

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE



Paper Laid
By Hon. A. Sule, MP
(LOM) on Thursday
11.06.2015.
Umm

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
KENYA CIVIL AVIATION AUTHORITY**

**FOR THE YEAR ENDED
30 JUNE 2014**



KENYA CIVIL AVIATION AUTHORITY

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2014

Prepared in accordance with the Accrual Basis of Accounting Method under the International Public Sector Accounting Standards (IPSAS)

KENYA CIVIL AVIATION AUTHORITY

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2014

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I. KEY AUTHORITY INFORMATION AND MANAGEMENT

(a) Background information

INTRODUCTION

Kenya Civil Aviation Authority was formed on 24th October 2002 following the enactment of The Civil Aviation (Amendment) Act, 2002. The Act received Presidential assent and became effective on the same day, 24th October 2002. This Act amended the Civil Aviation Act (Cap.394) of the laws of Kenya and established the Kenya Civil Aviation Authority (KCAA) as an autonomous corporate body that took over the functions of the Directorate of Civil Aviation (DCA) and the licensing of air services hitherto under Civil Aviation Board (CAB). The Civil Aviation Act (Cap 394) and the Civil Aviation (Amendment) Act, 2002 have now both been superseded by The Civil Aviation Act, 2013.

At cabinet level, Kenya Civil Aviation Authority is represented by the Cabinet Secretary for Transport & Infrastructure, who is responsible for the general policy and strategic direction of the Authority.

VISION

To be a model of excellence in civil aviation

MISSION

To develop, regulate and manage a safe, efficient and effective civil aviation system in Kenya.

CORE VALUES

Commitment to Safety and Security: We endeavour to maintain a safe and secure environment in all areas of our operations and entire civil aviation industry within our jurisdiction

Customer Focus: We undertake to embrace, meet, delight and exceed our customers' expectations through passionate pursuit of service excellence. We shall invest on our people and systems, to continuously enhance quality service provision to our customers as a priority.

Commitment to Fairness and Equity: We commit to be fair and promote equity in all our activities. We enforce our corporate Non-discrimination policy at an arm's length.

We shall promote the Government's efforts to avert corruption in the country by ensuring zero tolerant to corruption. KCAA will strive to be a just, accountable and performance driven Authority.

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Background information (continued)

Commitment to Staff: We undertake to continuously invest in our human capital to enhance professionalism and integrity.

Creativity and Innovativeness: We recognize and encourage initiative, creativity and innovation aimed at adding value to our operations and supply chain command.

Respect for Diversity: We recognize and appreciate differences in gender, race, disability, region, age and generation. The differences complement and bind us together as one family, KCAA.

(b) Principal Activities

KCAA performs two broad key functions. The one first is to provide air navigation services in Kenya's Airspace (also referred to as the Nairobi Flight Information Region). The second is to regulate the aviation industry in Kenya. In addition to this, KCAA offers training for aviation personnel through the East African School of Aviation.

The mandate of the KCAA is essentially embedded in its functions/responsibilities, which are enumerated in the Civil Aviation Act 2013. These functions are enumerated as follows:

- (a) Licensing of air services;
- (b) Provision of the air navigation services;
- (c) Establishment and maintenance of a system of aircraft registration and the marking of civil aircraft;
- (d) Securing sound development of the civil aviation industry in Kenya;
- (e) Advising the Government on matters concerning civil aviation;
- (f) Co-ordination and direction of search and rescue services;
- (g) Facilitation and provision of all the necessary support for aircraft accident and incident investigations conducted by the investigator-in-charge;
- (h) Carrying out investigations on incidents that are not classified as accidents and serious incidents;
- (i) Safety, security, economic and technical regulation of civil aviation;
- (j) Dealing with incidents of unlawful interference with aviation security;
- (k) Establishment, co-ordination and maintenance of State Safety Security programmes;
- (l) Certification of aircraft operators;
- (m) Enforcement of approved technical standards of aircraft;
- (n) Licensing and monitoring of aeronautical personnel;

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(b) Principal Activities (continued)

- (o) Provision of technical services for the design, installation, and modification of electronic, radio and other equipment used in the provision of air navigation services;
- (p) Ensuring the integrity of the systems, equipment and facilities of the Authority;
- (q) Issuance and dissemination of the publications referred to in the Act;
- (r) Production of accurate, timely, comprehensive and relevant air transport information for planning and decision making purposes;
- (s) Approval, certification and licensing of aircraft maintenance organisations and regulation of aviation training institutions in Kenya;
- (t) Establishment, management and operation of training institutions for purposes of the Authority;
- (u) Registration of rights and interests in aircraft;
- (v) Planning, development and formulation of the airspace master plan for the safe and efficient utilization of Kenyan airspace;
- (w) Establishment, co-ordination and maintenance of state aviation safety and security programmes;
- (x) Licensing and certifications of aerodromes, regulated agents and air navigation service providers;
- (y) Performing economic oversight of air services, protecting consumer rights, environment and ensuring fair trading practices;
- (z) Giving effect to the Chicago Convention and other international agreements relating to civil aviation to which Kenya is party to.

