

FINANCIAL STATEMENTS

AND

REPORT OF THE EXTERNAL AUDITOR

FOR THE FINANCIAL PERIOD ENDING 31 DECEMBER 2007



DOCUMENTATION
for the 37th Session of the Assembly in 2010

INTERNATIONAL CIVIL AVIATION ORGANIZATION

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INTERNATIONAL CIVIL AVIATION ORGANIZATION

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for the financial period ending 31 December 2007***

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**FINANCIAL STATEMENTS AND
AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2007**

INTERNATIONAL CIVIL AVIATION ORGANIZATION

FINANCIAL STATEMENTS FOR THE PERIOD ENDING 31 DECEMBER 2007

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INTERNATIONAL CIVIL AVIATION ORGANIZATION
PART I: REPORT OF THE SECRETARY GENERAL, CERTIFICATION, APPROBATION
AND SUBMISSION OF THE FINANCIAL STATEMENTS FOR THE YEAR 2007

1. The financial statements of the International Civil Aviation Organization for the year ended 31 December 2007 reflect the results of operations of ICAO and the financial performance of projects and activities managed by ICAO on behalf of third parties. The format and presentation of this report and the accompanying financial statements are consistent with the presentation adopted for the years 2006 and 2005. The Funds reported in the financial statements have been grouped to distinguish between those used for ICAO's own operational activities and those that are administered on behalf of third parties. Significant changes are planned in the future as the United Nations organizations move towards the adoption of the International Public Sector Accounting Standards (IPSAS). ICAO intends to implement IPSAS gradually during the triennium 2008 – 2010.

2. The magnitude of ICAO's financial operations, in terms of expenditures incurred, is indicated below against each Fund or group of Funds, and a summary is provided in Figure 1. Summary information relating to income, expenditures, assets and liabilities on the main ICAO Funds and the combined total of all Funds are shown in Statements I and II. Statement IV presents appropriations and expenditure by major programmes for the Regular Programme General Fund. Statements III and V reflect the movement in cash flow and surplus for all Fund groups. The report also provides highlights of ICAO's financial activities in 2007. All amounts in this report, the financial statements and Notes to the financial statements are reported in thousands of United States dollars unless otherwise specified.

	Total Expenditure excluding administrative overhead (in thousands of United States dollars)	
	2007	2006
The expenditure relating to ICAO Funds comprises:		
1) Regular Programme Funds appropriated by the Assembly or by the Council;	69 678	63 118
2) Other Proprietary Funds, including Aviation Security Plan of Action, Special Accounts for revenue-generating and cost recovery activities, and other Funds/Special Accounts;	21 272	15 390
3) The Technical Co-operation Programme comprises:		
a) Trust Funds and Management Service Agreements Funds provided by various contributors for technical co-operation projects executed by ICAO;	138 425	96 331
b) Civil Aviation Purchasing Service Funds provided by various contributors for civil aviation purchases on their behalf;	3 246	2 802
c) United Nations Development Programme Funds, mainly contributed by governments to UNDP under cost-sharing arrangements; and	5 328	4 582
d) ICAO Objectives Implementation Mechanism.	100	132
4) ICAO maintains funds for the activities managed or administered on behalf of third parties, including Joint Financing Agreements, International Registry Account, the International Financial Facility for Aviation Safety Fund (IFFAS*) and the Public Key Directory.	37 843	40 696
Total	275 892	223 051

* Excludes grants from IFFAS given to Trust Funds and Management Service Agreements included in paragraph 3 above.

3. A comparison of overall expenditure (including administrative overhead), in millions of United States dollars, for all ICAO activities during the last two years is provided in the figures below.

