

FINANCIAL STATEMENTS

AND

REPORTS OF THE EXTERNAL AUDITOR

FOR THE FINANCIAL PERIOD ENDING 31 DECEMBER 2010



DOCUMENTATION
for the 38th Session of the Assembly in 2013

INTERNATIONAL CIVIL AVIATION ORGANIZATION



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**FINANCIAL STATEMENTS AND
REPORTS OF THE EXTERNAL AUDITOR
FOR THE YEAR ENDED 31 DECEMBER 2010**

INTERNATIONAL CIVIL AVIATION ORGANIZATION

FINANCIAL STATEMENTS AND REPORTS OF THE EXTERNAL AUDITOR

FOR THE YEAR ENDED 31 DECEMBER 2010

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PART I: PRESENTATION BY THE SECRETARY GENERAL

INTERNATIONAL CIVIL AVIATION ORGANIZATION

PART I: PRESENTATION BY THE SECRETARY GENERAL

1. INTRODUCTION

1.1 The International Civil Aviation Organization (ICAO) is a specialized agency of the United Nations and was created with the signing in Chicago, on 7 December 1944, of the *Convention on International Civil Aviation*. ICAO is the permanent body charged with the administration of the principles laid out in the Convention. It sets the standards for aviation safety, security, efficiency and regularity, as well as for aviation environmental protection, and encourages their implementation.

1.2 ICAO's membership comprises 190 Contracting States. Its headquarters are in Montreal and it has regional offices in Bangkok, Cairo, Dakar, Lima, Mexico City, Nairobi and Paris.

1.3 ICAO has a sovereign body, the Assembly, and a governing body, the Council. The Assembly, composed of representatives from all Contracting States, meets every three years, reviews in detail the complete work of the Organization, sets policy for the coming years and approves financial statements issued since the last Assembly. It also decides on the triennial budget. The Assembly last met in October 2010.

1.4 The Council, composed of representatives from 36 States, is elected by the Assembly for a three-year term and provides continuing direction to the work of ICAO. The Council is assisted by the Air Navigation Commission, the Air Transport Committee, the Finance Committee, the Committee on Unlawful Interference, Human Resource Committee, the Committee on Joint Support of Air Navigation Services and the Technical Co-operation Committee.

1.5 The Secretariat has five main divisions: the Air Navigation Bureau, the Air Transport Bureau, the Technical Co-operation Bureau, the Legal Bureau, and the Bureau of Administration and Services. The Finance Branch and Evaluation and Internal Audit Office are also part of the Secretariat and report to the Secretary General. The regional offices, working under the direction of Headquarters, are primarily responsible for maintaining liaison with States to which they are accredited and with other appropriate organizations, regional civil aviation bodies and the United Nations Regional Economic Commissions. The regional offices promote implementation of ICAO policies, decisions, Standards and Recommended Practices (SARPs) and regional air navigation plans and provide technical assistance when requested.

1.6 In accordance with Article 12.4 of the Financial Regulations, I have the honour to submit to the Council for consideration and recommendation to the Assembly the financial statements of ICAO for the year ended 31 December 2010. As required by Financial Regulation 13.3, the External Auditor's opinion and his report on the 2010 financial statements are also submitted to the Council and Assembly as well as my comments (reflected in the Secretary General's comments) thereon.

1.7 Unless otherwise indicated, the financial statements and the accompanying note disclosures, which form an integral part of these financial statements, and this report are presented in thousands of Canadian Dollars (CAD), rounded to the nearest thousand.

2. FINANCIAL REPORTING AND BUDGET PERFORMANCE HIGHLIGHTS

Adoption of International Public Sector Accounting Standards (IPSAS)

2.1 As reported in Note 1 to the financial statements, ICAO has fully applied IPSAS in 2010 for the first time. These standards have been adopted by the United Nations organizations to replace the United Nations System Accounting Standards (UNSAS). ICAO is one of the first UN organizations to fully apply IPSAS. One organization applied IPSAS in 2008 and other organizations plan to implement these standards from 2010 to 2014. IPSAS are a set of independently developed accounting standards, which require adoption of accounting on a “full accrual” basis. Full accrual 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 statements’ consistency and comparability. The Notes to the financial statements provide an overview of the impact of IPSAS adoption on the content and presentation of the financial statements.

2.2 ICAO’s implementation of IPSAS represents a significant achievement considering the detailed requirements of IPSAS and the nature of ICAO’s activities. ICAO adopted all applicable standards issued by the IPSAS Board. ICAO was not required to adopt all these standards in 2010 as some of these standards have their corresponding effective dates falling in 2011 and 2013. Nonetheless, those standards were also applied prior to their effective date for increased accountability. The IPSAS Board, the body that issues IPSAS, encourages early adoption of these standards.

2.3 In accordance with IPSAS 1, Presentation of Financial Statements, comparative information is encouraged to be disclosed in the financial statements on the first year of IPSAS adoption when practicable. ICAO has presented comparatives in the Statement of Financial Position which are represented by the restated opening balances at 1 January 2010. Note 9 to the financial statements provides the detail of the adjustments to opening balances in order to present the financial position on a comparable basis. Comparatives were not provided in the Statements of Financial Performance and Cash Flow.

2.4 IPSAS 17 allows for a grace period of up to five years prior for full recognition of Property, Plant and Equipment (PP&E). ICAO has invoked this transitional provision and has presented for information purpose and for more transparency, unrecorded PP&E in the notes to the financial statement. Nonetheless, PP&E purchased subsequent to the first adoption date of IPSAS on 1 January 2010 are recognized and capitalized in accordance with IPSAS without taking into consideration any transitional provisions. With regard to IPSAS 31, Intangible Assets, there is no grace period. This standard requires that the application be made prospectively. Accordingly, all additions pertaining to intangible assets acquired before 1 January 2010 are expensed and there are no retroactive adjustments to record acquisitions prior to that date.

2.5 Employee benefits liabilities pertaining to after service health insurance (ASHI) benefits, annual leave and repatriation benefits represent the most important adjustment caused by the application of IPSAS. Advice from independent actuaries in valuating these liabilities has been taken into consideration.

Financial Statements

2.6 The following financial statements have been prepared in accordance with IPSAS:

- Statement I: Financial Position;
- Statement II: Financial Performance;
- Statement III: Changes in Net Assets;
- Statement IV: Cash Flow; and
- Statement V: Comparison of Budget and Actual Amounts.

2.7 Also in accordance with IPSAS, the financial statements include Notes that provide narrative descriptions and disaggregation of items disclosed in the financial statements and information about items that do not qualify for recognition in the statements. The Notes also include the presentation of major activities of ICAO by segment as required by IPSAS. It was determined that two segments would be included in the audited financial statements. The first segment covers on-going regular activities of the Organization, such as the Regular Programme, the revenue generating activities and the administration and support of the technical co-operation programme. The second segment covers the activities of all technical co-operation projects, generally conducted by ICAO at the request of individual States.

2.8 Tables are not part of the audited financial statements. However, since these tables offer more detailed information and support the combined figures to the audited financial statements, they are included in Part IV of this document.

2.9 The following paragraphs summarize the key information on the financial situation and performance of the Organization for 2010.

2.10 **Statement I** presents the financial position of the Organization. Assets totalling CAD 239.3 million at 31 December 2010 are mainly composed of cash and cash equivalents amounting to CAD 210.9 million and of assessments and other amounts receivable totalling CAD 23.7 million. New assets are recognized for the first time on this statement with the application of IPSAS, namely the inventory of publications (CAD 787 thousand added to this account), fixed assets (CAD 699 thousand) and intangible assets (CAD 92 thousand) acquired during the year. Total liabilities amounts to CAD 269.0 million, of which an amount of CAD 163.4 million represents advance receipts mostly for technical co-operation projects, and a long-term liability of CAD 76.9 million for employee benefits recognized for the first time on this statement with the application of IPSAS.

2.11 **Statement I** also shows an accumulated deficit of CAD 29.7 million, caused by the need to record the employee benefit liabilities under IPSAS. The impact of the application of IPSAS on Net Assets (Accumulated Deficit) is provided in Statement III and in Note 9 and is further explained below. Nonetheless, since current assets exceed current liabilities by an amount of CAD 42.0 million, it is not foreseen that additional funding will be necessary on a short term basis to cover the accumulated deficit.

2.12 **Statement II** presents the financial performance for the year 2010. There were significant changes made to this statement this year to comply with IPSAS. Revenue from project agreement previously recorded on a cash basis is now recognized on the basis of services rendered and goods delivered to technical co-operation projects. Sales of publications are also recorded on the accrual basis of accounting, when publications are delivered. There is also a temporary adjustment made to assessed contributions revenue for an amount of CAD 0.4 million during 2010 to take into account the

impact of the recognition of long-term receivables at fair value as required by IPSAS. Total 2010 deficit amounts to CAD 11.8 million. Table A shows the deficit by Fund or Group of Funds for regular activities. Expenses include an amount of \$7.0 million recorded in the Revolving Fund to recognize employee benefits expense (ASHI, annual leave and repatriation benefits) on an accrual basis. In previous years, most of these benefits were recorded on a cash basis. In 2010, CAD 2.8 million was paid for those benefits and this amount is presented in the Revolving Fund as a funding source from other Funds. The difference of CAD 4.2 million between benefits accrued and benefits paid is included in the deficit for the year for that Fund. Explanations on the financial results and deficit of the General Fund of the Regular Programme (CAD 3.2 million) and the AOSC Fund (CAD 0.8 million) are provided in the following paragraphs.