KCAA carries out its functions in a manner consistent with the Chicago Convention on International Civil Aviation, Annexes to the Convention relating to international Standards and Recommended Practices (SARPs), and other international conventions and protocols relating to civil aviation, to which the Republic of Kenya is a party. KCAA is also expected to perform any obligations required by any agreement, treaty or arrangement between Kenya and any other country, inter-Governmental organization or any other body with respect to the safety, regularity and efficiency of air navigation and aviation safety in general.

The Act also stipulates that KCAA should coordinate with other Government agencies such as the Kenya Airports Authority, Kenya Ports Authority, Kenya Defence Forces and the Police Service in the discharge of its responsibility for aviation safety and security.

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(c) Key Management

The Authority's day-to-day management is under the following key organs:

- Principal Secretary for Transport;
- KCAA Board of Directors;
- The Director General and the KCAA Management Team

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2014 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Director General	Col (rtd) Hilary K Kioko, MBS, OGW
2.	Corporation Secretary	Judith N M Ng'ethe
3.	Director Corporate Services	Joseph K Chebungei
4.	Director Air Navigation Services	Eng. Reuben J Lubanga
5.	Director ASSR	Capt. Joe M Mutungi
6.	Director EASA	Eng. Shadrack Wesechere

(e) Fiduciary Oversight Arrangements

Fiduciary oversight on the Authority's activities are carried out by the following:

Finance and Human Capital Committee

This Committee is composed of five Directors of the Board including the Director General. Its main function is to review and monitor the Authority's financial position on behalf of the Board, including review of the liquidity status, all the Authority's accounts, budgets, financial statements and statutory reports. It also ensures compliance with the financial reporting requirements and proper keeping of all the financial records of the Authority. The Committee is also responsible for considering and processing all human resource and administration matters that require to be processed through the Board, including recruitment, promotions, disciplinary action, as well as issues relating to staff training, development, remuneration, welfare and benefits.

Audit Committee

This Committee is composed of five Directors of the Board. Its main function is to consider and process on behalf of the Board all matters relating to audit, audit queries and audit Management Letters from the Kenya National Audit Office or duly appointed external auditors. It also considers matters of quality assurance of systems and processes in the Authority's operations and reviewing the risk management framework and the periodic performance contract reports.

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(e) Fiduciary Oversight Arrangements (continued)

Public Investments Committee

This is a Parliamentary Committee that consists of a Chairman and not more than sixteen other Members. The functions of the Committee are to examine the reports and accounts of the public investments, to examine the reports, if any, of the Auditor General on the public investments and to examine, in the context of the autonomy and efficiency of the public investments, whether the affairs of the public investments are being managed in accordance with sound financial or business principles and prudent commercial practices.

(f) Headquarters and Main Stations

Head Office

KAA Complex
Jomo Kenyatta International Airport
P O Box 30163, 00100 GPO
NAIROBI, KENYA
Tel: (020) 827470-5
Fax: (020) 822300
E-mail: info@kcaa.or.ke
Website: www.kcaa.or.ke

Jomo Kenyatta International Airport

P O Box 19031
NAIROBI, KENYA
Tel: (020) 827100 Fax: (020) 827102
E-mail: jomo@kcaa.or.ke

Moi International Airport

P O Box 93939
MOMBASA, KENYA
Tel: (041) 3433008 Fax: (041) 3432069
Email: mombasa@kcaa.or.ke

Wilson Airport

P O Box 30163
NAIROBI, KENYA
Tel: (020) 606246 Fax: (020) 604692
E-mail: Wilson@kcaa.or.ke

Malindi Airport

P.O Box 18
MALINDI, KENYA
Tel: (042) 30463 Fax: (042) 30428
E-mail: malindi@kcaa.or.ke

Kisumu Airport

P O Box 431
KISUMU, KENYA
Tel: (057) 2024499 Fax: (057) 2021035
E-mail: Kisumu@kcaa.or.ke

Eldoret Airport

P O Box 3036
ELDORET, KENYA
Tel: (053) 2062966 Fax: (053) 2062965
E-mail: eldoret@kcaa.or.ke

East African School of Aviation

P O Box 30689
NAIROBI, KENYA
Tel: (020) 823602-7
Fax: (020) 823699
Website: www.easa.ac.ke
E-mail: info@easa.ac.ke

