

2022 / 23

ANNUAL REPORT

# MESSAGE FROM THE CHAIR OF THE BOARD

I am very pleased to be addressing our stakeholders in this annual report covering 1st April 2022 to 31st March 2023. As Chair of the Board of Directors of the Bermuda Civil Aviation Authority (BCAA), it is my privilege to share some insight into the organisation's activities and achievements over the fiscal year.

Throughout this period, the Authority maintained its focus on its primary responsibility of regulating and providing safety oversight for Bermuda's aviation industry. However, as Director General Thomas Dunstan describes in his message, which follows, the BCAA's usual operations continued to be significantly affected by the Russian invasion of Ukraine. The imposition of international sanctions on Russia resulted in the removal of more than 700 aircraft from the Bermuda Registry – an extraordinary measure that had catastrophic consequences for the Authority's revenue. In fact, this was the first year in its history that the organisation did not turn a profit.

These ongoing challenging circumstances and negative headwinds prompted the BCAA to take a number of steps to mitigate losses by introducing financial efficiencies – from reducing our footprint in office space, to putting a number of human resources initiatives on hold by not filling available posts, to decreasing our dependency on contractors. In addition, the Authority doubled down on its business development efforts by focusing on growing and diversifying the customer base. Thomas provides more detail about these endeavours in his message, which follows.

Despite the uncertainty, the BCAA team stayed positive and continued to bring their best selves to work every day. The tenacity of management and staff in the face of adversity was very encouraging and their resilience and resolve were inspiring; the Board remained committed to furthering the Authority's efforts, meeting monthly instead of quarterly to ensure the team had the support they needed. There was a sense of solidarity throughout the organisation – we truly were all facing the tough times together.

Of course, there's strength in consistency, and we have been very fortunate to have consistency in the Board of Directors throughout the period of the Ukraine conflict. This also proved particularly helpful when there was a ministerial change in late October of 2022. The constancy in the composition of the Board helped us navigate this shift very effectively.

Even with all of the disruption and challenges through the year, both the BCAA team and the Board succeeded in staying focused on achieving the goals of the Authority. I would like to recognise the steadfast dedication of my fellow Board members – thank you for your ongoing faith in the work that we do. The management and staff of the Authority must also be acknowledged for their perseverance and unwavering commitment. I am so proud of all that we have achieved and am honoured to be part of this organisation.



**Kim Wilkerson**  
Chair of the Board



# MESSAGE FROM THE DIRECTOR GENERAL

The Bermuda Civil Aviation Authority (BCAA or Authority) and our dedicated team showed remarkable resilience during what proved to be another year of facing challenges that were beyond our control. To paraphrase German philosopher Frederick Nietzsche, that which does not kill us makes us stronger. And that's how the Authority emerged from the year ended 31st March 2023: strong, resolved and optimistic about the future.

The lockdowns and restrictions associated with the COVID-19 pandemic had been largely lifted by the time the fiscal year began on 1st April 2022. During this period, the BCAA started to resume many aspects of our business operations in person. Our business development team began attending events and conferences, and for the first time since the pandemic began in March 2020, we were able to carry out in-person aircraft inspections. Recognising the benefits and efficiencies of working from home for both employees and the organisation, the BCAA settled into "distributed working"; while a few of our staff members were in the office on a regular basis, most carried out their responsibilities remotely.

In addition to this being the first full year post-pandemic, the 12 months ended 31st March 2023 was also the first full year of the war in Ukraine. As I discussed in my message in last year's Annual Report, Russia's unprovoked invasion of Ukraine in February 2022 was devastating and resulted in the imposition of international sanctions on Russia. These sanctions had a catastrophic impact on the BCAA as we were unable to maintain safety oversight on Russian-operated aircraft on the Bermuda Registry and were forced to suspend the airworthiness certificates of more than 700 Bermuda-registered aircraft operating with Russian airlines. The immediate effect of the sanctions on the Authority's revenues was very significant – in the range of 85% – and that impact continued through the year.

BCAA policy was to support lessors and owners with the repatriation of aircraft from the Russian Federation to the extent possible. However, the sanctions made it impossible for us to do so. On 14th August 2022, the Bermuda Government provided the BCAA with a licence of limited privilege to provide technical assistance to facilitate the recovery of aircraft from the Russian Federation, to a place outside the Russian Federation, on behalf of non-Russian owners.

The ongoing tensions resulted in many unknowns for the Authority. During this time, we continued to review and revise our business development strategy as replacing the revenue lost because of the sanctions became an organisational imperative. In an effort to grow and diversify our customer base, over the course of the year ended 31st March 2023, our team participated in a number of industry events and conferences and shared the BCAA value proposition with potential clients. Specifically, we attended Airline Economic Growth Frontiers in Dublin in January 2023, Corporate Jet Investor in London in February 2023 and Global Sky Forum – Business Aviation in Kuala Lumpur in February 2023. In addition, we started leveraging the power of social media to advance our business development goals and continued to grow our presence on Facebook and LinkedIn.

Another consequence of the challenges stemming from the war in Ukraine is that some of our human resources initiatives were temporarily paused while our operations were scaled back. As a result, there were no new hires or promotions in the past year.