2.13 With regard to the net deficit of other Funds (CAD 3.6 million), the main reason is a timing difference in the recognition of revenue and expenses. Under IPSAS, under certain conditions, revenue may be recognized before the related expenses are incurred, more particularly with regard to revenue from non-exchange transactions such as voluntary contributions and donations. The 2010 deficit in other Funds of the Regular Activities segment was funded by surplus recognized in prior years and, therefore, will not require additional funding.

2.14 With regard to the Technical Co-operation Projects segment, there is no annual surplus or deficit for the year 2010 because revenue is recognized based on the stage of completion of projects, which is generally determined based on the costs incurred in each project. The cost of administration, operation and support to these projects is recognized in each project and the recovery of these administrative fees is recognized as revenue in the AOSC Fund.

2.15 **Statement III** provides changes in net assets during the year. The balance of Net Assets including reserves at the beginning of the year amounted to CAD 63.8 million. This amount has been reduced by an amount of CAD 72.0 million to comply with IPSAS bringing the restated opening balance to an accumulated deficit of CAD 8.2 million at 1 January 2010. The main impact is the recognition of employee benefits on the accrual basis. Other amendments were also required to comply with IPSAS, namely the need to discount long-term receivables to present those accounts at fair value and to record an allowance for a doubtful account. Further explanations are provided in the Notes.

2.16 **Statement IV** gives the breakdown of the variation of cash flow from CAD 215.9 million on 1 January 2010 to CAD 210.9 million at 31 December 2010. As permitted by IPSAS, the indirect method is used which is also the method adopted by ICAO in previous years.

2.17 **Statement V** shows a comparison between the budget (Regular Programme) and actual amounts. This statement is required under IPSAS because the approved budget and the financial statements are not prepared on the same basis as explained in Note 4 to the financial statements. This Statement also reflects the status of appropriations required by Financial Regulation 12.1.

3. BUDGET PERFORMANCE AND FINANCIAL HIGHLIGHTS

Appropriations for Regular Programme

3.1 The 36th Session of the Assembly in 2007, under Clause C of Resolution A36-29, voted appropriations in the amount of CAD 85 507 thousand for the year 2010. Details of appropriations, transfers, actual expenditures and unobligated balances of appropriations by Strategic Objective and Supporting Implementation Strategies are given in Statement V.

3.2 The budgetary result for 2010, in thousands of Canadian dollars, is summarized as follows:

Original appropriations	85 507
Carried over from 2009	13 934
Decrease in appropriations	<u>(345)</u>
Approved Revised Appropriations	99 096
2010 Outstanding commitments	(8 611)
Carried over to 2011	<u>(2 840)</u>
Revised 2010 Appropriations	<u>87 645</u>

3.3 **Carry over from 2009.** In accordance with Financial Regulation 5.6 and 5.7, an amount of CAD 13 934 thousand was approved by Council to supplement the 2010 appropriations, primarily for outstanding commitments and for mandatory and other mission-critical activities that were not budgeted for in 2010.

3.4 **Decrease in Appropriations.** The appropriation was reduced by transfers of appropriations in an amount of CAD 345 thousand to other funds as follows:

- a) CAD 205 thousand to the Group on International Aviation and Climate Change (GIACC) – Environmental Fund; and
- b) CAD 140 thousand to the Temporary Staff Salaries Fund (TSSF) for language requirements.

3.5 **2010 Outstanding Commitments.** The value of purchase obligations entered into in 2010 but delivery against which is only expected in 2011, is CAD 7 679 thousand. Employee entitlements in an amount of CAD 932 thousand consisting primarily of accrued leave and repatriation benefits are foreseen to be paid to staff separating from ICAO in 2011. Therefore, an amount of CAD 8 611 thousand (Figure 1, column (e) below), has been reserved and carried forward to 2011, pursuant to Financial Regulation 5.7, to clear the obligation incurred during 2010.

3.6 **Transfers.** In compliance with Financial Regulation 5.9, the Secretary General authorized transfer of the appropriations between one Strategic Objective (SO) or Supporting Implementation Strategy (SIS) to another up to 10 per cent of the annual appropriation for each of the SO or SIS to which the transfer is made.

3.7 **Carry-over to 2011.** Under Financial Regulation 5.6, the Secretary General authorized to carry-over unspent appropriations, not exceeding 10 per cent per appropriation for each SO or SIS. The amount of CAD 2 840 thousand is within this limit. The amount being carried forward is to finance all of the initiatives mandated by the High Level Safety Conference and a smaller portion for other mission-critical activities not budgeted for in 2011. No part of the carry-over is to be utilized for non-programme activities.

3.8 As a result of the increases and transfers outlined in the preceding paragraphs, the final approved revised appropriation for the year amounted to CAD 87 645 thousand.

3.9 **Comparison of Regular Programme Budget and Actual Amounts.** Statement V shows no difference between revised budget/appropriations and actual amounts since appropriations are revised to take into consideration timing difference in the recognition of expenses under IPSAS and also because revised appropriations are compared to expenditures at budget rate in that statement.

3.10 The key factors that generated an actual deficit of CAD 3 151 thousand in 2010 for the Regular Programme Fund were the following:

- | | |
|---|-----------|
| • Timing difference in appropriations: | CAD 2 484 |
| • Transfer of expense to other Funds: | (CAD 345) |
| • Difference in revenue on an actual basis: | CAD 1 012 |

3.11 The following figure provides a comparison between the approved budget and actual revenues and expenses by nature for 2010 (in thousands of CAD).

FIGURE 1

	2010 Budget	Actual¹	Budget Exchange	Actual at Budget Rate²	2010 Outstanding Commitments	Total	Difference
	(a)	(b)	(c)	(d) = (b)+(c)	(e)	(f) = (d)+(e)	(g) = (f) - (a)
REVENUE							\$
Assessed Contributions	79 204	77 483	2 144	79 627		79 627	423
Other Revenue				0			
ARGF	4 386	4 386		4 386		4 386	-
Miscellaneous	1 917	482		482		482	(1 435)
	85 507	82 351	2 144	84 495	-	84 495	(1 012)
EXPENSES							
Staff salaries and employment benefits	75 393	66 881	2 069	68 950	3 324	72 274	(3 119)
Supplies, consumables and others	296	274		274	238	512	216
General operating expense	16 214	12 386	75	12 461	5 027	17 488	1 274
Travel	4 435	3 914		3 914		3 914	(521)
Meetings	2 438	2 029		2 029	22	2 051	(387)
Other expenses	320	311		311		311	(9)
Currency exchange difference		(294)		(294)		(294)	(294)
	99 096	85 501	2 144	87 645	8 611	96 256	(2 840)

¹From Table A, Financial Statements²Includes Budget Exchange loss of \$2.14 million due to impact of US dollar transactions budgeted at USD1.00=CAD1.15

3.12 **Explanation of Differences – Revenues.** The overall budget of CAD 85 507 thousand (column (a)) refers to the three main funding sources of the Regular Programme Budget for 2010: Assessed Contributions, ARGF Surplus, and Miscellaneous Income. For the Assessed Contributions, the difference of CAD 0.4 million pertains to the discounted amount of the long-term contribution receivable. For Miscellaneous Revenue, the lower receipt of CAD 1.4 million than expected is due to low interest rates during the triennium - thus resulting to a much lower interest income earned.

3.13 **Explanation of Differences – Expenses.** Actual staff salaries and employee benefits were lower than budgeted due to a lower post adjustment than budgeted. Actual expenses for Supplies, consumables and others and General Operating Expense exceeded the budgets mainly because of additional funding provided to high-priority ICT requirements such as replacement of aging IT infrastructure, modernization of RO IT equipment, and improvement of IT security, and funded by overall savings of the Organization. Travel expenses were lower than budgeted, mainly due to the amendment of travel policy on stop-over entitlement and postponement/cancellation of some missions.

3.14 **Budget Exchange.** For the first time in 2010, Member States were invoiced partly in USD and partly in CAD. The USD/CAD exchange rate on 1 January 2010 (the date when invoices were raised in USD) was lower than the rate used in developing the 2010 budget causing a reduction to total assessed contributions of CAD 2 144 thousand (column (c)). The difference has been added to actual expenditure in order to restate it to the budget rate (column (d)). In this manner, the budgetary savings i.e. difference between budget and actual expenses, have been appropriately adjusted (reduced).