FIGURE 1: TOTAL EXPENDITURE - ALL FUND GROUPS

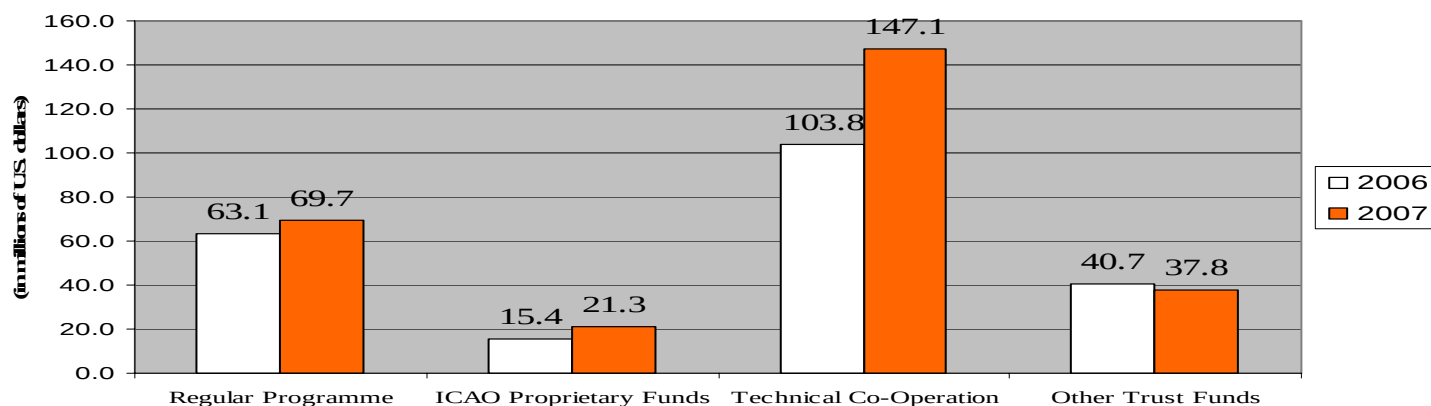


FIGURE 2: TECHNICAL CO-OPERATION PROGRAMME FUNDS

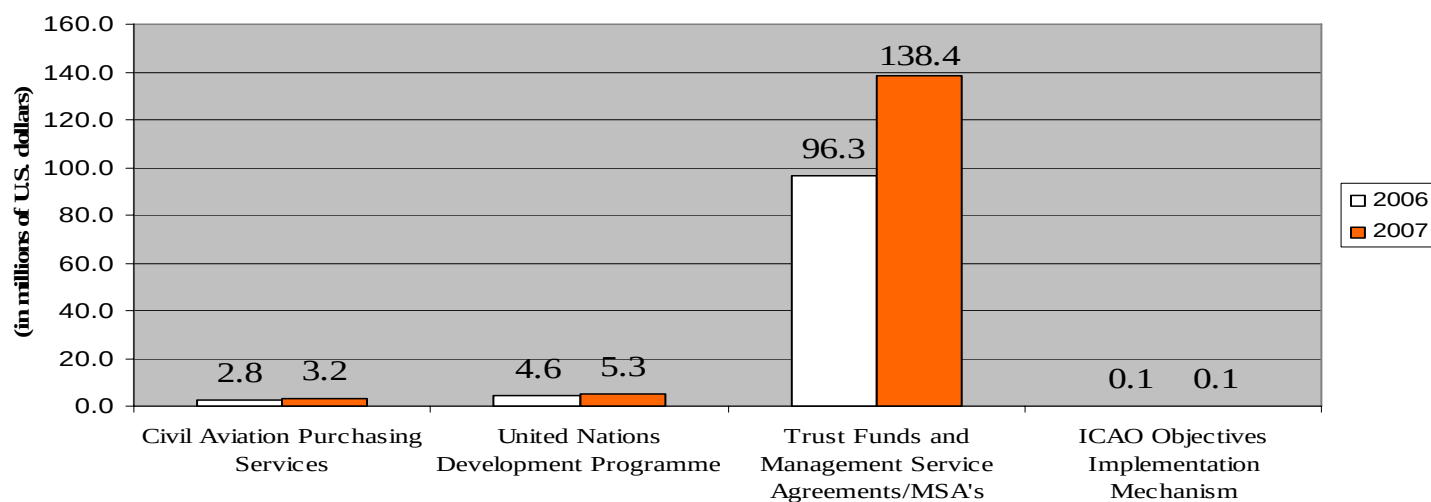
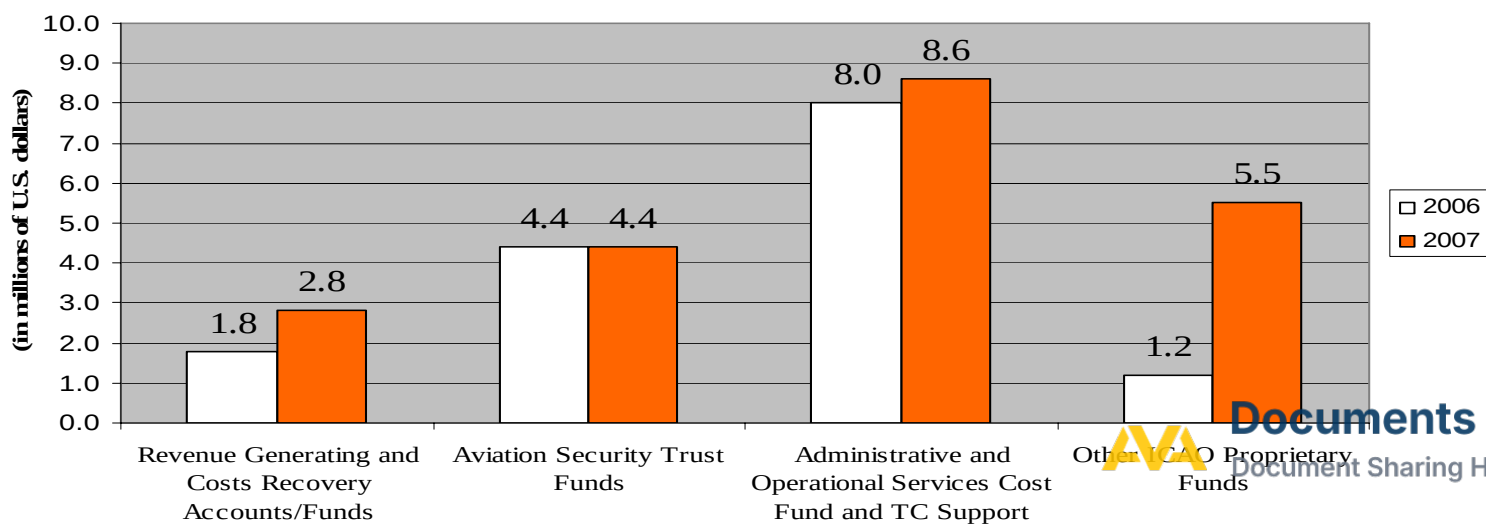


FIGURE 3: SUMMARY OF ICAO PROPRIETARY FUNDS



4. REGULAR PROGRAMME

4.1 Appropriations

4.1.1 The 35th Session of the Assembly in 2004, under Clause C of Resolution A35-22, voted appropriations in the amount of \$ 66 511 for the year 2007. Details of appropriations, transfers, actual expenditure and unobligated balances of appropriations by Major Programme are given in Statement IV on page III-4. Actual expenditure is stated at the forward exchange rate of the forward contracts entered into for Canadian dollars and EUROS and at the United Nations operational rate of exchange for transactions in other currencies. The budgetary result for 2007, in thousands of dollars, is summarized as follows:

Original appropriations	\$ 66 511
Carried over from 2006	9 965
Increase in appropriations	1 030
Transfer of appropriations	(1 600)
Carried over to 2008	<u>(6 080)</u>
Revised appropriations	\$ 69 826
Total expenditure	<u>69 678</u>
Unobligated balance of appropriations	\$ <u>148</u>

4.1.2 Carry over from 2006. Pursuant to Financial Regulation 5.6, the Council approved the carry-over of unobligated appropriations amounting to \$ 9 965 from financial year 2006 to financial year 2007 (C-DEC 179/17).

4.1.3 Increase in Appropriations. In 2005, in accordance with Financial Regulation 5.2 c), the Council approved additional appropriations of \$ 1 460 for 2005-2006-2007 from 2004 excess miscellaneous income, that is, the surplus of actual 2004 income over estimated 2004 income approved by the Council (C-DEC 176/14). Of this amount approved, \$ 460 is designated for the 2005 financial year, for various projects under Major Programme II: Air Navigation and Major Programme III: Air Transport. The remainder \$ 1 000 was planned to be used in 2006 and 2007, for Major Programme III: Air Transport, to facilitate the integration of the Universal Security Audit Programme (USAP) into the Regular Programme, at the rate of \$ 500 per year. In addition, the Council approved the transfer of \$ 1 060 from the reserves of the AVSEC Plan of Action to the Regular Programme to fund the integration of some elements of the AVSEC Plan of Action into the Regular Programme Budget in 2006 and 2007 (C-DEC 176/8). Pursuant to Financial Regulations 5.2 a), half of this amount, i.e. \$ 530, was added to Major Programme III: Air Transport for the year 2007.

4.1.4 Decrease in Appropriations. In 2007, a funding of \$ 1 600 was approved by Council (C-DEC 181/3) for the ICT Fund for the Enterprise Resource Planning project - the Integrated Resources Information System (IRIS) project. The appropriation for Major Programme VII: Finance, External Relations/Public Information and Programmes for Evaluation Audit and Management Review was reduced accordingly.

4.1.5 Transfers. In 2007, in compliance with Financial Regulation 5.10, the Council approved transfers of appropriations among major programmes, totalling \$ 2 713 from Major Programmes: General Policy and Direction, Air Navigation, Air Transport, Legal, and Administrative Support, to the following Major Programmes: Regional and Other Programmes - \$ 1 941 and Finance, External Relations/Public Information and Programmes Evaluation, Audit and Management Review - \$ 772 (C-DEC 182/13). In addition, based on the same Financial Regulation and within the 10 percent limitation requirement, the Secretary General approved transfers of appropriations totalling \$ 558 from Major Programme Regional and Other Programmes to the following Major Programmes: General Policy and Direction - \$ 83; Air Navigation - \$ 64; and Administrative Support - \$ 411.

4.1.6 Carry over to 2008. In compliance with Financial Regulation 5.11, the Council approved a carry-over of appropriations from 2007 to 2008 (C-DEC 182/13). This totals \$ 4 910 with regard to sub-programme elements/activities deferred to 2008, with two exceptions: \$ 200 for the Council Working Group on Regionalization's organizational review of the ICAO Regional Offices, and \$ 600 as seed money for ICAO's environmental initiatives. The remaining \$ 4 110 are for:

- Major Programme V: Regional and Other Programmes: \$ 1 400 for the Comprehensive Regional Implementation Plan for Aviation Safety in Africa (AFI Plan);
- Major Programme VI: Administrative Support - \$ 1 052 (\$ 800 for early termination indemnities due to the organizational re-alignment in 2008 and \$ 252 for language requirements at meetings and addition to the outsourcing plan for languages);
- Major Programme VII: Finance, External Relations/Public Information and Programmes Evaluation, Audit and Management Review - \$ 1 100 (\$ 1 000 for the Enterprise Resource Planning project and \$ 100 for the implementation of the International Public Sector Accounting Standards); and
- Major Programme VIII: Universal Safety Oversight Audit Programme - \$ 558 to fund audits originally planned to be conducted in the current triennium delayed due to administrative or technical reasons.