Finally, in May 2022, the Authority published a revised fee schedule. We had been reviewing fees for some time in an effort to simplify our fee schedule and provide competitive prices for our customers. Where we had the flexibility to reduce the fees, we did so; increases in fees brought us in line with our competitors and market conditions. For most BCAA services, this was the first fee adjustment in more than 10 years. The revised schedule took effect on 1st May 2022.

In closing, I would like to thank the members of our Board of Directors for their steadfast support as we continued to navigate these challenging times and to our customers for their ongoing loyalty. I am extremely proud of the BCAA team's perseverance and resilience through these unprecedented industry conditions. Our management and staff have remained committed throughout; I am very grateful for their contributions to the Authority's continued success.



**Thomas Dunstan**  
Director General



# OUR DIRECTORS



Thomas Dunstan  
Ex-Officio



Kim Wilkerson  
Chairperson



Lynesha Lightbourne  
Deputy Chairman



James Dockeray



Anthony Whaley



Clive Langley



Julie Grant

# OUR VISION AND MISSION

## Our Vision

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

## Our Mission

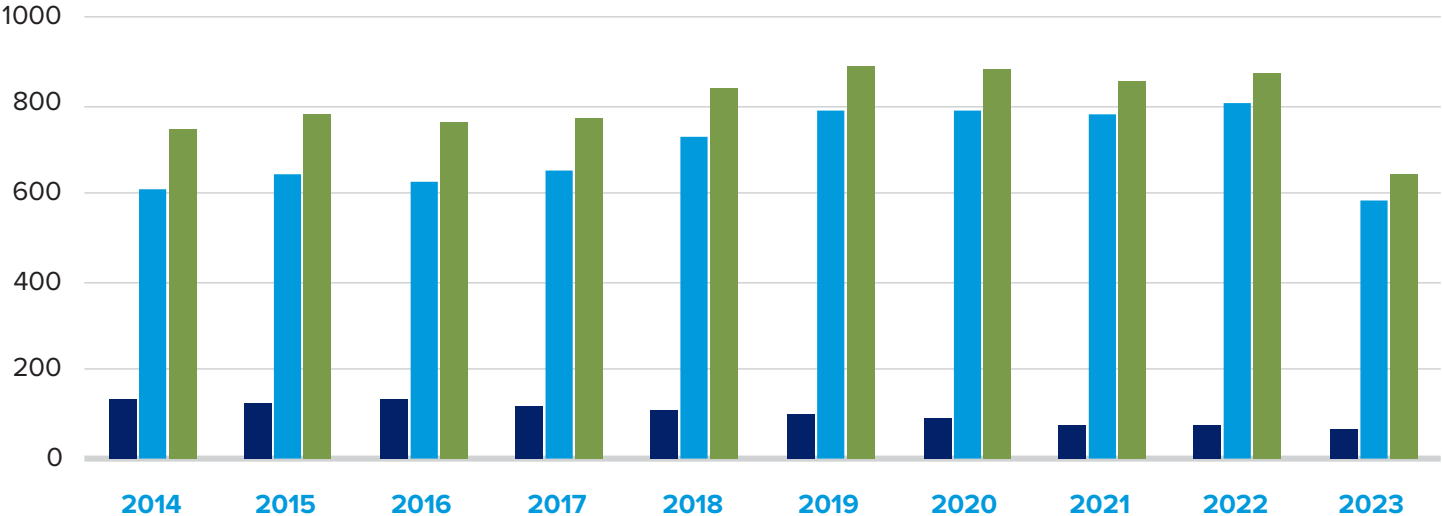
Collaboratively, with our industry partners, we develop and implement clear regulations, procedures and standards throughout the Bermuda civil aviation industry. Our approach is to be responsive, proactive and pragmatic to continuously improve safety.

# Putting you at the centre of everything we do

This statement is at the core of our business philosophy across the entire organisation. We are committed to being the best choice for offshore aircraft registration, and it's our belief that this endeavour begins with a customer-centric model, focused on the customer.

With a wealth of experience and credibility in the global aviation industry, BCAA provides you with the solution you desire, delivered with a personalised touch.

# OUR REGISTERED AIRCRAFT



■ Private ■ Commercial ■ Total

# FINANCIAL SECTION

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# SUMMARY OF FINANCIAL PERFORMANCE

*For the year ended 31st March 2023*

## Operational Results

For the fiscal year ended 31st March 2023, the BCAA recorded operational results that reflected the significant loss of business due to the sanctions against Russia from its February 2022 invasion of the Ukraine. Over 85% of the aircraft on the Bermuda Aircraft Registry were operated by Russian operators and the Certificates of Airworthiness for these aircraft were provisionally suspended in March 2022. Receivables for services provided to Russian customers were written-off as uncollectible in March 2022.

Operating revenue consists primarily of income from the issuance of Certificates of Airworthiness. Other operating revenues are from Registrations, Flight Operations licenses and permits and the issuance of other Airworthiness certificates. Total revenues were 80% lower than the previous year due to the loss of Russian business.

General Administration expenses were lower than the previous year's and consist of salaries and employee benefits for thirty-one employees (a decrease of seven employees from last fiscal year), travel, advertising and promotion, rent and miscellaneous other administrative expenses. The decreased expenditure in this category is due mainly to the decrease in the number of staff, a significant reduction in advertising and promotion expenses as a result of the loss of business and the reduction in rent expense from the downsizing of office space in the Bermuda and UK offices. Travel expenses increased due to the return to on-site inspections after nearly two years of strict travel restrictions due to the Covid-19 pandemic.