Assessment and Reporting Currencies

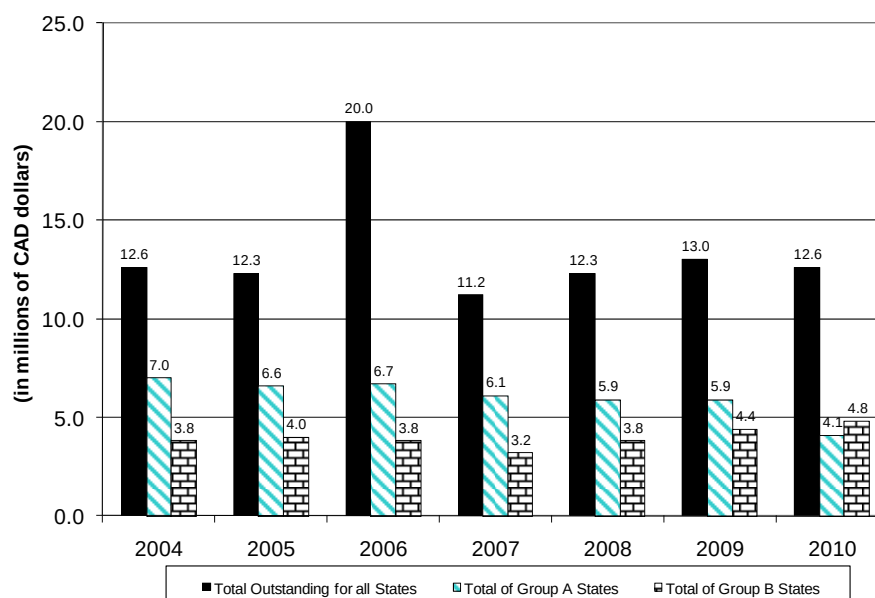
3.15 Assessments on Contracting States and other estimated sources of revenue were established in Canadian dollars for 2008 and for 2009. In 2010 a split assessment was introduced with about three quarters payable in Canadian dollars and one quarter payable in U.S. dollars. To ensure consistency and comparability between the approved budgets and the Accounts and Funds of the Organization, transactions are reflected in Canadian dollars and the financial statements are presented in Canadian dollars from 2008 onwards. This change is applicable to most of the Funds of the Organization for regular activities presented in Segment 1, while Funds presented in Segment 2 related to Technical Co-operation Projects (TCP) are recorded in U.S. dollars, but presented in Canadian dollars in the financial statements. During 2010 the fluctuation of the Canadian dollar against the U.S. dollar was CAD 1.038 at the beginning of the year and CAD 1.000 at the end of the year.

Assessments and Other Voluntary Contributions

3.16 During the year 2010 assessments totalling CAD 73 453 thousand were received and a balance of CAD 3 639 thousand remained outstanding at the year-end against the current year's assessments. At the beginning of the year, CAD 13 031 thousand was receivable from States in respect to 2009 and prior years; payment of CAD 4 055 thousand was received, leaving a balance outstanding of CAD 8 976 thousand. The assessments receivable for all years totalled CAD 12 614 thousand as at 31 December 2010 (including the Working Capital Fund). Details are provided in Table C of Part III to this document. The percentage of receipts of contributions for the last four years in relation to the amount assessed averaged 94 per cent. Figure 2 shows the status of the assessed contributions receivable at the end of each year since 2004.

FIGURE 2

Assessments Receivable from Contracting States as at 31 December 2010



3.17 Of the total outstanding contributions of CAD 12 614 thousand at 31 December 2010 (CAD 12 612 thousand excluding the Working Capital Fund), CAD 850 thousand pertained to States represented on the Council. The following figure provides detail of the assessments receivable in thousands of CAD, by group of States.

FIGURE 3

	<u>Number of States 2010</u>	<u>Amount outstanding as at 31 December 2010</u>	<u>Number of States 2009</u>	<u>Amount outstanding as at 31 December 2009</u>
Group A: States that have concluded agreements with the Council to liquidate their arrears over a period of years	17	4 105	26	5 932
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	12	4 795	10	4 407
Group C: States with contributions in arrears for less than three full years	12	1 135	14	1 291
Group D: States with contributions outstanding only for the current year	<u>45</u>	<u>2 076</u>	<u>27</u>	<u>894</u>
Sub-total	86	12 111	77	12 524
The Former Socialist Federal Republic of Yugoslavia	-	<u>501</u>	-	<u>501</u>
Total Outstanding Contributions	<u>86</u>	<u>12 612</u>	<u>77</u>	<u>13 025</u>

3.18 As at 31 December 2010, 17 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 year's arrears. The note on Table C of Part IV to this document, indicates the States that had not complied with the terms of their agreements at 31 December 2010.

3.19 Major contributions (*) received for the Regular Programme and other Funds in Segment 1 for 2010 are summarized in thousands of CAD below.

FIGURE 4

<u>Contracting State</u>	<u>Assessment Received</u>	<u>Contributions In-Kind (Premises)</u>	<u>Contributions in Cash and In Kind AVSEC</u>	<u>Total</u>
Canada	1 815	20 033	475	22 323
United States of America	19 265		1 939	21 204
Japan	9 055		422	9 477
Germany	5 279		143	5 422
France	3 853	766	690	5 309
United Kingdom	4 423		147	4 570
China	2 828		573	3 401
Italy	2 054		268	2 322
Republic of Korea	1 826		118	1 944
Spain	1 772			1 772
Thailand	416	1 300		1 716
Netherlands	1 464		31	1 495
Total	54 050	22 099	4 806	80 955

(*) Twelve highest contributions

3.20 Total expenses in 2010, including those for seconded staff and premises provided without charge, by Strategic Objective and Strategic Implementation Strategy (SIS) and for other activities are shown in thousands of CAD below:

FIGURE 5

	<u>Safety</u>	<u>Security</u>	<u>Environment</u>	<u>SIS</u>	<u>Other (2)</u>	<u>Total</u>
Regular Budget	19 646	7 070	1 844	34 941	22 000	85 501
Voluntary Funds	2 827	3 208	703	19 027	7 132	32 897
Premises				22 627		22 627
Seconded Staff (in-kind) (1)						
China	8	27			282	317
Cuba	96	4				100
France	215	144			278	637
Italy					268	268
Japan	4	130				134
Malaysia	191	6				197
Saudi Arabia	143				48	191
Singapore	187	8				195
Switzerland		196				196
United States	120	13			203	336
Others	178	424				602
Subtotal seconded staff	1 142	952			1 079	3 173
Total Expenses	23 615	11 230	2 547	76 595	30 211	144 198

(1): 10 highest contributions by alphabetical order

(2): Other strategic objectives

Cash Surplus

3.21 The cumulative surplus excluding reserves in Net Assets for the Regular Programme Budget at 31 December 2010 reflected in Table A of Part IV to this document amounted to CAD 12 073 thousand. Cumulative surplus less assessments receivable from Contracting States of CAD 12 614 thousand resulted in a cash deficit of CAD 541 thousand at 31 December 2010.

Ancillary Revenue Generation Fund (ARGF)

3.22 ARGF generated a surplus of CAD 4 927 thousand of which CAD 4 386 thousand was transferred to the General Fund in 2010. Since the expenditures under the Ancillary Revenue Generation Fund are volume driven, a comparison with a static budget is not meaningful.

3.23 The following figure presents ARGF revenue and expenses by business activities for 2010 in thousands of CAD.

FIGURE 6

	Revenue	Expense	Net Surplus
Publications, Distribution & Printing (including dangerous goods)	8 448	4 310	4 138
Delegation & Conference Services & Rental	2 809	2 446	363
Events & Symposia	1 238	547	691
Periodicals	840	636	204
Commissariat	618	532	86
Websites	417	250	167
Licensing Agreements & Partnerships in Statistics	413	175	238
ARGF Governance, Training and Other Activities	330	1 290	(960)
Total	15 113	10 186	4 927

Administrative and Operational Services Cost Fund (AOSC)

3.24 The AOSC Fund is established to meet the cost of administration and operation 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 Table A of Part IV to this document and the budgetary comparison is presented in the following figure in thousands of CAD.

FIGURE 7

AOSC Fund Budget and Expenditures for 2010

	Submitted to the Assembly	Revised Budget 2010 ²	Actual Expenditure/ Income 2010 ³	Balance of Revised Budget
Appropriation/Expenditure				
Major Programme	<u>9 304¹</u>	9 714	9 064	650
Income		<u>9 736</u>	<u>8 252</u>	
Excess/(Deficit) of Income over Expenditure		<u>22</u>	<u>(813)</u>	

¹ Approved by the Assembly in 2007 (A36). Amounts converted to CAD at 2010 UN Average Rate of Exchange of 1 USD = 1.036 CAD.

² Noted by the Council at its 191st Session (C-WP/13461).

³ Details do not add to totals due to rounding.

