authority held approximately 0.7% of its cash and cash equivalents in British pounds and Euros (2017 – 0.7%). As at 31st March 2018, there were no significant outstanding liabilities.

The Authority has not entered into any agreements or purchased any foreign currency hedging arrangements to hedge possible currency risks, as management believes that the foreign exchange risk derived from currency conversions is not significant.

(ii) Interest rate risk

Interest rate risk arises from changes in prevailing levels of market interest rates. At year end, the Authority had no significant interest rate risk exposure.

(iii) Price risk

Price risk arises from changes in market risks, other than interest rate risk and credit risk, causing fluctuations in the fair value of future cash flows of the financial instruments. At year-end, the Authority had no significant price risk exposure.

There have been no changes from the previous year in the exposure to risk policies, procedures and methods to measure the above risks.

Notes to the Financial Statements

31st March 2018

16. CAPITAL MANAGEMENT

The Authority's objective when managing capital is to hold sufficient accumulated surplus to enable it to withstand negative unexpected financial events. The Authority seeks to achieve this objective by maintaining an operating surplus. The Authority maintains sufficient liquidity to meet its short-term obligations as they come due. The Authority is not subject to any externally imposed capital requirements.

17. BUDGET

The amounts represent the operating budget which was approved by the Board on 27th April 2017.

18. TRANSFER OF ASSETS AND LIABILITIES

In 2017, all rights, assets and property vested in or held in any manner, on behalf of or for the Department of Civil Aviation before commencement of the Act, were vested in the Authority. Additionally, all liabilities and obligations that existed for the Department of Civil Aviation immediately before the commencement of the Act, continue to exist against the Authority.

A summary of the balances transferred in 2017 are listed below:

	\$
Cash	154,273
Accounts receivable	3,092,164
Allowance for doubtful accounts	(81,432)
Accounts payable and accrued liabilities	(183,823)
Tangible capital assets (Note 9)	206,411
Accumulated surplus transferred from the Department of Civil Aviation	(3,187,593)

19. COMPARATIVE FIGURES

These financial statements are for twelve (12) months of operations from 1st April 2017 to 31st March 2018. The comparative figures are for six (6) months of operations from 1st October 2016 to 31st March 2017.

Certain comparative figures have been reclassified to conform to the current year's presentation.

In addition, certain comparative balances have been changed as a result of a prior period reclassifying adjustment to the audited financial statements as at 31st March 2017 (Note 20).

BERMUDA CIVIL AVIATION AUTHORITY

Notes to the Financial Statements

31st March 2018

20. RECLASSIFICATION OF PRIOR PERIOD BALANCES

Prior period reclassifying adjustments are made when errors impacting the previously reported financial period are discovered in the current reporting year. The reclassifying adjustment relates to payments on outstanding invoices as at 31st March 2017 that were reflected as customer advances rather than applied against the related accounts receivable.

The impact of this reclassifying adjustment to the prior year financial statements are as follows:

CONDENSED STATEMENT OF FINANCIAL POSITION AS AT 31st MARCH 2017

	Previously reported	Payments applied to outstanding invoices	Reclassified balance
	\$	\$	\$
FINANCIAL ASSETS			
Accounts receivable	1,077,994	(49,661)	1,028,333
Total financial assets	11,131,523	(49,661)	11,081,862
LIABILITIES			
Accounts payable and accrued liabilities	1,464,817	(49,661)	1,415,156
Total liabilities	10,016,621	(49,661)	9,966,960

The prior period reclassifying adjustment above does not impact the statement of operations and accumulated surplus and the statement of change in net financial assets for the period from 1st October 2016 to 31st March 2017.

CONDENSED STATEMENT OF CASH FLOWS FOR THE PERIOD FROM 1ST OCTOBER 2016 TO 31st MARCH 2017

	Previously Reported	Payments applied to outstanding invoices	Reclassified Balance
Cash flows from operating activities			
Increase in accounts receivable	(3,819,277)	49,661	(3,767,616)
Increase in accounts payable and accrued liabilities	1,464,817	(49,661)	1,415,156

Notes to the Financial Statements

31st March 2018

21. | SUBSEQUENT EVENTS

On 16th March 2018, BCAA terminated its contract for workflows and document management with a local software vendor. The software vendor signed an agreement on 24th June 2019 to pay a financial settlement amounting to \$85,000 in favour of the Authority and absolved both parties of any further liability.