Professional Services consist primarily of consulting costs for the provision of airworthiness inspection services by consultant airworthiness inspectors. Also included are legal, human resource and information technology consulting services to support operations. The significant decrease in Professional Services is due to the loss of business in Russia and the resulting reduction in the number of aircraft requiring inspection.

The operating loss was \$1.85 million for the fiscal year, 32% below budget and significantly lower than the operating surplus of the previous fiscal year.

In accordance with the BCAA Act 2016 the Authority is required to transfer its Net Surplus to the Consolidated Fund as agreed between the Board and the Minister of Tourism & Transport. Since the BCAA recorded a Net Deficit for the fiscal year, no transfer has been made to the Consolidated Fund of the Government of Bermuda.

## Financial Position

Cash balances decreased from \$21.20 million on 31st March 2022 to \$19.01 million on 31st March 2023 as the BCAA is using its cash reserves to fund operations. The amount Due to the Consolidated Fund of the Government of Bermuda has been decreased by the Annual Deficit. Life and Disability Benefits have increased due to the projected increases in health insurance premiums.

**BERMUDA CIVIL AVIATION AUTHORITY**

**FINANCIAL STATEMENTS**

**MARCH 31, 2023**

## 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 financial management and internal controls to provide reasonable assurance that transactions are properly authorized and recorded in compliance with legislation, assets are safeguarded, and reliable financial record are maintained and 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 the audit. 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.

  
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Thomas Dunstan  
Director General



  
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Delia Basden  
Director of Finance



## *Office of the Auditor General*

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### **INDEPENDENT AUDITOR'S REPORT**

To the Minister of Transport

#### **Opinion**

I have audited the financial statements of the Bermuda Civil Aviation Authority, which comprise the statement of financial position as at March 31, 2023, and the statements of operations and accumulated surplus, change in net financial assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bermuda Civil Aviation Authority as at March 31, 2023, 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.

#### **Basis for Opinion**

I conducted my audit in accordance with auditing standards generally accepted in Bermuda and Canada. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Bermuda Civil Aviation Authority in accordance with the ethical requirements that are relevant to my audit of the financial statements in Bermuda, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### **Emphasis of Matter**

I draw attention to Note 16 of the accompanying financial statements, which describes the effects of the Russian-Ukraine war on the Bermuda Civil Aviation Authority. 85% of the Bermuda Aircraft Registry are operated by Russian air operators. After the invasion a number of sanctions were imposed against Russia resulting in loss of revenues for the Bermuda Civil Aviation Authority. Given this economic impact and uncertainties caused by the war, the effect on future operating and financial performance of the Bermuda Civil Aviation Authority is not determinable at this time. It is recognized that the short-term viability of the Bermuda Civil Aviation Authority is contingent on its ability to generate additional revenue and the continued financial support of the Government of Bermuda. These conditions may give rise to a material uncertainty that could raise doubt about the Bermuda Civil Aviation Authority's ability to continue as a going concern. My opinion is not modified with respect to this matter.

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

Management is responsible for the preparation and fair presentation of the 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.

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

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

## **Auditor's Responsibilities for the Audit of the Financial Statements**

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

As part of an audit in accordance with auditing standards generally accepted in Bermuda and Canada, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

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

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during the audit.

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, related safeguards.

A further description of the auditor's responsibilities for the audit of the financial statements is located at the Office of the Auditor General website at: [www.oagbermuda.bm](http://www.oagbermuda.bm). This description forms part of my auditor's report.

Hamilton, Bermuda  
July 26, 2024



Heather Thomas, CPA, CFE, CGMA  
Auditor General

**BERMUDA CIVIL AVIATION AUTHORITY****Statement of Financial Position****As at 31<sup>st</sup> March 2023**

	<b>2023</b>	<b>2022</b>
	<b>\$</b>	<b>\$</b>
<b>FINANCIAL ASSETS</b>		
Cash and cash equivalents (Note 3)	19,005,422	21,201,579
Accounts receivable (Notes 4 and 15)	639,661	430,892
Accrued interest	232	194
	<u>19,645,315</u>	<u>21,632,665</u>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities (Note 6)	1,068,240	1,307,312
Due to the Government of Bermuda (Note 5)	47,037	52,440
Deferred revenue	133,040	506,380
Distribution to the Consolidated Fund of the Government of Bermuda (Note 5)	15,699,157	17,553,095
Post-employment benefits and compensated absences (Note 7)	1,359,479	1,056,887
Life and disability benefits (Note 8)	41,577	41,577
	<u>18,348,530</u>	<u>20,517,691</u>
<b>NET FINANCIAL ASSETS</b>	<u>1,296,785</u>	<u>1,114,974</u>
<b>NON-FINANCIAL ASSETS</b>		
Tangible capital assets (Note 9)	2,075,220	2,002,271
Prepaid expenses	127,995	382,755
	<u>2,203,215</u>	<u>2,385,026</u>
<b>ACCUMULATED SURPLUS (Note 10)</b>	<u>3,500,000</u>	<u>3,500,000</u>
<b>CONTRACTUAL OBLIGATIONS (Note 14)</b>		

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 31<sup>st</sup> March 2023**