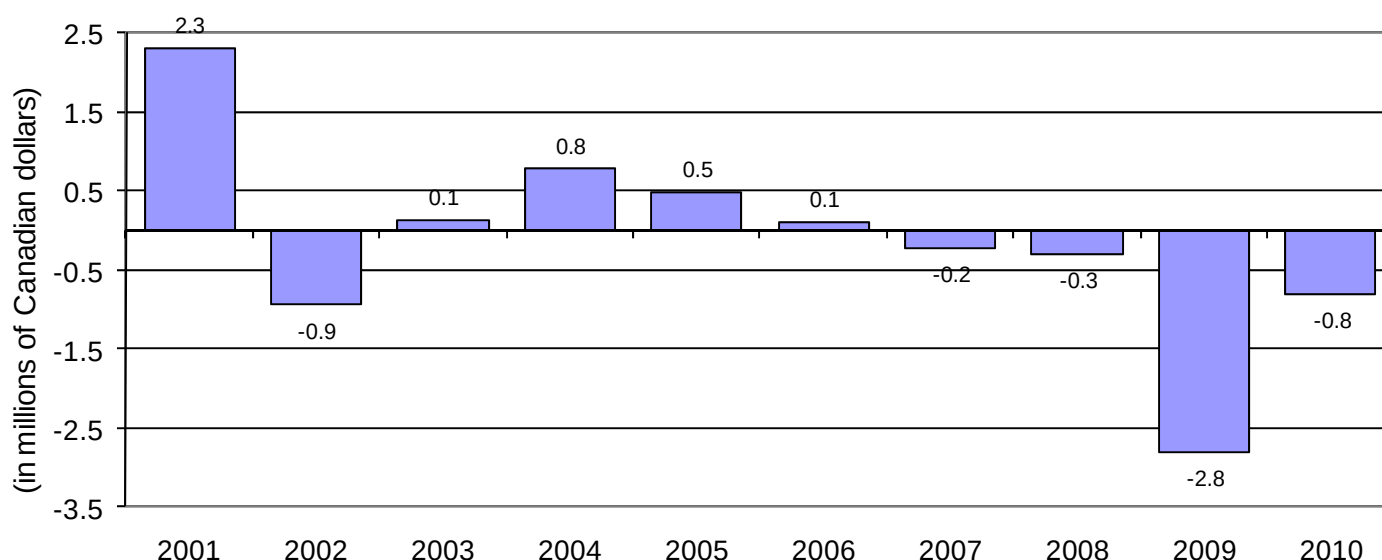
3.25 As indicated above, the Assembly approved the Indicative Budget Estimates (expenditure) of the AOSC Fund amounting to CAD 9 304 thousand for the financial year 2010. During the year, pursuant to Financial Regulation 9.5, the Secretary General submitted to the Council an update of the 2010 Budget Estimates (expenditure) for 2010 in C-WP/13641. The revised estimated expenditures for 2010 amounted to CAD 9 714 thousand and the estimated income to CAD 9 736 thousand.

3.26 There is a shortfall of CAD 1.5 million in AOSC income versus budget mainly because of the expected implementation of USD 180 million in TC projects in 2010, implementation of 25% or USD 45 million did not materialize during the year yielding a shortage in forecasted income. On the expenditure side, staff costs savings amount to CAD 297 thousand. However, this saving is partially offset by a loss of CAD 136 thousand due to the rejection of a claim for loss of business due to a flood in 2009 and some other smaller variances in expenditures for an overall positive variance of CAD 138 thousand. The above result in a total negative variance of CAD 1.3 million in income and expenditures which is partially offset by a foreign exchange gain of CAD 511 thousand for a total net deficit of CAD 0.8 million.

3.27 The following figure reports on the trend in the annual excess (shortfall) over the last ten years in millions of CAD.

FIGURE 8

AOSC Fund Surplus and Shortfall as at 31 December



3.28 During the 35th Session of the Assembly, the Administrative Commission recommended that the question of sharing 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.

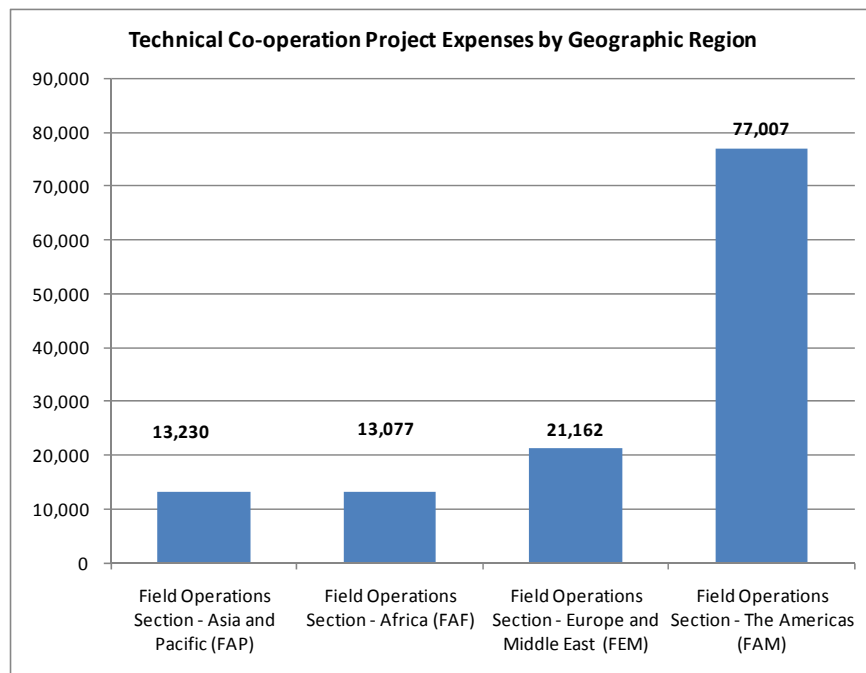
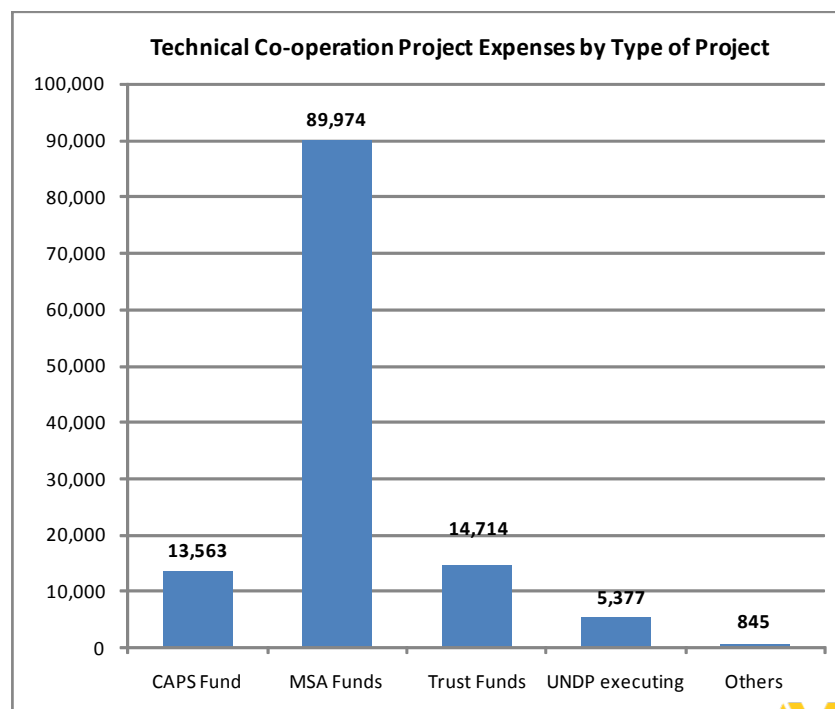
3.29 **Technical Co-operation Programme.** The Technical Co-operation Bureau (TCB) manages the Technical Co-operation Programme, a permanent priority activity of ICAO as stated in Assembly Resolution A36-17, which complements the role of the Regular Programme by supporting Member States in their implementation of ICAO regulations, policies and procedures. Through this Programme, ICAO provides a broad spectrum of services, including assistance to States in the review of

the structure and organization of national civil aviation institutions, updating the infrastructure and services of airports, facilitating technology transfer and capacity building, promoting ICAO Standards and Recommended Practices (SARPs), Air Navigation Plans (ANPs) and supporting remedial action resulting from the Universal Safety Oversight Audit Programme (USOAP) and the Universal Security Audit Programme (USAP) audits.

3.30 ICAO took steps aimed at increasing TCB's efficiency and quality of services, operational and financial controls and to improve the Bureau's working methodologies aligned with ICAO's Strategic Objectives. Accordingly, all key management positions, including the posts of Director, Deputy Director, Chief, Field Operations Section and Chief, Procurement Section, have been filled as a matter of priority. Furthermore, with a view to better support least developed countries requiring ICAO assistance to correct audit-related deficiencies and with the identification of funding, a new Project Financing and Development Section in TCB has been established.