4.1.7 The Council authorized the Secretary General to make adjustments in the approved carry-over amounts to 2008 relating to deferred programme elements/activities that might be required by actual final expenditures at the end of the year (C-DEC 182/13). This additional carry-over amounts to \$ 1 170 and are for the following: Major Programme III: Air Transport \$ 550; Major Programme IV: Legal \$ 150; Major Programme VII: Finance, External Relations/Public Information and Programmes Evaluation, Audit and Management Review - \$ 230; and Major Programme VIII: Universal Safety Oversight Audit Programme \$ 240. As indicated in paragraph 4.2 below, the Secretary General will utilize these appropriations on the basis of strategic results in accordance with the Result Based Budget approach adopted for the triennium 2008-2010.

4.1.8 As a result of the increases and transfers outlined above, the final approved appropriation for the year amounted to \$ 69 826.

4.2 **Key initiatives to implement from 2008 onward**

4.2.1 **Result Based Budget.** For the first time, the Budget for Regular Programme for 2008-2009-2010 has been approved by the 36th Assembly in 2007 with a new approach – results-based budget (RBB) – in compliance with the Council Decision (C-DEC 178/14). It focuses on high-level deliverables by which the Council and the Assembly can monitor progress towards the objectives of ICAO activities. The Budget format establishes a distinction for expenditures between “Programme”, “Programme Support” and “Management and Administration”, while retaining the Bureau/Organizational structure. Thus, the carry-over of appropriations to 2008 will also make this distinction.

4.2.2 **Adoption of the Canadian dollar as base currency**

Another significant initiative is the adoption of the Canadian dollar rather than the US dollar for the budgets and the accounts of the proprietary Funds of the Organization. Assessments on Contracting States and other estimated sources of income are established in Canadian dollars for 2008. In order to ensure more consistency and comparability between the approved budgets and the accounts and Funds of the Organization, the transactions will be reflected in Canadian dollars and it is foreseen that the financial statements will be presented in Canadian dollars for 2008 onward. This change will be applicable to proprietary Funds of the Organization, while Funds administered on behalf of third parties such as those established to manage Technical Co-operation Projects will continue to be recorded in US dollars.

4.2.3 **New Enterprise Resource Planning (ERP) System**

The Organization has approved the implementation of a new Enterprise Resource Planning (ERP) system. The functionality includes the recording and presentation of financial transactions and information that will be used for the preparation of the financial statements in 2008 onward. The core functionality started operational use in January 2008 for Phase I the completion of which is planned for the end of May 2008. The scope for Phase I includes: general ledger, accounts payable and receivable, procurement and management of projects. Phase II started in April 2008 and its estimated date of completion is April 2009. The Scope of Phase II includes budget planner, fixed assets, sales, travel, human resources and payroll. Among the several benefits that the implementation of an ERP system will bring to the Organization is the capacity to record transactions on the IPSAS basis once fully implemented. It is also expected that the financial information will be produced in a more timely and efficient manner.

4.2.4 **Adoption of International Public Sector Accounting Standards**

As reported in Note 3 to the Financial Statements, the United Nations (UN) and the UN system's Chief Executive Board (CEB) have adopted International Public Sector Accounting Standards (IPSAS) to be implemented on or before 1st January 2010. IPSAS are a set of independently developed accounting standards, which require for adoption accounting on a 'full accruals' basis. Full accruals is considered best accounting practice by international organizations for the public as well as the private sector. IPSAS include detailed requirements and guidance, which provide support for financial statement's consistency and comparability. In order to be in line with other UN organizations, IPSAS will be implemented at ICAO gradually during the triennium (2008- 2010). Note 3 provides an overview of the impact of IPSAS adoption on the content and presentation of the financial statements.

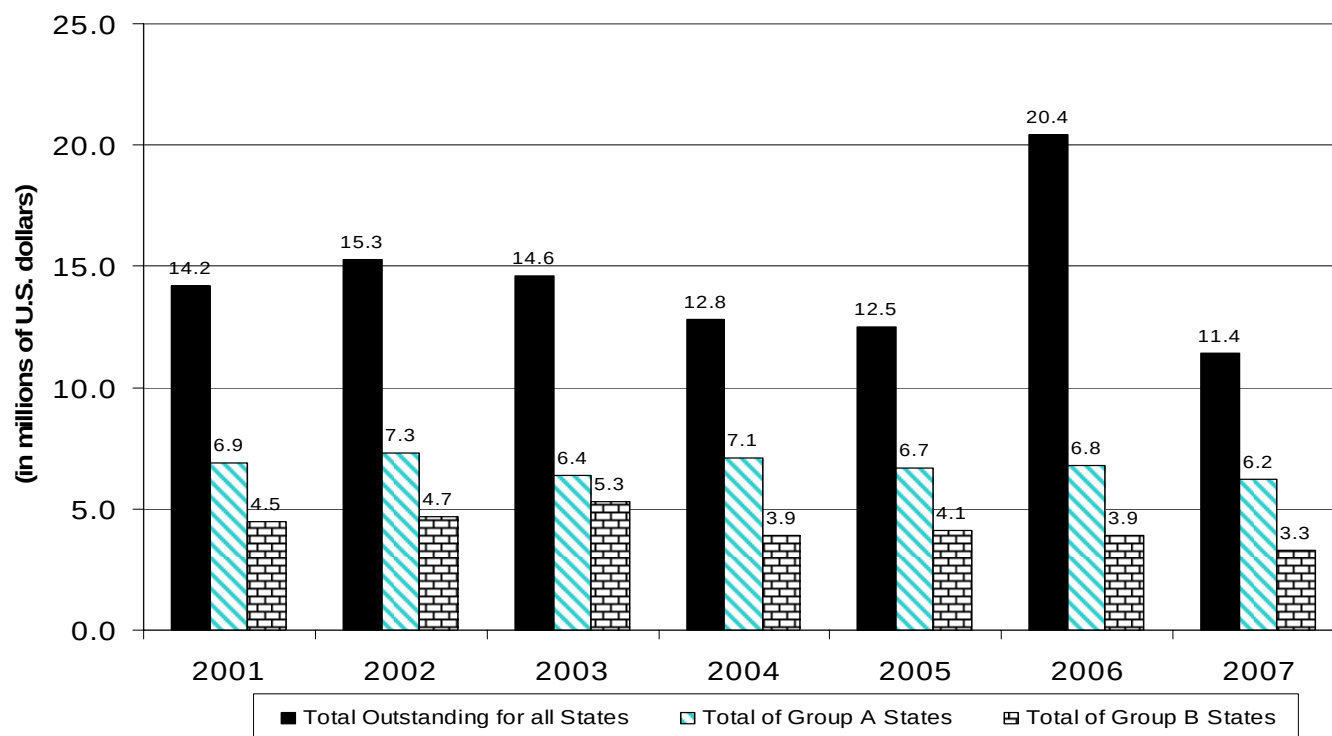
4.3 **Income**

4.3.1 The appropriations for the year 2007, approved by the 35th Session of the Assembly were to be financed by assessments on Contracting States of \$ 60 788 and miscellaneous income of \$ 5 723 for a total of \$ 66 511. The composition of actual income totalling \$ 69 803 is presented in Statement I.