Lokichoggio

Tel: (054) 32292
LOKICHOGGIO, KENYA
E-mail: loki@kcaa.or.ke

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(g) Bankers

- 1. National Bank of Kenya**
Jomo Kenyatta International Airport Branch
P O Box 30763 - 00100, GPO
NAIROBI, KENYA
- 2. Commercial Bank of Africa**
Cargo Handling Facility
Jomo Kenyatta International Airport Branch
P. O Box 30437 - 00100 GPO
NAIROBI, KENYA
- 3. CFC Stanbic Bank**
Industrial Area Branch
P O Box 30550 - 00100
NAIROBI, KENYA
- 4. Standard Chartered Bank**
Kenyatta Avenue Branch
P O Box 30001 - 00100
NAIROBI, KENYA
- 5. Equity Bank Ltd**
Community Corporate Branch
P O Box 75104
NAIROBI, KENYA




(h) Independent Auditors

Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P O Box 30084
GPO 00100
NAIROBI, KENYA




(i) Principal Legal Advisor

The Attorney General
State Law Office
Harambee Avenue
P O Box 40112
City Square 00200
NAIROBI, KENYA




II. THE BOARD OF DIRECTORS

	Director's Name,	Director's Date of Birth, Key Qualifications and Work Experience
1.	 <p>Dr. Kevin Kanina Kariuki, PhD, C.Eng, FIET (Chairman – up to 9th January 2014)</p>	<p>Date of Birth: 21st October, 1964</p> <p>Key Qualifications: BSc (Hons) Electrical Engineering; Diploma (General Management); Msc (Electrical Power Engineering), PhD (Reliability of Power Systems)</p> <p>Work Experience: Assistant Engineer (Kenya Power & Lighting Co. Limited); Consultant (Midlands Power International, UK); Chief Power Engineer & Consumer Affairs Manager (Electricity Regulatory Board); Head of Infrastructure (Industrial Promotion Services (K) Limited)</p>
2.	 <p>Hon. Samuel Losuron Poghiso, EGH (Chairman – with effect from 10th January 2014)</p>	<p>Date of Birth: 1st January, 1958</p> <p>Key Qualifications: B.Sc (Hons); MA (Communications); M. Div (Philosophy/Theology)</p> <p>Work Experience: Lecturer (Daystar University), Assistant Minister (Ministry of Education, Science and Technology), Minister (Ministry of Information and Communications)</p>
3.	 <p>Mr. Stephen Gichohi Gichuhi, MBS (Director)</p>	<p>Date of Birth: 9th October, 1965</p> <p>Key Qualifications: Bachelor of Business Administration; Diploma in Sales and Marketing; Diploma in Banking</p> <p>Work Experience: Senior Projects Manager (Barclays Africa); Branch Manager (Consolidated Bank of Kenya Limited); Business Growth and Development Manager (Equity Bank Limited); General Manager-Corporate and Supreme Banking (Equity Bank Limited)</p>




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<p>4.</p>	 <p>Mr. Raphael Nzomo, MBS (Director)</p>	<p>Date of Birth: 18th October, 1965</p> <p>Key Qualifications: BA Economics, MBA</p> <p>Work Experience: General Manager, Africa (Fast Airways); Southern Air Transport (Manager Africa); Western Airways (General Manager); Afrika Aviation Services (Chief Executive Officer)</p>
<p>5.</p>	 <p>Captain Umar Farah Hussienali (Director)</p>	<p>Date of Birth: 20th December, 1951</p> <p>Key Qualifications: Direct Inspector Course; Commercial Pilots Licence/Instrument Rating; Helicopter Flight Training and Aviation Management</p> <p>Work Experience: Company Pilot (Pioneer Airways); Company Pilot/Operations Manager (Sky Masters Limited); Chief Pilot/Aviation Manager (Kenya Power and Lighting Limited)</p>
<p>6.</p>	 <p>Ms. Lucy Wanjiru Karume (Director)</p>	<p>Date of Birth: 2nd August, 1958</p> <p>Key Qualifications: BA (Travel and Transportation); MBA (Hospitality and Business Management)</p> <p>Work Experience: Sales and Marketing Executive (Bunson Travel Limited); Operations Manager (Cianda Flowers); Owner (Pies and Buns Restaurant); General Manager (Indian Ocean Beach Club); Business Development Director (Jacaranda Group of Hotels)</p>