	<b>2023</b> <b>Budget</b> <b>(Note 18)</b> \$	<b>2023</b> \$	<b>2022</b> \$
<b>REVENUE (Note 11)</b>			
Gross Airworthiness	4,200,000	4,627,298	34,167,493
Discounts on Airworthiness	-	-	(1,180,535)
Net Airworthiness	4,200,000	4,627,298	32,986,958
Flight operations	1,250,000	1,841,901	1,029,852
Registrations	140,000	140,840	56,830
Other income	3,500	68,271	67,583
Reimbursements	-	2,554	422
	<u>5,593,500</u>	<u>6,680,864</u>	<u>34,141,645</u>
<b>EXPENSES</b>			
General administration (Note 12)	6,512,000	6,809,110	7,837,592
Professional services (Note 13)	1,700,000	1,609,441	4,559,985
Amortization of tangible capital assets (Note 9)	110,000	102,812	106,502
Bad debts (Note 4)	5,000	13,439	901,069
	<u>8,327,000</u>	<u>8,534,802</u>	<u>13,405,148</u>
<b>ANNUAL (DEFICIT) SURPLUS</b>	<u><u>(2,733,500)</u></u>	<u>(1,853,938)</u>	<u>20,736,497</u>
<b>ACCUMULATED SURPLUS, BEGINNING OF YEAR</b>		3,500,000	3,500,000
Less: Deficit recoupment from (distribution to) the Consolidated Fund of the Government of Bermuda (Note 5)		<u>1,853,938</u>	<u>(20,736,497)</u>
<b>ACCUMULATED SURPLUS, END OF YEAR</b>		<u><u>3,500,000</u></u>	<u><u>3,500,000</u></u>

The accompanying notes are an integral part of these financial statements



**BERMUDA CIVIL AVIATION AUTHORITY**  
**Statement of Change in Net Financial Assets**  
**For the year ended 31<sup>st</sup> March 2023**

	<b>2023</b>	<b>2023</b>	<b>2022</b>
	<b>Budget</b>		
	<b>(Note 18)</b>		
	<b>\$</b>	<b>\$</b>	<b>\$</b>
NET FINANCIAL ASSETS, BEGINNING OF YEAR	-	1,114,974	1,280,754
Annual (Deficit) Surplus	(2,733,500)	(1,853,938)	20,736,497
Due to the Consolidated Fund of the Government of Bermuda	-	1,853,938	(20,736,497)
Acquisition of tangible capital assets (Note 9)	(253,000)	(177,187)	(211,102)
Loss on disposal of tangible capital assets (Note 9)	-	1,426	-
Amortization of tangible capital assets (Note 9)	-	102,812	106,502
Change in prepaid expenses	-	254,760	(61,180)
<b>INCREASE (DECREASE) IN NET FINANCIAL ASSETS</b>	<b>(2,986,500)</b>	<b>181,811</b>	<b>(165,780)</b>
<b>NET FINANCIAL ASSETS (DEBT), END OF YEAR</b>	<b>(2,986,500)</b>	<b>1,296,785</b>	<b>1,114,974</b>

The accompanying notes are an integral part of these financial statements

**BERMUDA CIVIL AVIATION AUTHORITY****Statement of Cash Flows****For the year ended 31<sup>st</sup> March 2023**

	<b>2023</b>	<b>2022</b>
	<b>\$</b>	<b>\$</b>
<b>Cash flows from Operating Activities</b>		
Annual (Deficit) Surplus	(1,853,938)	20,736,497
Adjustment for items not affecting cash:		
Amortization of tangible capital assets	102,812	106,502
Bad debts	13,439	901,069
Actuarial loss (gain)	171,933	(10,389)
Loss on disposal of tangible capital assets	1,426	-
Changes in non-cash working capital:		
Increase in accounts receivable	(222,208)	(736,501)
(Increase) Decrease in accrued interest	(38)	11,304
Decrease (Increase) in prepaid expenses	254,760	(61,180)
Decrease in accounts payable and accrued liabilities	(239,072)	(195,066)
Decrease in deferred revenue	(373,340)	(3,486,588)
Increase in post-employment benefits and compensated absences	130,659	112,280
Increase in life and disability benefits	-	411
Decrease in due to the Government of Bermuda	(5,403)	(3,582)
Net Cash (used in) generated from Operating Activities	<u>(2,018,970)</u>	<u>17,374,757</u>
<b>Cash flows from Capital Activities</b>		
Acquisition of tangible capital assets	<u>(177,187)</u>	<u>(211,102)</u>
Net Cash used in Capital Activities	<u>(177,187)</u>	<u>(211,102)</u>
<b>Cash flows from Financing Activities</b>		
Net distribution to the Consolidated Fund of the Government of Bermuda	<u>-</u>	<u>(22,951,262)</u>
Net Cash used in Financing Activities	<u>-</u>	<u>(22,951,262)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,196,157)	(5,787,607)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>21,201,579</u>	<u>26,989,186</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><u>19,005,422</u></u>	<u><u>21,201,579</u></u>
<b>SUPPLEMENTARY INFORMATION:</b>		
Interest received	<u>1,430</u>	<u>29,144</u>

The accompanying notes are an integral part of these financial statements

**BERMUDA CIVIL AVIATION AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**31<sup>st</sup> MARCH 2023**

**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 Organization.

**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 Organization. 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 recognized 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 recognized in the Statement of Operations and Accumulated Surplus.