4.3.2 **Assessments.** During the year 2007, assessments totalling \$ 59 432 were received and a balance of \$ 1 420 remained outstanding at the year end against the current year's assessments. At the beginning of the year, \$ 20 402 was receivable from States in respect to 2006 and prior years; payment of \$ 10 391 was received, leaving a balance outstanding of \$ 10 011. The assessments receivable for all years totalled \$ 11 431 as at 31 December 2007. Details are provided in Schedule A. The percentage of receipts of contributions for the last four years in relation to the amount assessed averaged 94 per cent. Figure 4 shows the status of the assessed contributions receivable at the end of each year since 2001.

FIGURE 4

ASSESSMENTS RECEIVABLE FROM CONTRACTING STATES AS AT 31 DECEMBER



4.3.3 Of the total outstanding contributions of \$ 11 431 as at 31 December 2007, \$ 73 pertained to States represented on the Council.

	Number of States <u>2007</u>	Amount outstanding as at 31 December <u>2007</u>	Number of States <u>2006</u>	Amount outstanding as at 31 December <u>2006</u>
Group A: States that have concluded agreements with the Council to liquidate their arrears over a period of years	28	\$ 6 210	32	\$ 6 824
Group B: States with contributions in arrears of three full years or more that have not concluded agreements with the Council to liquidate their arrears	5	\$ 3 276	7	\$ 3 879
Group C: States with contributions in arrears for less than three full years	11	\$ 901	11	\$ 738
Group D: States with contributions outstanding only for the current year	<u>16</u>	<u>\$ 533</u>	<u>23</u>	<u>\$ 8 450</u>
Sub-total	60	\$ 10 920	73	\$ 19 891
The Former Socialist Federal Republic of Yugoslavia	-	<u>\$ 511</u>	-	<u>\$ 511</u>
Total Outstanding Contributions	<u>60</u>	<u>\$ 11 431</u>	<u>73</u>	<u>\$ 20 402</u>

4.3.4 As at 31 December 2007, 28 States had concluded agreements to liquidate their arrears over a period of years. The agreements provide for these States to effect payment of the current year's contribution as well as an annual instalment payment towards the prior years arrears. The note on Schedule A indicates the States that had not complied with the terms of their agreements at 31 December 2007.

4.3.5 **Miscellaneous income** budgeted for the period amounted to \$ 5 723 when compared to actual income of \$ 8 951 and comprised the following:

	Budget 2007	Actual 2007	Difference
Sales of Publications	4 000	4 931	931
Royalties from ICAO's Publications	525	532	7
Investment Income - Interest	400	1 094	694
Rental on Premises	580	718	138
Journal Advertisements	88	105	17
Other Income	130	1 571	1 441
Total	5 723	8 951	3 228

4.3.6 Major contributions (*) received for the Regular Programme and other Proprietary Funds for 2007 are summarized as follows:

Contracting State	Regular Programme		Proprietary Funds	Total
	Assessment Received	Contributions In-Kind (Premises)	Contributions In Cash and In Kind including AVSEC	
United States of America	15 197		1 724	16 921
Canada	1 508	13 079	196	14 783
Japan	8 747		725	9 472
Germany	4 286		519	4 805
France	3 076	796	383	4 255
United Kingdom	3 386		263	3 649
Italy	2 164		190	2 354
Republic of Korea	1 459		298	1 757
Thailand	346	1 307	4	1 657
China	1 228		212	1 440
Spain	1 252			1 252
Netherlands	1 131		25	1 156
Total	43 780	15 182	4 539	63 501

(*) Twelve highest contributions

4.4 **Expenditure at Budget Rate Compared to Budget**

4.4.1 Annex D reports on the final approved appropriations compared to the expenditure. The expenditure in the Annex D differs from that reported in Statement of Appropriations, Statement IV, to the extent that transactions in Canadian dollars are reported in Annex D at the budget rate of exchange for the Canadian dollars of CAD 1.32 to USD 1.00.

4.5 **Meetings Expenditure**

4.5.1 The approved budget for meetings in 2007 amounted to \$ 1 201 and the actual expenditure on meetings in 2007, as shown in Annex E, amounted to \$ 1 036.

4.6 **Surplus**

4.6.1 The cumulative surplus as at 31 December 2007 reflected in Statement V amounted to \$ 19 573. Cumulative surplus less assessments receivable from Contracting States of \$ 11 431 resulted in a cash surplus of \$ 8 142 as at 31 December 2007. A decrease in the assessments receivable in 2007 compared to 2006 as presented in Statement III, contributed to the cash surplus position for 2007.

4.7 **Cash Balances**

4.7.1 The cash balance held in the General Fund as at 31 December 2007 amounted to \$ 31 122 (including the balance in the Working Capital Fund) and is reflected in Statement II. The Council did not change the level of the Working Capital Fund in 2007 under the authority granted by the Assembly under Assembly Resolution A36-34.

4.8 **Forward Purchase of Currency**

4.8.1 ICAO's budget appropriations and the assessed contributions of Contracting States to finance the appropriations are approved in United States dollars, but a large proportion of expenditure is either incurred in, or impacted by, Canadian dollars and Euros. The budget and the assessed contributions for the 2005 to 2007 triennium were established at a rate of CAD 1.32 to USD 1.00. In order to minimize risks and protect the budget against the consequence of potential exchange rate fluctuations, Canadian dollars as well as EUROS, were forward purchased with the approval of the Council. The objective of stabilizing Canadian dollar-related expenditures and EURO expenditures to a level within the budget was achieved. Further details are provided in the Notes to the Financial Statements.

5. **OTHER ICAO PROPRIETARY FUNDS**

5.1 **Administrative Operational Services Cost Fund (AOSC Fund)**

5.1.1 The AOSC Fund is established to meet the costs of administration and operations of the Technical Co-operation Programme (TCP), and is primarily financed from administrative overhead charges on UNDP, CAPS, Trust Fund and MSA projects. The financial results for the AOSC Fund are reported in Schedule B.1 and the budgetary comparison is presented in the following table:

FIGURE 5
TABLE OF TECHNICAL CO-OPERATION ADMINISTRATIVE AND
OPERATIONAL SERVICES COST OF APPROVED BUDGET,
EXPENDITURE AND UNENCUMBERED BALANCE OF APPROVED
BUDGET FOR 2007

	Submitted to the Assembly	Revised Budget 2007 ²	Expenditure/ Income 2007	Balance of Revised Budget
Appropriation/Expenditure				
Major Programme X	\$ 5 993 ¹	\$ 8 882	\$ 8 591	\$ 291
Income	\$ 5 445	\$ 8 993	\$ 8 379	
Excess/(Deficit) of Income over Expenditure	\$ (548)	\$ 111	\$ (212)	

¹ Approved by the Assembly in 2004 (A35-22)