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<p>7.</p>	 <p>Mr. Muriithi Ndegwa, OGW (Director)</p>	<p>Date of Birth: 15th December, 1962</p> <p>Key Qualifications: BED Science; MBA</p> <p>Work Experience: Head of Marketing and Public Affairs (Post Bank); Marketing Manager (Firestone); Marketing Development Manager (Magadi Soda Co. Limited); Managing Director (East African Cables (Tanzania) Limited); Managing Director (Kenya Tourism Board)</p>
<p>8.</p>	 <p>Mr. Nduva Muli, EBS (Director)</p>	<p>Date of Birth: 29th November, 1969</p> <p>Key Qualifications: Bachelor of Land Economics; Executive MBA</p> <p>Work Experience: Communications and Fundraiser Manager, (African Medical Research Foundation (AMREF)); Manager E-Business and Distribution (Kenya Airways); Managing Director (Kenya Railways); Principal Secretary, Transport (Ministry of Transport and Infrastructure)</p>
<p>9.</p>	 <p>Mr. Mutea Iringo, CBS (Director)</p>	<p>Date of Birth: 1961</p> <p>Key Qualifications: B.A (Government); ndc(k); MA (International Studies)</p> <p>Work Experience: District Officer; District Commissioner; Permanent Secretary (Ministry of State for Provincial Administration and Internal Security); Principal Secretary, Interior (Ministry of Interior and Co-ordination of National Government)</p>

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10.	<p>Dr. Kamau Thugge, PhD (Director)</p>	<p>Date of Birth: 1st August, 1957</p> <p>Key Qualifications: BA (Economics); MA (Economics); PhD (Economics)</p> <p>Work Experience: Economist, Senior Economist, Deputy Division Chief (International Monetary Fund); Head of Fiscal and Monetary Affairs Department, Economic Secretary, Head of Economic Affairs Department (Treasury); Senior Economic Advisor (Ministry of Finance); Principal Secretary (The National Treasury)</p>
11.	 <p>Col (rtd) Hilary Kilindi Kioko, MBS, OGW (Director General – proceeded on terminal leave on 16th May 2014)</p>	<p>Date of Birth: 14th January, 1957</p> <p>Key Qualifications: BSc (Mechanical Engineering); MA (International Studies)</p> <p>Work Experience: Assistant Mechanical Engineer (Kenya Railways); Various Positions (Kenya Air Force); College Co-ordinator/ Assistant College Secretary (National Defence College); General Manager (Kenya Ordnance Factory); Base Commander (Laikipia Air Base); Defence Liaison Officer (Kenya) (East African Community Secretariat); Director General (Kenya Civil Aviation Authority)</p>
12.	 <p>Mr. Joseph Kiptoo Chebungei (Acting Director General – with effect from 17th May 2014)</p>	<p>Date of Birth: 20th August 1965</p> <p>Key Qualifications: BA (Economics), MBA (Entrepreneurship), CPA(K)</p> <p>Work Experience: Planning Officer (KPTC); Assistant Manager – Financial Accounting (PCK); Manager Treasury Management (PCK); Manager Finance (KCAA); Director Finance & Administration (KEMSA); Director Corporate Services (KCAA); Ag. Director General (KCAA)</p>
13.	 <p>Ms. Judith Nduta Mutumbu Ng'ethe (Corporation Secretary)</p>	<p>Date of Birth: 26th September, 1974</p> <p>Key Qualifications: LLB Hons; Postgraduate Diploma in Legal Practice; Diploma in Law; Advocate of the High Court of Kenya; Certified Secretary</p> <p>Work Experience: Legal Assistant (Musyimi & Company Advocates); Associate (Archer & Wilcock Advocates); Company Secretary (Property Development and Management Limited/ PDM (Kenya) Limited); Corporation Secretary (Kenya Civil Aviation Authority)</p>

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THE BOARD COMMITTEES

The Board Committees as at the date of this report comprise:

Licensing of Air Services & Technical Committee	Finance and Human Capital Committee	Audit Committee
Composition	Composition	Composition
6 Directors including Director General	5 Directors including the Director General	5 Directors
Main Function	Main Function	Main Function
<p>Considering applications for air service licenses including variations thereof, and issuing or denying such licenses; All air transport/economic regulation matters;</p> <p>Providing guidance on air transport policy in Kenya. Ensuring engineering standards and monitoring engineering projects; Monitoring air navigation (and other equipment) availability and serviceability; and, Monitoring the Aviation safety and aviation Security oversight functions of KCAA including the licensing of aviation personnel matters and all matters incidental to the functions of KCAA including examinations conducted by KCAA.</p>	<p>Reviewing and monitoring the KCAA financial position on behalf of the Board, including review of the liquidity status, all the Authority's Accounts, Budgets, financial statements and statutory reports.</p> <p>Ensuring compliance with the financial reporting requirements and the proper keeping of all the financial records of the Authority.</p> <p>The Committee is responsible for considering and processing all human resource and administration matters that require to be processed through the Board, including recruitment, promotions, disciplinary action, as well as issues relating to staff training, development, remuneration, welfare and benefits.</p>	<p>Consider and process on behalf of the Board all matters relating to audit, audit queries and audit Management letters from the Kenya National Audit Office or duly appointed external auditors; and, Considering matters of quality assurance of systems and processes in KCAA operations and reviewing the risk management framework and the periodic performance contract reports.</p>
Frequency of meetings per annum	Frequency of meetings per annum	Frequency of meetings per annum
Quarterly or on need basis	Quarterly or on need basis	Quarterly or on need basis
Chairman	Chairman	Chairman
Capt. Umar F. Husseinali	Mr. Stephen G. Gichohi MBS	Mr. Raphael Nzomo, MBS