3.31 Action has also been initiated to recruit Technical Co-operation officers in five of the seven regional offices and an assessment will be made on the need for officers in the two remaining offices. A Secretariat Working Group has been established to develop new coordination procedures between TCB and the Regional Offices. A Management Plan for the Technical Co-operation Bureau has been prepared in close coordination with the Technical Cooperation Committee, describing the goals and objectives for 2011 as well as specific planned actions aimed at increasing efficiencies and quality of services. Further efforts are required to improve the AOSC financial situation through a review of the TCB organizational structure, staffing levels, cost savings and efficiency measures. It should also be noted that the Agresso system has been implemented for TCB which will allow for more timely and transparent financial reporting.

3.32 Technical co-operation projects represent one of the main activities of the Organization. Projects are financed by voluntary contributions and the inflows and outflows of financial resources totalled CAD 124.5 million in 2010. Tables D to F in Part IV of this document provides more detail on these projects, summarized by the following figures in thousands of CAD.

FIGURE 9**FIGURE 10**

4. **RESPONSIBILITY OF MANAGEMENT**

The Secretary General is required by the Financial Regulations to maintain such accounting records as are necessary and to submit annual financial statements in accordance with the accounting standards adopted by the United Nations organizations. These financial statements are: Statement I – Statement of Financial Position, Statement II – Statement of Financial Performance, Statement III – Statement of Changes in Net Assets, Statement IV – Statement of Cash Flow and Statement V – Statement of Comparison of Budget and Actual Amounts. The status of appropriations (Regular Programme General Fund) and credits not budgeted for by the Assembly are reflected in this document.

Management is responsible for the preparation and integrity of the Financial Statements in this document. These statements have been prepared in accordance with the International Public Sector Accounting Standards (IPSAS), and necessarily include certain amounts that are based on management's best estimate and judgement. Financial information contained throughout this document is consistent with that in the audited financial statements. Management considers that the financial statements present fairly the financial position of the Organization, its financial performance and its cash flows and the information disclosed in this document 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 Notes, and his accompanying report indicates the scope of his audit and his opinion on the Financial Statements.

The Council has the responsibility to consider and to recommend the Financial Statements to the Assembly for approval and has the power to request amendments to these statements after issuance by the Secretary General.

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



Rahul Bhalla
Chief, Finance Branch

As the Secretary General of the International Civil Aviation Organization, I hereby approve and submit this financial report of ICAO, accompanied by the Financial Statements and Tables for the year 2010.



Raymond Benjamin
Secretary General

Montreal, Canada
31 March 2011

PART II: OPINION OF THE EXTERNAL AUDITOR

- République Française -

Cour des comptes

Premier président

Paris, 31 MARS 2011

To the Assembly of the International Civil
Aviation Organization

AUDIT OPINION

We have audited the financial statements of the International Civil Aviation Organization (ICAO), for the 12 month period ended December 31st, 2010. These financial statements include a statement of financial position at December 31st, 2010, a statement of financial performance, a statement of cash flow, a statement of changes in net assets, a statement of comparison of budget and actual amounts for the period ended December 31st, 2010 and notes including a summary of the accounting policies and other information.

Within the general framework of Article 61 of the Chicago Convention and by virtue of Article XII of the ICAO Financial Regulations, the Secretary General of the ICAO is responsible for preparing and presenting the financial statements. These statements are in conformity with the International Public Sector Accounting Standards (IPSAS). This responsibility includes the design, implementation and monitoring of internal control procedures to ensure the preparation and the fair presentation of financial statements, free of significant misstatements, resulting either from frauds or errors. This responsibility also includes the determination of fair accounting estimates adapted to the circumstances.

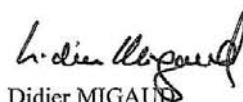
Our responsibility is to express an opinion on these financial statements based on our audit. We have conducted our audit in accordance with the International Standards on Auditing (ISA). These Standards require us to comply with the ethical rules and to plan and perform our audit in order to obtain a reasonable assurance that the financial statements are free from material misstatements.

An audit consists in implementing audit procedures in order to collect audit evidence regarding the amounts and the information presented in the financial statements. The design of the audit procedures is based on the external auditor's professional judgment, as well as the risk evaluation that the financial statements include significant misstatements, resulting either from frauds or errors. In the context of this risk evaluation, the auditor considers the internal control in place for the preparation and presentation of the financial statements, in order to design appropriate audit procedures and not in order to express any opinion on the internal control. An audit also consists in evaluating that the accounting method applied and the presentation of the financial statements are appropriate and that the significant accounting estimates are reasonable.

We believe that the audit evidence collected is sufficient and appropriate to constitute a reasonable basis for our opinion.

Based on our audit, the financial statements give a fair view of the financial position of the ICAO at December 31st, 2010, as well as the financial performance, the cash flow and the comparison of budget and actual amounts for the 12 month period ended December 31st, 2010 in conformity with the IPSAS.

Without wishing to detract from the above expressed opinion, we draw the Assembly's attention on the Notes 1.2, 1.3, 1.4, 2.10 and 9 that describe the impact of the change in accounting methods resulting from the first implementation of IPSAS in 2010. The main impact is the recognition of a non current employee benefit liability amounting to Canadian dollars 76.9 million. The evaluation of this amount was made using the assumptions disclosed in Note 2.10.



Didier MIGAUD

PART III: FINANCIAL STATEMENTS

INTERNATIONAL CIVIL AVIATION ORGANIZATION

STATEMENT I
STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2010
(in thousands of Canadian dollars)

	Note	2010	Opening Balance 01.01. 2010 (Restated)
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	2.1	210 915	215 870
Assessed contributions receivable from Member States	2.2	6 693	5 151
Receivables and advances	2.3	12 579	29 778
Inventories	2.4	987	990
Others	2.3	2 960	3 132
		234 134	254 921
NON-CURRENT ASSETS			
Assessed contributions receivable from Member States	2.2	3 863	5 117
Receivables and advances	2.3	521	543
Property, plant and equipment	2.5	699	
Intangible assets	2.6	92	
Derivative assets	2.7		650
		5 175	6 310
TOTAL ASSETS		239 309	261 231
LIABILITIES			
CURRENT LIABILITIES			
Advanced receipts	2.8	163 356	161 282
Accounts payable and accrued liabilities	2.9	22 289	33 713
Employee benefits	2.10	4 612	4 691
Credits to contracting/servicing governments	2.11	1 528	2 516
Deferred revenue	2.12	343	585
		192 128	202 787
NON-CURRENT LIABILITIES			
Employee benefits	2.10	76 900	66 668
		76 900	66 668
TOTAL LIABILITIES		269 028	269 455
NET ASSETS			
Accumulated deficit	2.13	(35 416)	(24 859)
Reserves	2.13	5 697	16 635
NET ASSETS (ACCUMULATED DEFICIT)		(29 719)	(8 224)
TOTAL LIABILITIES AND NET ASSETS		239 309	261 231

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

INTERNATIONAL CIVIL AVIATION ORGANIZATION

STATEMENT II

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31 DECEMBER 2010

(in thousands of Canadian dollars)

	Note	2010
REVENUE		
Contributions for project agreements		122 847
Assessed contributions		77 483
Other revenue producing activities	3.2	13 173
Other voluntary contributions		5 976
Other revenue	3.2	3 798
TOTAL REVENUE		223 277
EXPENSES		
Staff salaries and employee benefits		137 359
Supplies, consumables and others		67 796
General operating expenses		17 098
Travel		7 940
Meetings		2 128
Training		1 173
Grants and other transfers		440
Other expenses		762
Currency exchange difference		393
TOTAL EXPENSES		235 089
DEFICIT FOR THE YEAR		(11 812)

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

INTERNATIONAL CIVIL AVIATION ORGANIZATION

STATEMENT III

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED 31 DECEMBER 2010

(in thousands of Canadian dollars)

	Note	Net Assets Beginning of the Year	Deficit of the Year	Reserves	Net Assets End of the Year
Balance at 31 December 2009		48 982		14 827	63 809
Change in accounting policies and other adjustments to net assets	2.13				
Initial recognition of property, plant and equipment		(1 145)			(1 145)
Initial recognition of employee benefits		(70 611)			(70 611)
Initial recognition of inventories		759			759
Initial recognition of discount of long outstanding receivables		(2 256)			(2 256)
Initial recognition of provision of long outstanding receivables		(501)			(501)
Translation adjustment				1 808	1 808
Other adjustments		(87)			(87)
Total changes to net assets		(73 841)		1 808	(72 033)
Restated Opening Balance 1 January 2010		(24 859)		16 635	(8 224)
Movements in fund balances and reserves in 2010					
Transfer from net assets to liabilities	7	(1 180)			(1 180)
Variation to carry forward balance	2.13	2 483		(2 483)	
Variation to derivative assets	2.7			(650)	(650)
Actuarial loss	2.10			(5 881)	(5 881)
Other reclassifications and transfers		(48)		(6)	(54)
Translation adjustment				(1 918)	(1 918)
Deficit of the year			(11 812)		(11 812)
Total movements during the year		1 255	(11 812)	(10 938)	(21 495)
Balance at 31 December 2010		(23 604)	(11 812)	5 697	(29 719)

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

INTERNATIONAL CIVIL AVIATION ORGANIZATION

STATEMENT IV
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2010

(in thousands of Canadian dollars)