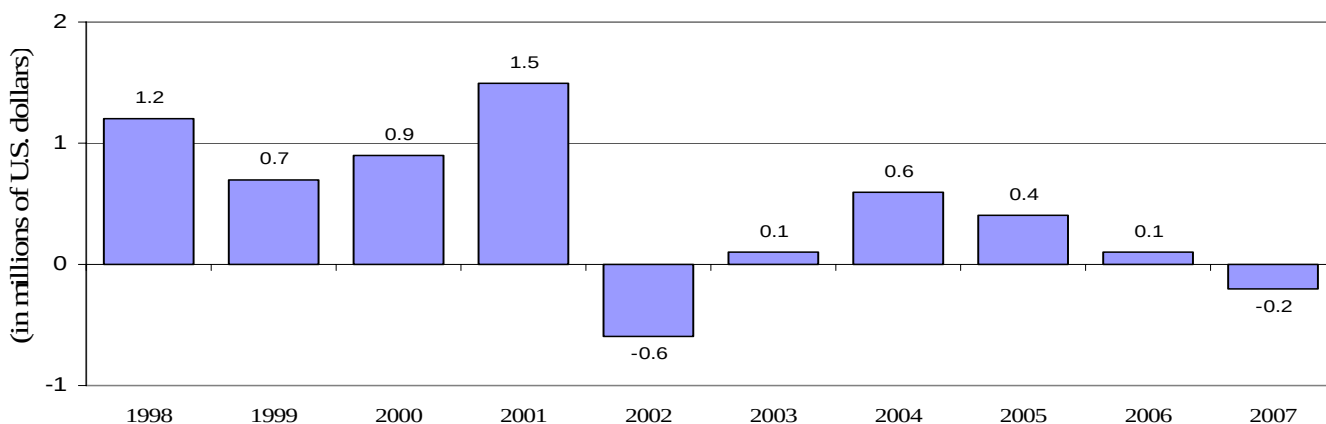
² Noted by the Council at its 182nd Session

5.1.2 As indicated in Figure 5, the Assembly approved the Indicative Budget Estimates (expenditure) of the AOSC Fund amounting to \$ 5 993 for the financial year 2007. The estimated income for the year 2007 of \$ 5 445 was also presented to the Assembly. During the year, pursuant to Financial Regulation 9.5, the Secretary General submitted to the Council an update of the 2007 Budget Estimates (expenditure) for 2007 in C-WP/13037. The revised estimated expenditures for 2007 amounted to \$ 8 882 and the estimated income to \$ 8 993.

5.1.3 Total expenditures presented in the financial statements for the Technical Co-operation Programme (TCP) excluding administrative overhead charges amounted to \$ 147 099 in 2007 compared with \$ 103 847 in 2006. During 2007, programmes expenditures for projects included a significant portion of equipment expenditures amounting to \$ 101 352 as compared to \$ 60 000 in 2006. As equipment implementation carries lower administrative overhead charges, the increase in equipment expenditures in 2007 did not result in an increase in the recovery of overhead fees. The AOSC Fund income from recovery of administrative overhead amounted to \$ 7 711 in 2007 compared to \$ 7 806 in 2006. It should also be noted that for some projects a significant portion of AOSC Fund income was earned on equipment implementation for which payments are made directly by governments to suppliers and which are therefore not reflected as expenditure in the Technical Co-operation Programme. The AOSC Fund total income for 2007 was \$ 8 379 representing an increase of \$ 176 (2%) compared with 2006. The actual AOSC Fund expenditures, on the other hand, amounted to \$ 8 591 representing an increase of \$ 522 (6%), compared to 2006. Actual expenditures include non-budgeted gains on exchange of \$ 945 in 2007 and \$ 717 in 2006. Although the revised budget noted by Council at its 182nd Session had estimated a small surplus of \$ 111, the AOSC Fund did not fully recover its costs for the year 2007 and incurred a shortfall of \$ 212, which was deducted from the Balance of the AOSC Fund, amounting to \$ 5 733 at the end of 2007.

Figure 6 reports on the trend in the annual excess (shortfall) over the last ten years.

FIGURE 6
AOSC FUND SURPLUS AND SHORTFALL AS AT 31 DECEMBER**



** Note that the above amounts do not include the expenditure for improving the efficiency and effectiveness of TCB reflected in Schedule B.1.

5.1.4 During the 35th Session of the Assembly, the Administrative Commission recommended that the question of sharing of costs between the Regular Programme and the Technical Co-operation Programme be reported to the Council for review. The Council has considered this issue and instructed the Secretary General to progressively allocate the identifiable costs to the AOSC Fund and the Regular Programme, as appropriate, in order to minimize the amount of cross-funding that was occurring between these Funds. During 2007, costs of \$ 298 relating to Regular Programme support that have been funded by the AOSC Fund were charged to the Regular Programme, while an amount of \$ 583 of Technical Co-operation Programme support costs funded by Regular Programme were charged to the AOSC Fund. The net transfer of costs for 2007 amounting to \$ 285 has been recorded in the accounts of the AOSC Fund, in addition to the amount of \$ 1 703 for personnel working outside the Technical Co-operation Bureau funded by the AOSC Fund. The Council presented to the Assembly during its 36th Session, a report on the apportionment of costs between the AOSC Fund and the Regular Programme Budget. The Assembly requested the Council to consider and approve a Cost Recovery Policy and work with the Secretariat to ensure that the pilot study requested by the Council provides accurate and timely information for the Council's decision.

5.2 **The Aviation Security Plan of Action**

5.2.1 In Resolving Clause 5 of Assembly Resolution A35-10, the Assembly urged the Council to ensure the long term sustainability of the Aviation Security Plan of Action by progressively, and as soon as possible, incorporating the funding requirements within the Regular Programme. During 2007, the Council at its 8th and 14th meetings of the 176th Session took the following action:

- approved the transfer of \$ 1.06 million from the reserve of the AVSEC Plan of Action to the General Fund in 2006 to finance the integration of some elements of the AVSEC Plan of Action into the Regular Programme Budget during 2006 and 2007;
- appropriated under paragraph 5.2 a) of the ICAO Financial Regulations, for the financial years 2006 and 2007, an amount of \$ 0.53 million per year for the integration of part of the AVSEC Plan of Action, mainly the Universal Security Audit Programme (USAP), into the Regular Programme Budget; and
- approved the appropriation from miscellaneous income of \$ 0.5 million per year for 2006 and 2007 to facilitate the integration of the USAP into the Regular Programme.

5.2.2 The increase of appropriation for 2007 amounting to \$ 1 030 is reflected in the Statement of Appropriation (Statement IV).

6. **TECHNICAL CO-OPERATION PROGRAMME FUNDS (NON-PROPRIETARY FUNDS)**

6.1 The Technical Co-operation Programme Funds are reported in Schedule C.

6.2 The Financial Regulations and Rules of the United Nations Development Programme (UNDP) provide that executing agencies, which are organizations of the United Nations system, transmit to the UNDP Administrator the accounts of funds allocated to them by the UNDP Administrator and the Report of the External Auditor thereon for submission to the UNDP Executive Board. The accounts for 2007 in respect of the UNDP projects executed by ICAO are included in Schedule C.1 of the Financial Statements of the Organization and the Report of the External Auditor accordingly encompasses the UNDP project accounts. These accounts are submitted for approval by the Assembly and subsequent submission to the Administrator of the UNDP.

7. **OTHER TRUST FUNDS**

7.1 **The International Financial Facility for Aviation Safety (IFFAS)**

The balance of funds in IFFAS as at 31 December 2007 amounted to \$ 2 691, compared to \$ 2 818 as at the end of 2006. Grants amounting to \$ 572, approved by the Governing Body of IFFAS, were paid during 2007. A loan of \$ 298, which was approved in 2005 remains pending acceptance. Transactions are reflected in Schedule E to the financial statements.