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Members	Members	Members
Mr. Nduva Muli EBS (or Alternate Director Mr. Nicholas Bodo)	Mr. Nduva Muli EBS (or Alternate Director Nicholas Bodo)	Mr. Nduva Muli EBS (or Alternate Director Mr. Nicholas Bodo)
Mr. Mutea Iringo EBS(or Alternate Director Mr. Daniel Ndege)	Dr Kamau Thugge (or Alternate Director Ms Eunice Kigen),	Mr. Mutea Iringo EBS(or Alternate Director Mr. Daniel Ndege)
Mr. Muriithi Ndegwa MD, Kenya Tourist Board or Alternate (Mr. Allan Njoroge)	Mr. Muriithi Ndegwa MD, Kenya Tourist Board or Alternate (Mr. Allan Njoroge)	Capt. Umar F. Husseinali.
Ms Lucy W. Karume	Director General	Ms Lucy W. Karume
Director General		

III. MANAGEMENT TEAM

1. Col (rtd) Hilary K Kioko, MBS, OGW	Director General
2. Joseph K Chebungei	Director Corporate Services
3. Eng. Reuben J Lubanga	Director Air Navigation Services
4. Capt. Joe M Mutungi	Director Aviation Safety Standards and Regulations
5. Justina M. Nyaga	Director, EASA (up to January 2014)
6. Eng. Shadrack Wesechere	Director, EASA (from February 2014)
7. Judith N. Ng'ethe	Corporation Secretary

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IV. CHAIRMAN'S STATEMENT

I am pleased to present to all our stakeholders the Kenya Civil Aviation Authority's (KCAA) 2013/14 Annual Report and Accounts. The year under review was challenging as we had to work around the clock to improve the performance of the organisation and meet the ever increasing needs of the industry. An enormous amount of pressure was exerted on KCAA in preparation for the International Civil Aviation Organisation (ICAO) Validation Mission which took place in May, 2013. KCAA staff worked hard to ensure that the necessary documentation related to regulations and guidance materials were completed.

The KCAA Board of Directors is responsible for providing leadership and ensuring that the Authority delivers its mandate to the stakeholders. The Board which is appointed by the Government is representative of aviation industry and key stakeholders. Through a Performance Contract with the Minister, the Board is accountable for the performance of the Authority in carrying out its statutory functions and achieving objectives. The Ministry of Transport and Infrastructure monitors the activities of the Authority.

During the year the KCAA Board successfully implemented the ninth performance contract and made tremendous progress towards achievement of the strategic objectives. The objectives are mainly geared towards operation of a safe and secure civil aviation system in Kenya. With a safe and secure civil aviation system, Kenya will attract the more air operators in the country and thereby create more employment, increase the levels of connectivity and enhance accessibility of markets.

Implementation of the Performance Contract for the year enabled the Authority set up systems to ensure equality in the delivery of public services and the adaptability of public services to the needs of the users. The Authority also worked towards ensuring professionalism and ethics in service delivery. Overall results showed that the Authority continues to improve in its performance and delivery of service to its customers. The results of the evaluated Performance Contract for 2013/14 was in the "Good" category.

Most of the energies during the year were concentrated in improving the legal framework by reviewing the primary act, regulations and guidance materials required for the effective oversight of the industry. KCAA has developed policies, regulations and guidance materials to bring clarity, certainty, transparency and consistency in the industry. In addition, more inspectors were recruited to provide technical oversight capacity. KCAA recognises the need to have a regulatory system that the industry has trust in as it helps win co-operation and voluntary compliance.

The implementation of the Airspace Master Plan continued during the year with installations of communications and navigation equipment being undertaken in several stations. The VSAT network was also replaced during the period with a modern one. The Authority will develop an Airspace Master Plan for 2016-2030 in order to realign investments with global requirements for air traffic management and to acquire the new generation equipment.