	Note	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Deficit for the year		(11 812)
(Increase) decrease in contributions receivable	2.2	(1 542)
(Increase) decrease in receivables and advances	2.3	17 199
(Increase) decrease in inventories	2.4	3
(Increase) decrease in other assets	2.3	172
(Increase) decrease in non-current contributions receivable (net of discount)	2.2	1 254
(Increase) decrease in non-current receivables and advances	2.3	22
Increase (decrease) in advanced receipts	2.8	2 074
Increase (decrease) in accounts payable and accrued liabilities	2.9	(11 424)
Increase (decrease) in short-term employee benefits	2.10	(79)
Increase (decrease) in credits to contracting/servicing governments	2.11	(988)
Increase (decrease) in deferred revenue	2.12	(242)
Increase (decrease) in long-term employee benefits	2.10	10 232
Actuarial loss reflected in reserves	2.10	(5 881)
Interest income		(373)
Depreciation and amortization		90
Disposal of property, plant and equipment		(19)
Foreign currency translation adjustment		(1 918)
NET CASH FLOWS FROM OPERATING ACTIVITIES		(3 232)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property, plant and equipment and Intangibles	2.5 & 2.6	(881)
Proceeds of disposal of property, plant and equipment		19
Interest income		373
NET CASH FLOWS FROM INVESTING ACTIVITIES		(489)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Transfers from net assets to liabilities and other transfers		(1 234)
NET CASH FLOWS FROM FINANCING ACTIVITIES		(1 234)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(4 955)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		215 870
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		210 915

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

INTERNATIONAL CIVIL AVIATION ORGANIZATION

STATEMENT V
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
REGULAR PROGRAMME GENERAL FUND
FOR THE YEAR ENDED 31 DECEMBER 2010

(in thousands of Canadian Dollars)

Strategic Objective / Supporting Implementation Strategy	Appropriations								Expenditures ¹			Balance
	Original A36-29	Carried over from Prior Year ^a	Decrease of Appropriations ^a	2010 Appropriations Before Transfers	2010 Outstanding Commitments ^b	Transfers among SO/SIS ^c	Carried over to Following Year ^d	2010 Appropriations Revised	Total	Budget Exchange Difference ²	At Budget Rate of Exchange	
A. Safety	16 185	3 920	-	20 105	(1 610)	1 619	-	20 114	19 646	468	20 114	-
B. Security	8 778	206	-	8 984	(138)	(1 491)	(122)	7 233	7 070	163	7 233	-
C. Environment	1 755	472	(205)	2 022	(316)	163	-	1 869	1 844	25	1 869	-
D. Efficiency	21 304	2 540	-	23 844	(1 389)	64	(2 000)	20 519	19 695	824	20 519	-
E. Continuity	2 046	111	-	2 157	(61)	(280)	(200)	1 616	1 502	114	1 616	-
F. Rule of Law	790	16	-	806	(3)	10	-	813	803	10	813	-
Sub-Total	50 858	7 265	(205)	57 918	(3 517)	85	(2 322)	52 164	50 560	1 604	52 164	-
Management & Administration	19 638	4 006	-	23 644	(4 327)	1 714	(200)	20 831	20 511	320	20 831	-
Programme Support	14 871	2 663	-	17 534	(767)	(1 799)	(318)	14 650	14 430	220	14 650	-
Sub-Total	34 509	6 669	-	41 178	(5 094)	(85)	(518)	35 481	34 941	540	35 481	-
Total	85 367	13 934	(205)	99 096	(8 611)	-	(2 840)	87 645	85 501	2 144	87 645	-
Organizational Realignment	140	-	(140)	-	-	-	-	-	-	-	-	-
TOTAL	85 507	13 934	(345)	99 096	(8 611)	-	(2 840)	87 645	85 501	2 144	87 645	-

^a Approved by Council at its 190th session (C-DEC 190/3)

^b Financial Regulation 5.7

^c Approved by the Secretary General, Fin. Regulation 5.9

^d Approved by the Secretary General, Fin. Regulation 5.6

¹ Expenditures other than Canadian dollars are reflected at the UN rate of Exchange and include currency exchange differences such as the revaluation of balance sheet items and forward exchange gains/losses.

² Budget exchange difference due to impact of US dollar transactions budgeted at USD1.00 = CAD 1.15

Material differences between 2010 Appropriations before Transfers and Total Expenditures are explained in the Presentation by the Secretary General.

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

INTERNATIONAL CIVIL AVIATION ORGANIZATION
Notes to the Financial Statements
31 December 2010

NOTE 1: ACCOUNTING POLICIES

Basis of Preparation

1. The financial statements of the International Civil Aviation Organization (ICAO) have been prepared on the accrual basis of accounting in accordance with the International Public Sector Accounting Standards (IPSAS).
2. These are the first set of financial statements prepared fully in accordance with IPSAS. The adoption of IPSAS has required changes to be made to the accounting policies previously followed by ICAO. This includes the preparation of financial statements on a full accrual basis, most notably the recognition of end-of-service and post-retirement benefits and revenue from voluntary contributions for Technical Co-operation projects previously recorded on a cash basis. The adoption of the new accounting policies has resulted in changes to the assets and liabilities recognized in the Statement of Financial Position. Accordingly, the audited Statement of Financial Position, dated 31 December 2009, has been restated and the resulting changes are reported in the Statement of Changes in Net Assets. The revised 31 December 2009 Statement of Financial Position is presented in these financial statements as the Opening Balance 1 January 2010 (Restated). The net effect of the changes brought about by the adoption of IPSAS in the Statement of Financial Position amounted to a decrease in total net assets of CAD 72.0 million on 1 January 2010.
3. As permitted on the initial adoption of IPSAS, transitional provisions have been applied in the following areas: i) comparative information has not been provided in the Statements of Financial Performance and Cash Flow (IPSAS 1) and ii) the initial recognition of property, plant and equipment (PP&E) (IPSAS 17) including those under finance leases acquired before 1 January 2010 are not reflected on the face of the financial statements, but in the Notes to the Financial Statements for information purposes.
4. The following Accounting Standards have been adopted prior to their required implementation dates: Employee Benefits (IPSAS 25); Intangible Assets (IPSAS 31); Financial Instruments: Presentation (IPSAS 28), Recognition and Measurement (IPSAS 29) and Disclosures (IPSAS 30).
5. Except as otherwise stated in these statements, the measurement basis used in preparing the financial statements is the amortized cost. The Cash Flow Statement (Statement IV) is prepared using the indirect method.
6. The reporting currency of ICAO is the Canadian dollar (CAD). The functional currency of ICAO regular activities is the CAD. The functional currency of the Technical Cooperation Projects (TCP) is the United States dollar (USD) because these activities are generally carried out in USD. Transactions in currencies other than CAD, and other than the USD for TCP, are translated at the prevailing United Nations Operational Rates of Exchange (UNORE) at the time of transaction. Monetary assets and liabilities in currencies other than CAD, and other than USD for the TCP, are translated at the prevailing UNORE at year-end closing rate, which reasonably approximates the spot rate. Resulting gains or losses are accounted for in the Statement of Financial Performance except for differences arising from the translation of TCP activities into CAD for presentation purposes which are reflected in Reserves in the Statement of Financial Position.

Cash and Cash Equivalents

7. Cash and cash equivalents comprise cash on hand, cash at banks and short-term deposits.
8. Interest revenue is recognized as it accrues, taking into account the effective yield.

Financial Instruments

9. Financial instruments are recognized when ICAO becomes a party to the contractual provisions of the instrument until such time as when the rights (or the obligation) to receive (to pay) cash flows from those assets (liabilities) have expired or have been transferred (settled).
10. Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active markets. Receivables include contributions receivable in cash and other receivables. Long term receivables, including assessments receivable, are stated at amortized cost using the effective interest method.
11. Except for assessed contributions received in advance, all liabilities are derived from exchange transactions. All non-derivative financial liabilities are recognized initially at fair value and, when applicable, subsequently measured at amortized cost using the effective interest method.

Inventories

12. Publications and Commissariat items on hand at the end of the financial period are recorded as inventories. Publications are valued at the lower of cost and current replacement cost and commissariat inventory is valued at the lower of cost and net realizable value.
13. The cost of publications includes purchase cost and all other costs incurred in bringing the publications to a saleable or distributable state. The cost of Commissariat items represents the purchase price. Cost is determined on the weighted average basis.
14. Publications and other documents for internal use are expensed when produced.

Receivables and Revenue

15. Assessed contributions represent a legal obligation of Contracting States. These contributions are revenue from non-exchange transactions recognized in the year for which the assessments are levied. Contributions for Technical Co-operation Project (TCP) activities are revenues from exchange transactions which are determined by the stage of completion of projects based on the delivery of goods or rendering of services as specified in the signed project agreements. Other voluntary contributions are generally non-exchange transactions recognized as revenue when confirmed in writing by donors, or otherwise when received.
16. Administrative fees recovered on Technical Co-operation projects are presented as revenue in the Administrative and Operational Services Cost (AOSC) Fund and as expenses in the respective projects. In accordance with IPSAS, revenue from administrative fees generated by TC projects is recognized based on the stage of completion. The stage of completion is estimated as follows:
 - Ninety percent of the fee is recognized when a purchase order for equipment is issued and the remaining 10 percent is recognized upon delivery; and
 - For services, the administrative fee is recognized on the basis of cost incurred.