7.2 **The Public Key Directory Fund (PKD)**

The Fund was established by the Council in 2005 (C-DEC 174/1). ICAO supervises the development of the project to support interoperability of electronic-enhanced machine readable passports, which includes the establishment of a public key directory under the aegis of ICAO to manage exchange of electronic keys for decryption of the digital signatures imbedded in the 'e-passports'. In 2007, three States contributed to the PKD fund. The PKD Development or “Establishment” contract was awarded to a private company, for complete design and development of the ICAO Public Key Directory. This contract (Phase 1) has now been successfully completed and accepted by ICAO and the PKD member States. ICAO has now commenced (Phase 2) the second part of the project, a PKD Operations Phase Contract. Transactions are reflected in Schedule D to the financial statements. The balance of the Fund shows a deficit of \$ 41 which was covered by further contributions received at the beginning of 2008.

7.3 **Joint Financing Agreements**

ICAO supervises the operation of air navigation services provided by the Governments of Denmark and Iceland, the costs of which are recovered by user charges and assessments on Contracting governments. In addition, ICAO is responsible for the administration of the funds, related to services, provided by the United Kingdom to monitor minimum vertical separation in the North Atlantic Regions, the costs of which are recovered through user charges. Funds are received from the United Kingdom and distributed by ICAO for the North Atlantic Height Monitoring System Fund and for the Administrative Fee for Joint Financing Fund whereas for the Danish Joint Financing Agreement and the Icelandic Joint Financing Agreement the funds are received directly by parties involved. Transactions are reflected in Schedule D to the financial statements.

8. CERTIFICATION, APPROBATION AND SUBMISSION OF THE FINANCIAL STATEMENTS FOR THE YEAR 2007:

The Secretary General is required by the Financial Regulations to maintain such accounting records as are necessary and to submit financial statements showing the income and expenditure of all the International Civil Aviation Organization Funds during the financial year and their respective financial positions at the end of the year, as well as the status of appropriations (Regular Programme General Fund) and credits not budgeted for by the Assembly. He is also required to give such other information as may be appropriate to indicate the current financial position of the Organization.

Management is responsible for the preparation and integrity of the financial statements in this report. These statements have been prepared in accordance with United Nations System Accounting Standards (UNSAS), and necessarily include certain amounts that are based on management's best estimate and judgement. Financial information contained throughout the report is consistent with that in the financial statements. Management considers that the financial statements present fairly the financial position of the Organization, the results of its operations and its cash flows and the information disclosed in this report is presented in accordance with the provisions of the ICAO Financial Regulations.

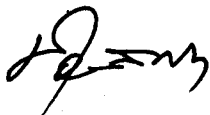
To fulfil its responsibility, the Organization maintains systems of internal controls, policies and procedures to ensure the reliability of financial information and the safeguarding of assets. The internal control systems are subject to both internal and external audit. The External Auditor has audited the financial statements, including the schedules and notes, and her report indicates the scope of her audit and her opinion on the financial statements.

As Acting Chief, Finance Branch of the International Civil Aviation Organization, I hereby certify the Financial Statements included in this document.



Carlo Reitano
Acting Chief, Finance Branch

As the Secretary General of the International Civil Aviation Organization, I hereby approve and submit the financial report of ICAO, accompanied by the Financial Statements, the Schedules and the Annexes for the year 2007.



Taïeb Chérif
Secretary General

Montreal, Canada
15 May 2008

PART II: AUDITOR'S REPORT/OPINION OF THE EXTERNAL AUDITOR



AUDITOR'S REPORT

To the Assembly of the International Civil Aviation Organization

I have audited the statement of assets, liabilities and fund balances of the International Civil Aviation Organization (ICAO) as at 31 December 2007, and the statements of income and expenditure and changes in fund balances, cash flow, cumulative surplus and appropriations for the Regular Programme General Fund and supporting schedules for the year then ended. These financial statements are the responsibility of the Secretary General. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Secretary General, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for the audit opinion.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the International Civil Aviation Organization as at 31 December 2007 and the results of its operations and changes in fund balances, cash flow, cumulative surplus and appropriations for the Regular Programme General Fund for the year then ended in accordance with the United Nations System Accounting Standards. As required by the Financial Regulations, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the International Civil Aviation Organization that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with the International Civil Aviation Organization's Financial Regulations and legislative authority.

In accordance with Article XIII of the Financial Regulations, I have also issued a long-form report on my audit of the International Civil Aviation Organization.

Sheila Fraser, FCA
Auditor General of Canada
External Auditor

Montreal, Canada
15 May 2008

PART III: FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

INTERNATIONAL CIVIL AVIATION ORGANIZATION

STATEMENT OF INCOME AND EXPENDITURE AND CHANGES IN FUND BALANCES
FOR THE PERIOD ENDING 31 DECEMBER 2007

(expressed in thousands of United States dollars)

	Regular Programme General Fund and Working Capital Fund		Other ICAO Proprietary Funds (Refer Schedule B)		Sub-total ICAO Funds		Technical Co-operation Programme Funds (Refer Schedule C)		Other Trust Funds (Refer Schedules D and E)		Eliminations		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
INCOME														
Assessed Contributions (Schedules A and D)	60 852	60 443			60 852	60 443			550	400			61 402	60 843
Contributions			4 202	3 828	4 202	3 828	152 957	125 342	989	970			158 148	130 140
Earmarked Contributions			606	1 043	606	1 043	325	95			(325)	(95)	606	1 043
Other Income														
Sales of publications	4 931	4 228			4 931	4 228							4 931	4 228
Funds received under inter-organization arrangements							3 853	8 990					3 853	8 990
Administrative fee revenue/user charges	35	47	7 711	7 806	7 746	7 853			45 426	34 984	(7 746)	(7 853)	45 426	34 984
Interest income	1 094	828	1 133	1 013	2 227	1 841	6 465	4 587	325	372			9 017	6 800
Miscellaneous	2 891	2 028	3 553	2 725	6 444	4 753	2 532	1 059					8 976	5 812
TOTAL INCOME	69 803	67 574	17 205	16 415	87 008	83 989	166 132	140 073	47 290	36 726	(8 071)	(7 948)	292 359	252 840
EXPENDITURE														
Salaries and common staff costs	57 737	54 272	14 432	12 328	72 169	66 600			726	1 161			72 895	67 761
General operating expenses	6 827	5 787	4 470	847	11 297	6 634			154	46			11 451	6 680
Travel	2 308	2 161	1 425	1 306	3 733	3 467			34	23			3 767	3 490
Equipment	1 654	422	575	90	2 229	512	101 352	60 000					103 581	60 512
Meetings	976	289			976	289							976	289
Expert and other personnel costs							38 674	38 519					38 674	38 519
Subcontracts							3 448	2 109					3 448	2 109
Training							1 204	1 971					1 204	1 971
Administrative overhead charges			35	47	35	47	7 711	7 806			(7 746)	(7 853)		
Service costs									36 388	39 109			36 388	39 109
Grants									572	95	(325)	(95)	247	
Other	176	187	370	819	546	1 006	2 421	1 248	294	357			3 261	2 611
TOTAL EXPENDITURE	69 678	63 118	21 307	15 437	90 985	78 555	154 810	111 653	38 168	40 791	(8 071)	(7 948)	275 892	223 051
NET EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE	125	4 456	(4 102)	978	(3 977)	5 434	11 322	28 420	9 122	(4 065)			16 467	29 789
BALANCE OF FUNDS														
Adjustment of prior year's unliquidated obligation/expenditure	345	210	(12)	86	333	296			23	(54)			356	242
Transfers to/from other funds (Statement V)	(2 031)	49	2 197	(49)	166		(166)							
Refund of contributions/transfer of Fund balances			(50)		(50)		(5 779)	(6 619)	(60)				(5 889)	(6 619)
Increase in Working Capital Fund	3				3								3	
Adjustment to surplus for derivative liability	(165)				(165)								(165)	
Adjustment to reserved surplus for derivative asset	(6 106)	(4 503)			(6 106)	(4 503)							(6 106)	(4 503)
Fund balances, beginning of period	40 554	40 342	24 666	23 651	65 220	63 993	67 707	45 906	8 065	12 184			140 992	122 083
BALANCE OF FUNDS, END OF PERIOD	32 725	40 554	22 699	24 666	55 424	65 220	73 084	67 707	17 150	8 065			145 658	140 992