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IV. CHAIRMAN'S STATEMENT (continued)

The economy was on a recovery path after the slow down due to the national elections held in March 2013 and the declining global economic growth. The adverse economic situation combined with the political unrest in South Sudan and increase in insecurity in parts of the country, especially at the Coast, also slowed the performance of civil aviation industry during the year. It is expected that the industry, which has in the past demonstrated its resilience from such unfortunate events by experiencing quick recovery, will do the same again and recover during 2014/15 financial year. The Authority will continue to support the recovery efforts that have continued to be made by most of the stakeholders in order to sustain their business.

The Authority is committed to achieving a better, safe and secure civil aviation system in Kenya by delivering superior service delivery to customers guided by its vision "to be a model of excellence in global civil aviation standards and practices". KCAA will continue to conduct its business in accordance with ICAO requirements and global best practices.

Lastly, I wish to convey my sincere gratitude to the KCAA Board and staff for their hard work, dedication and commitment and look forward to having even a more fruitful year 2014/15.



Hon. Samuel Poghiso, EGH
Chairman, Board of Directors
Kenya Civil Aviation Authority

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V. REPORT OF THE DIRECTOR GENERAL

The year 2013/14 was hectic and yet challenging for Kenya Civil Aviation Authority (KCAA). Despite the economic slow-down associated with the general elections of March 2013 and which resulted in reduced activities in civil aviation for most part of the first half of the financial year, the Authority had yet another successful year. Traffic that had initially declined recovered and was on the upward trend as the year ended. The level of compliance with safety requirements also improved. As a result of emerging security concerns, more stringent aviation security measures at Kenya's airports were introduced and this has helped create the confidence required by the flying public resulting to further resurgence of the industry.

The Authority continued to implement its Strategic Plan activities for 2013/14 using the Performance Contract (PC) concept that commits staff to implement their work plans in a signed PC. Performance contract for 2013/14 was successfully implemented and the final performance report submitted to the Government. The results for the past three years have been satisfactory with the Authority achieving the composite score of the category of "Good" in 2013/14. I thank the Board and staff for the sustained satisfactory performance and wish to urge that more effort be put to revert to the higher categories of "Very Good" and "Excellent".

The Authority successfully underwent through the ICAO Coordinated Validation Mission (ICVM) which was carried out in May 2013. The results of the Audit showed that the Authority had implemented most of the issues that had been included in the Corrective Action Plan following the USOAP audit done in 2008. The overall ICAO compliance level had improved to 78.4% in 2013 compared to 66.0% in 2008.

One of the key activities achieved before the Validation Mission was the review of the Civil Aviation Act which was published in January 2013 as Civil Aviation Act No. 21 of 2013. The Act provides for an improved regulatory framework for the oversight of the industry and will greatly result in improved levels of compliance with the regulations by the industry. The regulations were also amended and aligned to the new Act to ensure compliance and to meet ICAO requirements. The improved legislative framework provides the necessary framework for enhanced implementation of oversight on the industry to ensure compliance with regulations.

In order to improve the oversight capacity, the Authority conducted initial training for ten inspectors recruited during the previous year. At the same time effort to improve technical capacity continued during the year by conducting trainings for the flight safety inspectors locally and abroad. The Authority expects the industry to achieve full compliance with the regulations. The ongoing recertification process which started with the international operators is expected to continue in the coming year in order to ensure that all operators are certificated under the new regulations.

The general performance of the aviation industry improved during the year. Despite several security concerns related to the attack at the Westgate Mall, in September 2013, and the occasional insecurity incidents in other parts of the country the traffic performance performed well during the year.

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V. REPORT OF THE DIRECTOR GENERAL (continued)

Traffic performance during the last five years show a general trend of growth. The aircraft movements increased from 295,694 in 2012/13 to 307,693 in 2013/14.

Figure 1: Aircraft Movements from 2010 to 2014

Item	Movement	2010	2011	2012	2013	2014	
Aircraft Movements	Domestic	Landings	77,650	88,775	89,071	87,457	90,331
		Take-offs	75,626	86,107	86,975	83,484	86,172
		Total	153,276	174,882	176,046	170,941	176,503
	International	Landings	39,011	44,198	43,699	42,935	45,036
		Take-offs	40,956	46,639	44,919	45,528	47,759
		Total	79,967	90,837	88,618	88,463	92,795
		Total Landings	116,661	132,973	132,770	130,392	135,367
		Total Take-offs	116,582	132,746	131,894	129,012	133,931
		Total	233,243	265,719	264,664	259,404	269,298
	Over flights	Total Over flight	30,215	30,478	34,992	36,290	38,395
Overall aircraft Movements		263,458	296,197	299,656	295,694	307,693	

Source: KCAA, 2014

The number of aircraft registered in Kenya has grown steadily during the last five years as shown below:

Figure 2: Aircraft Registered in Kenya from 2010 to June 2014

Year	2010	2011	2012	2013	June 2014
Aircraft Registered	1031	1088	1165	1243	1268
% Change	4.35	5.53	7.08	6.70	2.01
Difference	43	57	77	78	25

The current number of registered aircraft as at June 2014 was 1,268 and is expected to continue rising as operators import more aircraft to meet customer demand.