17. Other revenues are exchange transactions and balances receivable are presented in receivables and advances.
18. Contributions receivable are shown net of allowances related to reductions in contribution revenue, doubtful accounts and amortization (discount):
 - allowance for reductions in voluntary contribution revenue are reductions of contributions receivable and revenue when the funding is no longer needed by the project to which the contributions was directed or is otherwise unavailable;
 - allowance for doubtful accounts on assessed contributions is based on historical experience and on events that would indicate that a Contracting State is not capable of discharging its obligation; and
 - discounted long-term contributions receivable represent the outstanding balance of assessed contributions for which States have concluded agreements to liquidate their arrears over a period of years. Discounting is also applied to a number of other long outstanding contributions considering the probability that such agreements will be concluded to liquidate arrears.
19. In-kind contributions are presented at fair value. Donated goods that directly support approved operations and activities and can be reliably measured are recognized in the accounts. Services provided without charges are not recognized in the accounts, but are presented in the Notes to the Financial Statements for information purposes. These contributions include use of premises, transport and personnel.

Property, Plant and Equipment

20. Property, Plant and Equipment (PP&E) are stated at historical cost less accumulated depreciation and any impairment losses. Depreciation is provided for PP&E over their estimated useful life using the straight line method, except for land which is not subject to depreciation. The estimated useful life for PP&E classes is as follows:

<u>Class</u>	<u>Estimated Useful Life (Years)</u>
Buildings	5-50
Information Technology (IT) and Office Equipment	3-7
Furniture, Fixtures and Fittings	5-12
Telecommunication and Printing Equipment	3-7
Motor Vehicles	3-10

21. Property, plant and equipment are capitalized if their cost is greater or equal to the threshold limit set at CAD 3 thousand and CAD 25 thousand in the case of leasehold improvements. The threshold level is reviewed periodically. Leasehold improvements are valued at cost and depreciated over the lesser of the remaining useful life of the improvements or the lease term.
22. Impairment reviews are undertaken for all PP&E at least annually and any impairment losses are recognized in the Statement of Financial Performance. Impairment indicators include the obsolescence and deterioration of PP&E as well as the cash flow generated by PP&E utilized to generate revenue from a commercial activity.

Intangible Assets

23. Intangible assets are stated at historical cost less accumulated amortization and any impairment losses. Intangible asset recognition requires meeting strict criteria with respect to being identifiable, being under ICAO's control and contributing future economic benefits or service potential which can be reliably measured. Remaining useful life is also a consideration. Specific criteria were also developed to exclude items acquired below a cost of CAD 5 thousand, and CAD 25 thousand for internally developed assets due to the difficulty to

measure with precision internal operational and research costs to be expensed and development costs to be capitalized. As permitted under IPSAS 31, this standard has been applied prospectively effective 1 January 2010.

24. Amortization is provided over the estimated useful life using the straight line method. The estimated useful life for intangible asset classes is as follows:

<u>Class</u>	<u>Estimated Useful Life (Years)</u>
Software Acquired Externally	3-6
Software Internally Developed	3-6
Licenses and Rights and Other Intangible Assets	2-6
Copyrights	3-10

25. Licenses, rights and copyrights are amortized over the licenses, rights and copyrights periods.
26. Impairment reviews are undertaken for all intangible assets at least annually and any impairment losses are recognized in the Statement of Financial Performance. Impairment indicators include the obsolescence and the deterioration of intangibles as well as the cash flow generated by intangibles when utilized to generate revenue from a commercial activity.

Employee Benefits

27. ICAO recognizes the following accrued employee benefits:
- short-term employee benefits which are expected to be settled wholly within twelve months after the end of the accounting period in which employees render the related service;
 - post-employment benefits; and
 - other long-term employee benefits such as end-of-service benefits.
28. Most employees of ICAO are members of the United Nations Joint Staff Pension Fund (UNJSPF). The Pension Fund is a multi-employer funded, defined benefit plan. UNJSPF is not in a position to identify and allocate each participant's share of the underlying financial position and performance of the plan on an IPSAS 25 basis with sufficient reliability for accounting purposes and, therefore, as permitted by IPSAS this plan is treated as if it were a defined contribution plan.
29. ICAO uses a reserve account in Net Assets to record actuarial gains and losses related to after-service health insurance benefits (ASHI).

Provisions and Contingent Liabilities

30. Provisions are made for future liabilities and charges where ICAO has a present legal or constructive obligation as a result of past events and it is probable that ICAO will be required to settle the obligation.
31. Other commitments, which do not meet the recognition criteria for liabilities, are disclosed in the notes to the financial statements as contingent liabilities when their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the control of ICAO.

Segment Reporting and Fund Accounting

32. A fund is a self-balancing accounting entity established to account for the transactions relating to a specified purpose or objective. Funds are segregated for the purpose of conducting specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The financial statements are prepared on a fund accounting basis, showing at the end of the period the consolidated position of all ICAO funds. Fund balances represent the accumulated residual of revenue and expenses.
33. A segment is a distinguishable group of activities for which financial information is reported separately in order to evaluate an entity's past performance in achieving its objectives and for making decisions about the future allocation of resources. ICAO classifies all projects, operations and fund activities into two segments: i) Regular activities and ii) Technical Co-operation Project activities. ICAO reports on the transactions of each segment during the financial period, and the balances held at the end of the period. Inter-segment charges are based on project agreements.
34. **The Regular Activities segment** includes the General Fund, the Working Capital Fund of the Regular Programme, special accounts and funds administered for aviation safety, security, environmental and other supporting activities of the Organization. Unutilized appropriations voted for the Regular Programme Budget of the General Fund may be brought forward to the following financial year under certain conditions. Specific funds and special accounts are established by the Assembly or Council under Financial Regulation 7.1 mainly for special contributions or monies earmarked for specific activities, the balances of which may be brought forward to the succeeding financial period. The main funding sources of this segment are assessed contributions, revenue producing activities, other voluntary contributions and administrative fees.
35. **The Regular Activities segment** includes the following Funds or groups of Funds:

The Regular Budget Fund comprises:

- The **General Fund** financed by assessed contributions from Contracting States according to the scale of assessments determined by the Assembly, by miscellaneous income, by the Ancillary Revenue Generation Fund (ARGF) surplus, and by any advances made from the **Working Capital Fund**, established by the Assembly for the purpose of making (repayable) advances as necessary to the General Fund to finance budgetary appropriations pending receipt of contributions from Contracting States and to other Funds in specific cases.

Funds related to Regular Activities comprise the following:

- **Capital Fund** established for the purpose of recording the acquisitions of property, plant and equipment and intangible assets for the General Fund of the Regular Programme.
- **Revolving Fund** established for the purpose of recording the transactions relating to After-Service Health Insurance (ASHI) including unfunded liabilities and other specific liabilities in order to present these transactions separately within the Regular Activities segment.
- **Ancillary Revenue Generation Fund (ARGF)** established to hold revenue generating and cost recovery activities in one Fund. Special Accounts and Funds within the ARGF are established by the Secretary General under Financial Regulation 7.2 to record all revenues and expenditures relating to self-financing activities. Any surplus not projected to be committed or expensed may be transferred to the General Fund and the balances may be brought forward to the succeeding financial period. The main funding sources of this segment are the sales of publications, data and services.