The accompanying notes and schedules are an integral part of the financial statements.

INTERNATIONAL CIVIL AVIATION ORGANIZATION
STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES
AS AT 31 DECEMBER 2007

(expressed in thousands of United States dollars)

	Note	Regular Programme General Fund and Working Capital Fund		Other ICAO Proprietary Funds (Refer to Schedule B)		Sub-total ICAO Funds		Technical Co-operation Programme Funds (Refer to Schedule C)		Other Trust Funds (Refer to Schedules D and E)		Eliminations		Total	
		2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
ASSETS															
Cash and term deposits	4	31 122	17 996	24 022	22 442	55 144	40 438	139 026	121 116	6 574	6 762			200 744	168 316
Accounts receivable:															
Assessed contributions receivable from Contracting States (Schedule A)	5	11 437	20 409			11 437	20 409							11 437	20 409
Inter-fund balances		1 461	1 162	6 324	2 877	7 785	4 039	12 782	9 763	230	34	(20 797)	(13 836)		
Receivables and advances	6	4 258	4 012	2 377	1 416	6 635	5 428							23 044	15 184
Recoverable from Regional Bodies : AFCAC	7	1 043	920			1 043	920	3 179	3 528	13 230	6 228			1 043	920
Other assets		71	71	1 154	2 154	1 225	2 225							1 225	2 225
Derivative asset	8		6 106				6 106								6 106
Land and Buildings, at cost		1 065	1 065			1 065	1 065							1 065	1 065
TOTAL ASSETS		50 457	51 741	33 877	28 889	84 334	80 630	154 987	134 407	20 034	13 024	(20 797)	(13 836)	238 558	214 225
LIABILITIES															
Contributions received in advance (Schedule A)		4 733	1 732			4 733	1 732							4 733	1 732
Unliquidated obligations		2 197	2 166		223	5 138	2 389	32 913	32 825	39	42			38 090	35 256
Accounts payable		8 019	3 265	2 016	1 278	10 035	4 543	36 597	24 178	117	65			46 749	28 786
Due to Regional Bodies : ECAC	7	410	1 086			410	1 086							410	1 086
Inter-fund balances		2 208	2 938	6 176	2 684	8 384	5 622	11 246	7 543	1 167	671	(20 797)	(13 836)		
Credits to contracting/servicing Governments (Schedule D)										1 561	4 181			1 561	4 181
Derivative liability	8	165				165								165	
Other credit balances and provisions				45	38	45	38	1 147	2 154					1 192	2 192
TOTAL LIABILITIES		17 732	11 187	11 178	4 223	28 910	15 410	81 903	66 700	2 884	4 959	(20 797)	(13 836)	92 900	73 233
BALANCE OF FUNDS															
Represented by:															
Contributed capital relating to land and buildings		1 065	1 065			1 065	1 065							1 065	1 065
Cumulative Surplus (Statement V)		19 573	17 414	22 494	24 401	42 067	41 815	73 084	67 707	16 653	7 658			131 804	117 180
Working Capital Fund		6 007	6 004			6 007	6 004							6 007	6 004
Reserved Surplus (Statement IV) (Statement V)		6 080	16 071	205	265	6 285	16 336			497	407			6 782	16 743
TOTAL BALANCE OF FUNDS		32 725	40 554	22 699	24 666	55 424	65 220	73 084	67 707	17 150	8 065			145 658	140 992
TOTAL LIABILITIES AND BALANCE OF FUNDS		50 457	51 741	33 877	28 889	84 334	80 630	154 987	134 407	20 034	13 024	(20 797)	(13 836)	238 558	214 225

The accompanying notes and schedules are an integral part of the financial statements.

INTERNATIONAL CIVIL AVIATION ORGANIZATION
STATEMENT OF CASH FLOW
FOR THE PERIOD ENDING 31 DECEMBER 2007

(expressed in thousands of United States dollars)

	Regular Programme General Fund and Working Capital Fund		Other ICAO Proprietary Funds		Sub-total ICAO Funds		Technical Co-operation Programme Funds		Other Trust Funds		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:												
Net excess (shortfall) of income over expenditure (Statement I)	125	4 456	(4 102)	978	(3 977)	5 434	11 322	28 420	9 122	(4 065)	16 467	29 789
(Increase) decrease in contributions receivable	8 972	(7 868)			8 972	(7 868)					8 972	(7 868)
(Increase) decrease in other accounts receivable	(369)	(341)	(961)	345	(1 330)	4	349	(399)	(7 002)	1 484	(7 983)	1 089
(Increase) decrease in other assets		41	1 000	(841)	1 000	(800)					1 000	(800)
(Increase) decrease in inter-fund balances receivable	(299)	136	(3 447)	994	(3 746)	1 130	(3 019)	(3 382)	(196)	5	(6 961)	(2 247)
Increase (decrease) in contributions received in advance	3 001	(1 745)			3 001	(1 745)					3 001	(1 745)
Increase (decrease) in unliquidated obligations	31	814	2 718	(50)	2 749	764	88	3 700	(3)	39	2 834	4 503
Increase (decrease) in accounts payable	4 078	(1 276)	738	296	4 816	(980)	12 419	2 637	52	(9)	17 287	1 648
Increase (decrease) in inter-fund balances payable	(730)	911	3 492	(182)	2 762	729	3 703	1 206	496	312	6 961	2 247
Less : Interest income	(1 094)	(828)	(1 133)	(1 013)	(2 227)	(1 841)	(6 465)	(4 587)	(325)	(372)	(9 017)	(6 800)
Other credit balances and provisions			7	(3)	7	(3)	(1 007)	841	(2 620)	1 520	(3 620)	2 358
(Increase) decrease in derivative asset/liability	6 271	4 503			6 271	4 503					6 271	4 503
Other adjustments to reserves and fund balances	(6 271)	(4 503)			(6 271)	(4 503)					(6 271)	(4 503)
NET CASH FLOWS FROM OPERATING ACTIVITIES	13 715	(5 700)	(1 688)	524	12 027	(5 176)	17 390	28 436	(476)	(1 086)	28 941	22 174
CASH FLOWS FROM INVESTING ACTIVITIES:												
Interest income	1 094	828	1 133	1 013	2 227	1 841	6 465	4 587	325	372	9 017	6 800
NET CASH FLOWS FROM INVESTING ACTIVITIES	1 094	828	1 133	1 013	2 227	1 841	6 465	4 587	325	372	9 017	6 800
CASH FLOWS FROM FINANCING ACTIVITIES:												
Adjustment of prior periods' obligations	345	210	(12)	86	333	296			23	(54)	356	242
Transfers (to)/from other funds	(2 031)	49	2 197	(49)	166		(166)					
Increase (Decrease) in Working Capital Fund	3				3						3	
Refund of contributions			(50)		(50)		(5 779)	(6 619)	(60)		(5 889)	(6 619)
NET CASH FLOWS FROM FINANCING ACTIVITIES	(1 683)	259	2 135	37	452	296	(5 945)	(6 619)	(37)	(54)	(5 530)	(6 377)
NET INCREASE (DECREASE) IN CASH AND TERM DEPOSITS	13 126	(4 613)	1 580	1 574	14 706	(3 039)	17 910	26 404	(188)	(768)	32 428	22 597
CASH AND TERM DEPOSITS, BEGINNING OF PERIOD	17 996	22 609	22 442	20 868	40 438	43 477	121 116	94 712	6 762	7 530	168 316	145 719
CASH AND TERM DEPOSITS, END OF PERIOD	31 122	17 996	24 022	22 442	55 144	40 438	139 026	121 116	6 574	6 762	200 744	168 316