On 19th October 2018, the Authority signed a new three (3) year contract with Bureau Veritas Exploitation (France) expiring 31st December 2021 for airworthiness inspection services.

On 20th November 2018, the Board approved an increase to the Reserve Fund amounting to \$2,000,000.

In accordance with Section 18 (1a) of the Act, the Authority will transfer a percentage of its net surplus to the Consolidated Fund of the Government of Bermuda. On 26th November 2018, an initial estimate of the net surplus amounting to \$13,000,000 was transferred to the Consolidated Fund of the Government of Bermuda.

On 16th July 2019, the Board agreed to raise the retirement age to 68 years old and making mandatory retirement age 70 years old.

On 26th August 2019, the Authority signed a contract with Seabury MRO Solutions BV to implement a new registry management system.

On 11th February 2020, the Authority signed a new Collective Bargaining Agreement with the Bermuda Public Services Union for the three-year period 1st April 2020 to 31st March 2023.

As of 27th March 2020, the Coronavirus is expected to have a significant impact on the commercial airline industry due to restrictions placed on international air travel and the reduction in domestic air travel. Management anticipates that this will have negative financial implications for its 83**bis** aircraft that have Certificates of Airworthiness with the Authority. Many customers are expected to have financial challenges during fiscal year 2020/21 and this is likely to impact the collection of revenue. To alleviate the negative financial impact on customers, the Authority is considering offering financial relief subject to the required approvals, which may impact cash flow and revenue. The full effect of the Coronavirus on the commercial airline industry and the effect on the Authority is not able to be estimated at this time.

BERMUDA CIVIL AVIATION AUTHORITY

Work Plan Review

31st March 2018

In its Work Plan (Business Plan) for 2017/18, the BCAA planned for several initiatives to take place during that fiscal year. Several of these initiatives deviated from the original plan or were not accomplished and the reasons are outlined below:

It was stated in the Work Plan that the Air Navigation (Fees for Certificates and Services) Regulations 2012 were currently under review and would be revised. The review commenced but then had to be deferred due to other work priorities, however amendments are being proposed for the 2020/21 fiscal year.

It was anticipated that a Process Workflow and Document Management system would be operational during the fiscal year. The contract with the vendor was terminated in March 2018 because the programming was not completed and the application was not functional. The asset has been written-off.

The Work Plan outlined that the Authority would: work with their strategic business partner to boost visibility in social media which has been successful; expand staffing in the UK office, which is ongoing; and review competitors' rates which has been completed to ensure that BCAA fees are competitive.

BCAA had plans to implement its approved organisational structure consisting of 41 posts by filling all vacant positions by 31st March 2018 however this has not yet been accomplished. Six positions were filled during the year (three of these in the UK office) and recruitment efforts continue on a periodic basis to fill other vacancies.

BCAA staff became unionised in December 2017 when non-management staff voted to join the Bermuda Public Services Union. The first Collective Bargaining Agreement was signed in February 2018, retroactively effective from 1st April 2017. Compensation for unionised and management staff was approved and paid in February and July 2018 respectively.

The Business Plan also proposed that more collaborative work would take place with the Bermuda Business Development Agency, however, this has not transpired as anticipated.

BERMUDA CIVIL AVIATION AUTHORITY

Executive Salaries

As at 31st March 2018

Director General	\$ 180,000 – \$200,000
Director of Operations	\$ 140,000 – \$160,000
Director of Airworthiness	\$ 140,000 – \$160,000
Director of Finance & Administration	\$ 140,000 – \$160,000
Safety Oversight Advisor	\$ 140,000 – \$160,000
Director of Registrations	\$ 133,000 – \$153,000



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