During 2013/2014 financial year the Authority continued with the implementation of projects aimed at modernising Air Navigation Services. The projects comprised of procurement and installation of communication and navigation aids equipment for various airports and sites. The communication equipment currently being installed include the Voice Communications Systems, Voice Recorder Systems and VHF communication systems for both local and area coverage. Navigational aids being installed are mainly Very High Frequency Omni Directional Range/Distance Measuring Equipment (VOR/DME) and Instrument Landing System/Distance Measuring equipment (ILS/DME). The overall availability of equipment over the last five years has been higher than the ICAO recommended level of 97% as shown below:

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V. REPORT OF THE DIRECTOR GENERAL (continued)

Figure 3: Overall Availability of ANS Equipment

Year	2009/2010	2010/2011	2011/2012	2012/13	2013/14
Overall Availability of ANS Equipment (%)	98.43	98.3	99.03	98.53	98.815

The airspace has been re-organised with two sectors created for approach into JKIA and the new equipment will be configured to facilitate the operation of these two approach sectors. This will result to reduced air traffic controller workload and improved safety. Ground surface radar was also installed at JKIA and this has improved the management of aircraft at the airport by the air traffic controllers.

The East African School of Aviation (EASA) continued with its endeavour to become a centre of excellence for aviation studies in the region. Improvements in infrastructure and training equipment were pursued and EASA received simulators for air traffic control training. During the year, EASA conducted flight safety courses for flight safety inspectors together with the Singapore Aviation Academy (SAA) in a partnership that is aimed at bringing training opportunities closer, thereby reducing costs. In addition, the collaboration arrangements with Moi University enabled EASA to continue offering both undergraduate and graduate degree courses with a bias in aviation.

KCAA restructuring was approved by the Government in May 2011 and the implementation process initiated. So far the Authority has started placing people in the new organisational structure and paying the revised remuneration terms. The placement process will entail matching the employees' skills with the tasks for improved productivity.

In the development of the Authority, the critical role played by stakeholders is recognised and valued. The Authority conducted consultative meeting with stakeholders during which constructive criticism and valuable inputs on the various aspects of the Authority were provided. This opportunity to learn as well sharing experience with other Authority's has helped improve the quality and relevance of the service provided. KCAA believes that genuine safety and security can only be achieved with continuous feedback from the industry and learning from others.

Despite these achievements we cannot afford to become complacent and fold our arms. A number of challenges still remain ahead of us, especially the transformation of the Authority into an organisation with adequate capacity to effectively meet and exceed the expectations of our customers.

Last but not least, I wish to thank the KCAA Board and staff for their welcome and support in moving KCAA to the next level.



Joseph Kiptoo Chebungei
Ag. DIRECTOR GENERAL

KENYA CIVIL AVIATION AUTHORITY

VI. CORPORATE GOVERNANCE STATEMENT

Corporate Governance is the process by which corporations are directed and controlled with the objective of increasing stake/shareholders value and satisfying them. This is achieved by establishing a system of clearly defined authorities and responsibilities, which result in a system of internal controls that is regularly tested to ensure effectiveness.

At Kenya Civil Aviation Authority, the Board places a high degree of importance on maintaining a sound control environment and applying the highest standards of business integrity and professionalism in all areas of the Authority's activities. The Board has adopted the Code of Best Practice for Corporate Governance issued by the Centre for Corporate Governance (Kenya) as its benchmark in developing its corporate governance principles. The Board is responsible for the governance of the Authority and conducts the business and operations of the Authority with integrity and in accordance with generally accepted corporate governance practices, based on transparency, accountability and responsibility.

BOARD OF DIRECTORS

The composition of the Board is set out on pages viii - xi. The Board has varied and extensive skills in the areas of aviation, business management and law. The Directors' responsibilities are set out in the Statement of Directors Responsibilities on page xxiv. The Directors are responsible for the development of internal financial controls, which give reasonable assurance against material mis-statements.

The Chairman provides the overall leadership to the Board without limiting the principle of collective responsibility for Board decisions. He acts as the link between the Board and the Director General and plays a leading role in consensus building between the Board members, the Director General and senior management. The Board has delegated the authority for day-to-day management to the Director General. It however retains the overall responsibility for decisions with regard to finances and operations of the Authority.