The accompanying notes and schedules are an integral part of the financial statements.

INTERNATIONAL CIVIL AVIATION ORGANIZATION

REGULAR PROGRAMME GENERAL FUND
STATEMENT OF APPROPRIATIONS
FOR THE PERIOD ENDING 31 DECEMBER 2007

(expressed in thousands of United States dollars)

Major Programme	Appropriations						Expenditures			Balance
	Original (A35-22 and SL 04/106)	Carried over from prior year \a	Increase(decrease) of Appropriations \b	Transfers between Major Programmes \c	Carried over to following year \d \e \f	Revised	Disbursements	Unliquidated obligations \f	Total	
I - General Policy and Direction	1 708	322		(371)		1 659	1 633	26	1 659	
II - Air Navigation	9 413	1 011		(626)		9 798	9 629	169	9 798	
III - Air Transport	5 485	745	1 030	(1 036)	(550)	5 674	5 600	51	5 651	23
IV - Legal	1 063	488		(518)	(150)	883	865		865	18
V - Regional and Other Programmes	16 240	2 126		1 384	(2 200)	17 550	17 021	481	17 502	48
VI - Administrative Support	26 029	2 088		395	(1 052)	27 460	26 053	1 362	27 415	45
VII - Finance, External Relations / Public Information and Programmes Evaluation, Audit and Management Review	3 974	1 814	(1 600)	772	(1 330)	3 630	3 540	84	3 624	6
VIII - Universal Safety Oversight Audit Programme	2 599	1 371			(798)	3 172	3 140	24	3 164	8
TOTAL	66 511	9 965	(570)		(6 080)	69 826	67 481	2 197	69 678	148

\a Approved by Council at its 179th and 181th Session (C-179/17 and C-181/14) Fin. Reg. 5.6.
\b Approved by Council at its 176th and 181th Session (C-176/8, C-176/14 and C-181/3)
\c Approved by Council at its 182th (C-182/13) Fin. Reg. 5.10.
\d Approved by Council at its 182th (C-182/13) Fin. Reg. 5.11.
\e Includes an amount of \$ 1 million to be loaned in 2008 to augment the Temporary Staff Salaries Fund as per C-182/13.
\f Refer to Note 3.

The accompanying notes and schedules are an integral part of the financial statements.

INTERNATIONAL CIVIL AVIATION ORGANIZATION
STATEMENT OF CUMULATIVE SURPLUS
AS AT 31 DECEMBER 2007
(expressed in thousands of United States dollars)

	Regular Programme General Fund and Working Capital Fund		Other ICAO Proprietary Funds (Refer Schedule B)		Sub-total ICAO Funds		Technical Co-operation Programme Funds (Refer Schedule C)		Other Trust Funds (Refer Schedules D and E)		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
CUMULATIVE SURPLUS												
Cumulative Surplus, Beginning of year	17 414	16 264	24 401	21 308	41 815	37 572	67 707	45 906	7 658	11 872	117 180	95 350
Excess (shortfall) of Income over Expenditure	125	4 456	(4 102)	978	(3 977)	5 434	11 322	28 420	9 122	(4 065)	16 467	29 789
Transactions not recognized in Statement of Income /Expenditure												
Adjustment of prior year's expenditure	19	78	(12)	86	7	164			23	(54)	30	110
Write-offs	(54)	(48)			(54)	(48)					(54)	(48)
Cancellation of prior year's unliquidated obligations	380	180			380	180					380	180
Appropriations carried over from prior year	9 965	6 400			9 965	6 400					9 965	6 400
Appropriations carried over to following year	(6 080)	(9 965)			(6 080)	(9 965)					(6 080)	(9 965)
Refund of contributions			(50)		(50)		(5 779)	(6 619)	(60)		(5 889)	(6 619)
Transfers to/(from) other funds	(2 031)	49	2 197	(49)	166		(166)					
Transfers to/(from) reserved surplus:				2 000		2 000						2 000
Reserved from/to Joint Financing									(90)	(95)	(90)	(95)
To and from Incentive Scheme Reserved Surplus			60	78	60	78					60	78
Derivative liability	(165)				(165)						(165)	
Cumulative Surplus at end of year	19 573	17 414	22 494	24 401	42 067	41 815	73 084	67 707	16 653	7 658	131 804	117 180
RESERVED SURPLUS												
Reserved in Regular Programme for Derivative Asset												
Beginning balance	6 106	10 609			6 106	10 609					6 106	10 609
Transfers to/(from) Regular Programme	(6 106)	(4 503)			(6 106)	(4 503)					(6 106)	(4 503)
Balance end of year		6 106				6 106						6 106
Reserved AOSC / Joint Financing Funds Surplus												
Beginning balance				2 000		2 000			407	312	407	2 312
Transferred to/from reserve				(2 000)		(2 000)			90	95	90	(1 905)
Balance end of year									497	407	497	407
Regular Programme Appropriations Carried Forward												
Beginning balance	9 965	6 400			9 965	6 400					9 965	6 400
Transferred to Regular Programme for current year	(9 965)	(6 400)			(9 965)	(6 400)					(9 965)	(6 400)
Appropriations carried forward to future year	6 080	9 965			6 080	9 965					6 080	9 965
Balance end of year	6 080	9 965			6 080	9 965					6 080	9 965
Reserved in Incentive Scheme for Long-Outstanding Arrears												
Beginning balance			265	343	265	343					265	343
Expenditures			(60)	(78)	(60)	(78)					(60)	(78)
Balance end of year			205	265	205	265					205	265
Reserved Surplus at end of year	6 080	16 071	205	265	6 285	16 336			497	407	6 782	16 743
Contributed capital relating to land and buildings	1 065	1 065			1 065	1 065					1 065	1 065
Working Capital Fund	6 007	6 004			6 007	6 004					6 007	6 004
TOTAL BALANCE OF FUNDS	32 725	40 554	22 699	24 666	55 424	65 220	73 084	67 707	17 150	8 065	145 658	140 992

The accompanying notes and schedules are an integral part of the financial statements.