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

(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 an aviation management and administration software.

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.

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

	<b>Years</b>
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 recognized 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 reorganization, 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 recognized 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.

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

(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 recognized at cost.

ii. Receivables

Accounts receivable and accrued interest are initially recognized 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 recognized 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 recognized.

Write-downs on financial assets are recognized 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 recognized 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.

(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 recognized in the year in which the service is rendered and is not discounted. The expected cost of short-term accumulating compensated absences is recognized 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

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 recognized as employee benefit expenses when they are due.

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

(i) Employee benefits (continued)

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 recognized 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 recognized 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 recognized 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 recognized 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. The Authority recognizes 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.

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

(l) 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 recognized as prepaid expenses.

(m) 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.

(n) Future Changes in Accounting Standards

Each year new standards and amendments to standards may be issued by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. The following standards are not yet effective and have not been applied in preparing these financial statements. An assessment will be done to determine the impact that these standards will have on the financial statements.

New standards effective for fiscal years beginning on or after April 1, 2023:

PS 3400 Revenue

PSG-8 Purchased Intangibles

PS 3160 Public private partnerships

The Conceptual Framework for Financial Reporting in Public Sector

PS 1202 Financial Statement Presentation

**3. CASH AND CASH EQUIVALENTS**

	<b>2023</b>	<b>2022</b>
	\$	\$
Cash in bank	11,005,422	13,201,579
Call accounts	<u>8,000,000</u>	<u>8,000,000</u>
Total cash and cash equivalents	<u><u>19,005,422</u></u>	<u><u>21,201,579</u></u>

Cash equivalents include two (2) interest-bearing call deposits with maturities of one (1) month and three (3) months. Upon maturity the accounts roll over. The two interest-bearing call deposits held as at 31<sup>st</sup> March 2023 have principal amounts of \$5,000,000 and \$3,000,000 with interest rates of 0.0099% and 0.031% respectively.

The \$3,000,000 interest-bearing deposit represents the general reserve restricted to cover any immediate incident expenditures prior to insurance claims and to cover expenditures in case of loss of business per Section 16 of the Act.

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**4. ACCOUNTS RECEIVABLE**

	<b>2023</b>	<b>2022</b>
	<b>\$</b>	<b>\$</b>
Accounts receivable	659,413	438,205
Allowance for doubtful accounts	(19,752)	(7,313)
Accounts receivable (net)	<u>639,661</u>	<u>430,892</u>

The carrying amounts of accounts receivable approximate their fair value. As at 31st March 2023, trade receivables of \$136,642 (2022: \$183,871) were past their due date but were not considered doubtful.

Bad debts expense for the year ended March 31, 2023 amounted to \$13,439 (2022: \$901,069) and is included in the Statement of Operations and Accumulated Surplus

Accounts receivable balances amounting to \$nil (2022: \$908,726) were written-off in the year ended March 31, 2023.

**5. RELATED PARTY TRANSACTIONS**

The Authority is related to all Government of Bermuda (the "Government") departments, ministries, agencies, funds and quasi-autonomous non-governmental organizations under the common control of the Government. Also, the Authority is related to organizations 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:

	<b>2023</b>	<b>2022</b>
	<b>\$</b>	<b>\$</b>
Transactions during the year:		
Transfer to the Consolidated Fund of the Government of Bermuda	-	22,951,262
Rent to Bermuda Land and Development Corporation*	110,170	324,904
Work permit fees*	16,522	108
	<b>2023</b>	<b>2022</b>
	<b>\$</b>	<b>\$</b>
Balances at the end of the year:		
Due to the Government of Bermuda	47,037	52,440
Distribution to the Consolidated Fund of the Government of Bermuda	15,699,157	17,553,095

\* Rent and work permit fees are included in General Administration expenses on the Statement of Operations and Accumulated Surplus.



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**5. RELATED PARTY TRANSACTIONS (continued)**

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

	<b>2023</b>	<b>2022</b>
	<b>\$</b>	<b>\$</b>
Balance beginning of the year	17,553,095	19,767,860
Net (deficit) surplus to be transferred to the Consolidated Fund of the Government of Bermuda	(1,853,938)	20,736,497
Transfer to the Consolidated Fund of the Government of Bermuda	-	<u>(22,951,262)</u>
	<u>15,699,157</u>	<u>17,553,095</u>

**6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

The account consists of:

	<b>2023</b>	<b>2022</b>
	<b>\$</b>	<b>\$</b>
Trade accounts payable	325,501	475,643
Accrued liabilities	299,392	379,648
Customer advance	443,347	452,021
	<u>1,068,240</u>	<u>1,307,312</u>

**7. POST-EMPLOYMENT BENEFITS AND COMPENSATED ABSENCES**

**(a) Pension plans**

**Defined contribution**

The Authority has three 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.

On February 1<sup>st</sup>, 2018, the Authority commenced an automatic enrolment defined contribution pension plan for its UK-based employees. The plan is administered by a UK pension provider. The Authority contributes 5% of the employee's salary and the employee contributes a percentage of their salary that satisfies UK Government pension regulations. For the year ended 31<sup>st</sup> March 2023, the amount of \$43,762 (2022: \$41,002) was contributed by the Authority.