- **Administrative and Operational Services Cost (AOSC) Fund** established under Financial Regulation 9.4. The AOSC Fund recovers the costs of administration, operation and support of TC projects. In the event that the AOSC operation in any given year ends in a financial deficit, such deficit is first to be met from the accumulated surplus of the AOSC Fund and, as a last resort, from the Regular Programme Budget. The AOSC Fund is primarily financed from administrative overhead charges to Technical Co-operation projects including UNDP projects.
- **Aviation Security (AVSEC) Plan of Action (ASPA)** which includes earmarked funds as well as Special Accounts/Funds established to reflect Council approval of the Aviation Security Plan of Action (ASPA), comprising projects to be financed from funds within the Aviation Security Trust Funds. Activities relating to the ASPA projects are funded from general and earmarked contributions and by services in kind as indicated in Note 3.1.
- **The Comprehensive Regional Implementation Plan for Aviation Safety in Africa (AFI Plan)** established to increase ICAO leadership and accountability in programme co-ordination and management across the AFI Region and to ensure effective implementation to rectify safety and infrastructure deficiencies.
- **The Joint Finance Funds comprise Danish and Icelandic Joint Financing Agreements**, which reflect the transactions of the Funds established to report on ICAO supervision of the operation of air navigation services provided by the Government of Iceland, and in Greenland by the Government of Denmark, the costs of which are recovered by the service providers through user charges and assessments on Contracting governments. User charges are collected by the United Kingdom and are due and directly remitted to the Governments of Iceland and Denmark. Assessments are levied and collected by ICAO for remittance to the servicing governments. Therefore, these transactions are reflected in the accounts as assets and liabilities in the Statement of Financial Position. Also included is the **North Atlantic Height Monitoring System Fund (HMU)** to account for the financial transactions made under the provisions of the Arrangement on the Joint Financing of a North Atlantic Height Monitoring System. The operation and maintenance costs are recovered by the service providers through user charges on civil aircraft making crossings over the North Atlantic. User charges collected by ICAO are directly payable to service providers and are therefore reflected as assets and liabilities in the accounts.
- **Incentive for the Settlement of Long-outstanding Arrears Account** established to present in a separate account a portion of a payment of certain assessments in arrears from Contracting States to finance particular activities of the Organization.
- **Information and Communication Technology (ICT) Fund** established to finance improvements to information and communication systems of the Organization.
- **Public Key Directory Fund (PKD)**, a cost-recovery fund, established by the Council to report on the activities of a project to support interoperability of electronic-enhanced machine readable passports. The operations are financed by voluntary contributions and, in accordance with the agreement, the balance of the Fund is recorded as an amount due to the participating States.
- **International Financial Facility for Aviation Safety Fund (IFFAS)** established by the Council in accordance with the principles and guidelines contained in Assembly Resolution A33-10, with the objective of financing safety related projects for which States cannot otherwise provide or obtain the necessary financial resources. On 17 November 2010, ICAO's Council dissolved the IFFAS. The utilization of the remaining assets is disclosed in Note 7.
- **Temporary Staff Salaries Fund (TSSF)** set up to refinance the posts which were initially cut in the Triennium Budget 2008 – 2010.

- **Other Funds.** Under an agreement with the **European Civil Aviation Conference (ECAC)**, composed of a number of ICAO's Members States, ICAO provides certain secretariat services. Disbursements are financed initially from ECAC's revenue collected by ICAO and, when necessary from the General Fund of the Regular Programme funds, which are reimbursed to ICAO. The net amount receivable or payable for all transactions effected on ECAC's behalf is included in the amount due from or payable to regional bodies.
 - The Administrative Fee for Joint Financing, the Universal Safety Oversight Audit Programme Fund, the Environmental Fund, the International Registry Fund and France Co-operation Fund and other Funds or special accounts are also included in other Funds.
36. **The Technical Co-operation Project Activities segment** comprises **Technical Co-operation (TC) project funds** established by the Secretary General under Financial Regulation 9.1 to administer programmes of technical co-operation. The main funding sources of this segment are contributions for project agreements.
37. The TC projects include UNDP arrangements and projects managed under Trust Funds agreements, Management Service Agreements (MSA) and Civil Aviation Purchasing Services Agreements (CAPS). The financial transactions relating to the UNDP arrangements comply with both ICAO and UNDP directives. Trust Funds and MSAs are designed to cover a broad range of technical co-operation services and the CAPS agreements are designed to provide procurement services. ICAO also enters into Technical Co-operation agreements referred to as Lump Sum Contracts with Contracting States. These contracts differ from MSA and Trust Fund agreements in that they are for a short duration and for a fixed contract amount. Under or over recovery of actual expenditure is reflected in the AOSC Fund.

NOTE 2: ASSETS AND LIABILITIES

Note 2.1: Cash and Cash Equivalents

38. Funds are deposited in banks on a pooled investment basis and funds not needed for immediate requirements are invested in term deposits. Balances at 31 December 2010 and 1 January 2010 are composed of:

	31 December 2010	Opening Balance 1 January 2010 (Restated)
	<i>In thousands of CAD</i>	
Cash in banks	87 802	94 518
Term deposits	123 113	121 352
Total Cash and Cash Equivalents	210 915	215 870

39. As at 31 December 2010, the term deposits had an average interest rate of 0.27 percent (0.47 percent on 1 January 2010) and an average term maturity of 70 days (52 days in 2009). Cash in banks at year end includes an amount of CAD 1 966 thousand held on behalf of ECAC.

Note 2.2: Contributions Receivable

40. The net assessed contributions receivable balances as at 31 December 2010 and 1 January 2010 are composed of:

	31 December 2010	Opening Balance 1 January 2010 (Restated)
	<i>In thousands of CAD</i>	
Current	6 693	5 151
Discounted non-current	3 863	5 117
Total Net Contributions Receivable	10 556	10 268

41. Current contributions receivable are for contributions that are due within twelve months while non-current contributions receivable are those that are due or foreseen to be paid after 12 months from the date of the financial statements as described in the accounting policies for Receivables and Revenue. The gross and net amounts of contributions receivable are as follows:

	31 December 2010	Opening Balance 1 January 2010 (Restated)
	<i>In thousands of CAD</i>	
Assessed Contributions – Regular Programme	12 614	13 031
Assessed Contributions – Joint Financing Agreements	79	(226)
Total Contributions Receivable before allowances and amortization	12 693	12 805
Less:		
Allowance for doubtful accounts	(501)	(501)
Discount on long-term receivables	(1 636)	(2 036)
Total Net Contributions Receivable	10 556	10 268

42. The following table illustrates the composition of assessed contributions receivable for the Regular Programme.

	31 December 2010		Opening Balance 1 January 2010 (Restated)	
Year of Assessment	<i>In thousands of CAD</i>	<i>%</i>	<i>In thousands of CAD</i>	<i>%</i>
2010	3 639	28.9	-	-
2009	1 227	9.7	2 390	18.3
2008	920	7.3	1 216	9.3
2007	440	3.5	697	5.4
2006 and earlier	6 388	50.6	8 728	67.0
Total	12 614	100.0	13 031	100.0

43. There were no movements of the allowance for doubtful accounts during 2010.

	Opening Balance 1 January 2010 (Restated)	Utilization	Increase/ (Decrease)	31 December 2010
	<i>In thousands of CAD</i>			
Total Allowance for Doubtful Accounts	501	-	-	501

The amount of CAD 501 thousand represents the full amount owing to ICAO by the former Socialist Federal Republic of Yugoslavia, the resolution of which remains under active discussion at the United Nations General Assembly where there is an expectation that successor States will cover the debt.

44. There were no write-offs of contributions receivable during 2010. An increase or decrease in the allowance for doubtful accounts represents an expense for the period and is reported in the Statement of Financial Performance.
45. There was no balance in the allowance for reductions in contribution revenue during 2010.
46. The movements of the discounted long-term contributions receivables during 2010 are as follows:

	Opening Balance 1 January 2010 (Restated)	Utilization	Increase/ (Decrease)	Ending Balance 31 December 2010
	<i>In thousands of CAD</i>			
Discounted Long-Term Contributions Receivable	5 117	(1 654)	400	3 863

47. The discount on long-term contributions receivable represents the amount which is required to adjust the receivable balance to fair value upon initial recognition. Since the non-current portions are not due to be collected for more than one year, they are discounted at an interest rate. This amount is reflected as a reduction of the long-term receivable balance. This difference is then gradually recognized as revenue over the life of the receivable. The discount is computed by applying the rate of 4.3 percent to the scheduled future instalment payments for all Group A States and a number of Group B States.

48. The discounted long-term contributions relate to assessments receivable from States in Group A that have concluded agreements with the Council to liquidate their arrears over a period not exceeding twenty years, without interest and States in Group B without agreements with outstanding assessments exceeding five years. Utilization of CAD 1 654 thousand includes payments received during the course of the year from States which concluded agreements with ICAO. The increase of CAD 400 thousand is the discount of the long-term accounts receivable balance which has been recognized in revenue for the period ended 31 December 2010. There were no new agreements entered into during the course of the year and a number of States with concluded agreements with ICAO at the beginning of the year provided payments which exceeded the repayment terms of their respective agreements.

Note 2.3: Receivables, Advances and Other Assets

49. Receivables and advances:

	31 December 2010	Opening Balance 1 January 2010 (Restated)
	<i>In thousands of CAD</i>	
Advances to Employees	1 361	894
Receivables from United Nations Agencies	1 906	1 663
Others	9 312	27 221
Total:	12 579	29 778

50. Advances to employees are for education grants, rental subsidies, travel and other staff entitlements.
51. Receivables from UN Agencies are related to other international organizations, mainly United Nations organizations.
52. Miscellaneous receivables include amounts due from clients for services provided under special accounts and accrued interest receivable.
53. The non-current portion of Receivables and Advances is composed of an amount due from the African Civil Aviation Commission (AFCAC), a regional body. This amount results from negotiations and discussions between ICAO and AFCAC for the settlement of amounts owed by AFCAC to the Organization. Effective 1 January 2007, AFCAC assumed full responsibility for financial transactions and operations previously performed by ICAO on its behalf. The undiscounted receivable amounts to CAD 943 thousand. The discounted amount due from AFCAC reflected in the accounts totals CAD 760 thousand, of which an amount of CAD 521 thousand represents the non-current portion of the receivable (CAD 543 thousand on 1 January 2010).