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 10%, 12.5% or 19% depending on the age and length of service of the employee. Employees hired since 1<sup>st</sup> October 2016 have employee contributions of 5% and this is matched by the Authority. For the year ended 31<sup>st</sup> March 2023, the amount of \$324,365 (2022: \$380,846) 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:

	<b>2023</b>	<b>2022</b>
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
Expected Average Remaining Service Lifetime (EARSL)	9.1 years	9.2 years

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**7. POST-EMPLOYMENT BENEFITS AND COMPENSATED ABSENCES (continued)**

**(b) Post-employment healthcare (continued)**

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

	<b>2023</b>	<b>2022</b>
<b>Age</b>	<b>%</b>	<b>%</b>
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 \$1,321,982 (2022: \$1,021,294) is recognized in the Statement of Financial Position upon the advice of a professionally qualified actuary. Further details of the valuation are presented below:

	<b>2023</b>	<b>2022</b>
	<b>\$</b>	<b>\$</b>
Present value of obligation:		
Balance, beginning of year	1,021,294	923,257
Current service cost	22,492	107,484
Interest cost	51,065	46,163
Actuarial loss (gain)	173,147	(11,365)
Benefits paid	(46,016)	(44,245)
Balance, end of year	<u>1,321,982</u>	<u>1,021,294</u>

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**7. POST-EMPLOYMENT BENEFITS AND COMPENSATED ABSENCES (continued)**

**(c) Special retirement 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:

	<b>2023</b>	<b>2022</b>
1. Discount Rate	5%	5%
2. Rate of Salary Increase	2.50%	2.50%

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:

	<b>2023</b>		<b>2022</b>		
	<b>Males</b>	<b>Females</b>	<b>Males</b>	<b>Females</b>	
<b>Age</b>	<b>%</b>	<b>%</b>	<b>Age</b>	<b>%</b>	<b>%</b>
<b>Nearest</b>			<b>Nearest</b>		
25 and under	5	5	25 and under	5	5
26-30	10	10	26-30	10	10
31-35	15	15	31-35	15	15
36-40	30	30	36-40	30	30
41-45	50	50	41-45	50	50
46-50	70	70	46-50	70	70
51-55	90	90	51-55	90	90
56-60	95	95	56-60	95	95
61 and over	100	100	61 and over	100	100

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

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**7. POST-EMPLOYMENT BENEFITS AND COMPENSATED ABSENCES (continued)**

**(c) Special retirement benefit (continued)**

The amount of \$37,497 (2022: \$35,593) is recognized in the Statement of Financial Position with the advice of a professionally qualified actuary. Further details of the valuation are presented below:

	<b>2023</b>	<b>2022</b>
	<b>\$</b>	<b>\$</b>
Accrued benefit obligation		
Balance – beginning of year	35,593	31,740
Current service cost	1,338	1,290
Interest cost	1,780	1,587
Actuarial (gain) loss	(1,214)	976
Balance – end of year	<u>37,497</u>	<u>35,593</u>

**(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 recognized 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 31<sup>st</sup> March 2023 is \$123,664 (2022: \$187,932) and is included in accounts payable and accrued liabilities.

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**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 31<sup>st</sup> March 2023, this benefit was \$41,577 (2022: \$41,577).

**9. TANGIBLE CAPITAL ASSETS**

	Capital lease	Furniture & office equipment	Computer equipment	Software	Vehicle	Capital assets under development **	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Cost</b>							
At 1 <sup>st</sup> April 2021	49,624	182,496	239,263	991,337	42,812	1,466,209	2,971,741
Additions	-	3,372	49,075	-	-	158,655	211,102
<b>At 31<sup>st</sup> March 2022</b>	<b>49,624</b>	<b>185,868</b>	<b>288,338</b>	<b>991,337</b>	<b>42,812</b>	<b>1,624,864</b>	<b>3,182,843</b>
Additions	-	14,869	11,943	9,600	-	140,775	177,187
Disposals*	-	(10,512)	(75,644)	-	-	-	(86,156)
<b>At 31<sup>st</sup> March 2023</b>	<b>49,624</b>	<b>190,225</b>	<b>224,637</b>	<b>1,000,937</b>	<b>42,812</b>	<b>1,765,639</b>	<b>3,273,874</b>
<b>Accumulated amortization</b>							
At 1 <sup>st</sup> April 2021	41,536	138,885	197,073	666,609	29,967	-	1,074,070
Amortization	5,220	12,539	32,092	48,089	8,562	-	106,502
<b>At 31<sup>st</sup> March 2022</b>	<b>46,756</b>	<b>151,424</b>	<b>229,165</b>	<b>714,698</b>	<b>38,529</b>	<b>-</b>	<b>1,180,572</b>
Amortization	2,052	14,383	33,285	48,809	4,283	-	102,812
Disposals*	-	(10,512)	(74,218)	-	-	-	(84,730)
<b>At 31<sup>st</sup> March 2023</b>	<b>48,808</b>	<b>155,295</b>	<b>188,232</b>	<b>763,507</b>	<b>42,812</b>	<b>-</b>	<b>1,198,654</b>
<b>Net Book Value</b>							
<b>31<sup>st</sup> March 2022</b>	<b>2,868</b>	<b>34,444</b>	<b>59,173</b>	<b>276,639</b>	<b>4,283</b>	<b>1,624,864</b>	<b>2,002,271</b>
<b>31<sup>st</sup> March 2023</b>	<b>816</b>	<b>34,930</b>	<b>36,405</b>	<b>237,430</b>	<b>-</b>	<b>1,765,639</b>	<b>2,075,220</b>

\* During the year ended March 31, 2023, the Authority has written off tangible capital assets recognizing a loss on disposal of tangible capital assets of \$1,426.

\*\* Capital assets under development consist of costs directly attributable to the development of an aviation management system (see Note 19).

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**10. ACCUMULATED SURPLUS**

Section 12 of the Act states that the funds of the Authority shall consists of: (a) the authorized 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 authorized capital of \$3,500,000. Any excess surplus must be paid to the Consolidated Fund of the Government of Bermuda.

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	3,000,000	3,500,000
Deficit for the year	(1,853,938)	-	-	(1,853,938)
Deficit recoupment from the Consolidated Fund of the Government of Bermuda (Note 5)	<u>1,853,938</u>	<u>-</u>	<u>-</u>	<u>1,853,938</u>
ACCUMULATED SURPLUS, END OF THE YEAR	<u>-</u>	<u>500,000</u>	<u>3,000,000</u>	<u>3,500,000</u>

**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) Regulations 2012, effective on 1<sup>st</sup> October 2012 and was subsequently superceded by Air Navigation (Fees for Certificates and Services) Regulations 2022, effective on 1<sup>st</sup> May 2022.

**(b) Flight operations**

This source of revenue is derived from the issuance of Air Operator's Certificates, Private Aircraft Operating Approvals, Aerial Work Permissions, Foreign Operator Permits and other Flight Operational approvals. As at 31<sup>st</sup> March 2023, there were two certified Air Operators, one certified as a heavy lift global air cargo carrier and the other certified to carry out ad hoc VIP charter flights on demand.

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**11. REVENUE (continued)**

**(c) Registrations**

These fees are derived from aircraft mortgage transcripts and registrations.

**(d) Reimbursements**

For the year ended March 31, 2023, this relates to reimbursement of travel cost, human resources consulting cost and immigration costs.

For the year ended March 31, 2022, this relates to a reimbursement of human resources consulting costs.

**(e) Other Income**

Other income resulted from the following:

	<b>2023</b>	<b>2022</b>
	<b>\$</b>	<b>\$</b>
Discount received from insurance policy	60,000	48,000
Miscellaneous income	6,175	-
Interest income	1,700	17,840
Unclaimed customer balances	396	-
Bad debt recoveries	-	1,743
	<hr/> 68,271	<hr/> 67,583



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**12. GENERAL ADMINISTRATION**

	<b>2023</b>	<b>2022</b>
	<b>\$</b>	<b>\$</b>
Salaries and employee benefits	5,159,865	5,503,902
Travel	501,340	277,931
Insurance	279,030	274,406
Communications	270,148	299,592
Rent	153,701	387,151
Advertising & promotion	92,741	610,116
Repairs and maintenance	83,078	132,727
Materials and supplies	76,745	88,780
Training	45,049	49,814
Foreign exchange losses	37,647	67,970
Board member fees	31,650	37,250
Bank charges and commissions	29,290	32,285
Office equipment	28,655	39,845
Miscellaneous	19,636	35,536
Hospitality	535	287
	<u>6,809,110</u>	<u>7,837,592</u>

**13. PROFESSIONAL SERVICES**

	<b>2023</b>	<b>2022</b>
	<b>\$</b>	<b>\$</b>
Consulting fees	1,353,182	4,303,461
Legal fees	118,669	100,069
Information technology support	77,590	76,455
Audit fees	60,000	80,000
	<u>1,609,441</u>	<u>4,559,985</u>

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**14. CONTRACTUAL OBLIGATIONS**

The Authority has entered into various contracts relating to supporting services and information technology. These contracts have commencement terms prior to 31<sup>st</sup> March 2023 and the latest contract termination date is 31<sup>st</sup> May 2026. 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:

	<b>2024</b>	<b>2025</b>	<b>2026</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Supporting services	1,408,278	191,874	67,774
Information technology	377,452	175,987	146,976
	<u>1,785,730</u>	<u>367,861</u>	<u>214,750</u>

**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, 31<sup>st</sup> March 2023.

**(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. 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 31<sup>st</sup> March 2023, the maximum credit risk to which the Authority is exposed represents the carrying value of its accounts receivable.

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**15. FINANCIAL RISK MANAGEMENT (continued)**

**(a) Credit risk (continued)**

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	503,019	26,811	19,921	10,900	98,762	659,413
Less: provision for bad debts	-	-	-	-	(19,752)	(19,752)
Net receivables	<u>503,019</u>	<u>26,811</u>	<u>19,921</u>	<u>10,900</u>	<u>79,010</u>	<u>639,661</u>

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.

**(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.

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**15. FINANCIAL RISK MANAGEMENT (continued)**

**(b) Liquidity risk (continued)**

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

	Within 1 year \$	1 to 5 Years \$	Over 5 years \$	Total \$
Expected cash outflows				
Accounts payable and accrued liabilities	1,068,240	-	-	1,068,240
Due to the Government of Bermuda	47,037	-	-	47,037
Distribution to the Consolidated Fund of the Government of Bermuda	-	15,699,157	-	15,699,157
Retirement leave benefits payable	-	10,737	26,760	37,497
Post-employment healthcare payable	48,058	150,125	1,123,799	1,321,982
Life and disability benefits	-	-	41,577	41,577
Total expected cash outflows	<u>1,163,335</u>	<u>15,860,019</u>	<u>1,192,136</u>	<u>18,215,490</u>

**(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 recognized 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 31<sup>st</sup> March 2023, the Authority held approximately 0.42% (2022 – 0.85%) of its cash and cash equivalents in British pounds and Euros.

The Authority is exposed to currency risk from accounts payable denominated in foreign currency. At the statement of financial position date, accounts payable denominated in GBP were £7,502 (2022 - £20,076). A 1% increase in the value of the GBP would result in an increase in the value of accounts payable of approximately \$93.

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.

**15. FINANCIAL RISK MANAGEMENT (continued)**

**(c) Market risk (continued)**

**(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.

**16. IMPACT OF RUSSIAN INVASION OF UKRAINE**

Over 85% of the aircraft on the Bermuda Aircraft Registry are operated by Russian air operators. Shortly after Russia invaded the Ukraine on 24<sup>th</sup> February 2022, a number of sanctions were levied against Russia including sanctions against individuals designated as Involved Persons and Russian banks. These sanctions have resulted in considerable harm to the financial well-being of the Authority.

Effective 12<sup>th</sup> March 2022, the BCAA provisionally suspended all Russian Certificates of Airworthiness as the Authority could no longer be satisfied that the requirements with regard to the airworthiness of the aircraft have been or are being complied with, in accordance with the provision of Article 26 to the Air Navigation (Overseas Territories) Order 2013 and the Overseas Territories Aviation Requirements (OTAR) Parts 21, 39, 43 and 145.

As a result of the war and resulting sanctions, BCAA was required to wind-down all of its business with Russian operators. During the year ended March 31, 2023, there were \$nil revenue recorded and included in the statement of operations and accumulated surplus related to the Russian air operators. During the year ended March 31, 2022, \$909,281 in receivables balances for services provided to Russian customers were written-off as uncollectible (\$24,535 against FY 2021 balances and \$884,746 against FY 2022 balances), a further \$1,614,297 in deferred revenue for services not yet provided was voided and an additional \$296,284 revenue for initial Certificates of Airworthiness was voided.

For the year ended March 31, 2023, 249 aircrafts were deregistered, the majority of these are due to the financial sanctions against the Russian Federation.

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**16. IMPACT OF RUSSIAN INVASION OF UKRAINE (continued)**

It is management's responsibility to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern within one year after the date that these financial statements are issued. In response to the current uncertain environment, the Authority has:

- (i) Terminated its office lease at Channel House effective 31<sup>st</sup> July 2022 and entered a new lease with the Bermuda Land Development Company at Channel House effective 1<sup>st</sup> August 2022 to 31<sup>st</sup> July 2023, reducing its office size and annual rent. This lease has been renewed with similar terms effective 1<sup>st</sup> August 2023 to 31<sup>st</sup> July 2024;
- (ii) Terminated its office lease at the Farnborough Airport effective 31<sup>st</sup> July 2022 and entered a new lease effective 1<sup>st</sup> August 2022 until 31<sup>st</sup> December 2025 at Farnborough Airport, reducing its office size and annual rent; and
- (iii) Reduced its workforce and all other possible variable costs.

The Authority submitted a revised budget for fiscal year 2022/23 to the Government of Bermuda and received a letter of comfort on 24<sup>th</sup> April 2024 from the Ministry of Finance confirming that the Government of Bermuda will provide financial and strategic support to the Authority for a period of at least twelve (12) months from the date of such letter.

In July 2022, the Ministry of Finance commissioned a Management Consulting Services feasibility study of a merger of the Bermuda Civil Aviation Authority and the Bermuda Shipping and Maritime Authority ("BSMA") in order to explore options to reduce operating costs and increase operational efficiency. In March 2024, the Ministry of Transport announced that the Board of Directors of the Authority and the BSMA would be merged. Effective 1st July 2024, new Boards for BCAA and BSMA were published. The new Boards of Directors will explore further operational activities beneficial for both Authorities.

It is recognized that the short-term viability of the Authority is contingent on its ability to generate additional revenue and the continued financial support of the Government of Bermuda.

**17. 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 generating 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.

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**18. BUDGET**

The original operating budget was approved on 24th November 2021 but was later revised and approved by the Board on 20th October 2022 due to the financial impact of the war in the Ukraine.

**19. SUBSEQUENT EVENT**

On 28th September 2023, the Authority gave the aviation management system vendor 180-day notice to terminate the contract to provide a new aviation management aircraft registry system in accordance with the License Agreement dated 26th August 2019. The total cost of the development and implementation of the aviation management system amounted to \$1,765,639 as at 31 March 2023 and is recorded as capital assets under development (Note 9). For the year ended March 31, 2024, total impairment loss amounting to \$1,872,530 related to this contract is recorded in the statement of operations and accumulated surplus.

Other than the events described above and in Note 16, there have been no further significant subsequent events identified up to the date of issuance of these financial statements.

# EXECUTIVE SALARIES

*As at 31st March 2023*

Director General	\$223,402
Director of Operations	\$173,927
Director of Airworthiness	£133,519
Director of Finance	\$173,927
Director of Human Resources	\$163,216
Director of Safety Oversight	\$163,216
Business Development Manager	\$145,750