The Board meets quarterly and has a formal schedule of matters reserved to it. Board papers are generally circulated well in advance of the Board meetings by the Corporation Secretary. Directors are required to disclose all areas of conflict of interest to the Board and are excluded from voting on such areas. The key function of the Board is to guide and control the performance and management of the affairs of the Authority. This includes the duty to ensure that the functions of the KCAA are carried out in an efficient, transparent and ethical manner and that no particular person or body is given undue preference or subjected to any undue disadvantage. The Board considers and advises the Cabinet Secretary for Transport and Infrastructure on the development and maintenance of civil aviation policy framework and the objectives of KCAA. It considers and approves general performance targets, both strategic and business, and the annual budgets of the Authority.

KENYA CIVIL AVIATION AUTHORITY

VI. CORPORATE GOVERNANCE STATEMENT (continued)

The Board has power to control the use of and oversee the administration of assets of the Authority and also to determine the provisions to be made for capital and recurrent expenditure and for revenue reserves of the Authority.

The Board has appointed various standing Committees to which it has delegated certain responsibilities with the chairmen of the Committees reporting to it. The composition of the standing Committees is set out on page xii.

KCAA BOARD COMMITTEES

LICENSING OF AIR SERVICES AND TECHNICAL COMMITTEE

This Committee comprises of five non-executive directors (one of them as Chairman) and the Director General. The Committee is responsible for considering applications for air service licenses including variations, the development of the air transport policy in Kenya and Monitoring the Aviation safety and aviation Security oversight functions of KCAA including the licensing of aviation personnel matters and all matters incidental to the functions of KCAA including examinations conducted by KCAA. It meets quarterly or on need basis. The Secretary of the Committee is on rotational basis between the Director ASSR and the Director ANS. The head of the Air Transport Department coordinates all matters handled by the Committee dealing with Licensing of Air Services.

THE AUDIT COMMITTEE

This Committee comprises of five non-executive directors (one of them as Chairman). The Committee is responsible for reviewing all matters relating to audit and quality assurance of systems and processes in KCAA operations. The Committee gives guidance on the audit queries raised in management and other letters or reports from Kenya National Audit office or the duly appointed external Auditors of the Authority. The Committee also gives guidance on the strategic plan and on the performance contract between KCAA and the Ministry of Transport and Infrastructure. The Committee meets on Quarterly and/or on need basis.

FINANCE AND HUMAN CAPITAL COMMITTEE

The Committee comprises of five non-executive directors (one of them as Chairman) and the Director General. The Secretary to the Committee is the Director Corporate Services. The Committee deals with all human resource and administration matters that require to be considered by the Board, including recruitment, discipline and issues relating to staff benefits and welfare. The Committee is also responsible for ensuring compliance with financial reporting requirements and the proper keeping of all financial records. The Committee meets on Quarterly and/or on need basis.

KENYA CIVIL AVIATION AUTHORITY

VI. CORPORATE GOVERNANCE STATEMENT (continued)

DIRECTORS EMOLUMENTS

The aggregate amount of emoluments paid to Directors for services rendered to the Authority during the Financial Year 2013-2014 are disclosed in note 5 to the financial statements. Non executive directors are paid a sitting allowance for every meeting attended.

KENYA CIVIL AVIATION AUTHORITY

VII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

KCAA recognizes that aviation must, like other sectors, be responsible towards its stakeholders, society and our environment in order to achieve a sustainable civil aviation system in Kenya. As an Authority we acknowledge our responsibility to the environment and to our local communities in which we operate. We aim to embrace responsibility for corporate actions and to encourage a positive impact on the environment and stakeholders including customers, employees, investors, communities and others. The Authority actively encourages our staff to recognise those responsibilities and behave in a responsible manner toward the society in which we function. We regard the setting of good examples as an important practice in this regard. Below are some examples of how the Authority and our staff have shown commitment to practice responsible corporate behaviour and to establish and support initiatives in our offices.

Environment

The Authority believes that, by their nature, our operations have a minimal impact on the environment. However, we acknowledge that there are inevitable environmental impacts associated with daily operations. We aim to minimize any harmful effects and consider the development and implementation of environmental standards to achieve this to be of great importance. As such, we strongly encourage the internationally established 3 Rs: reduce, re-use and recycle.

In the course of our operations we seek to identify opportunities to reduce consumption of energy, water and other natural resources. As part of our work we seek to contribute to a cleaner and quieter aviation industry and to improve airspace design through new operational measures that minimise the negative impact on society. We also strive to re-use and recycle where possible and dispose of non-recyclable items responsibly, thereby minimizing our impact on the environment. We actively encourage our staff to plant trees in our various Stations.

Employees

Our success as an Authority is based on our people. We seek to recruit, retain, reward and develop the best talent in our Authority. We recognise the need to inculcate among our employees the culture of being sensitive to safety, security, society and the environment. This ensures that employees act with integrity and responsibility with the people they deal with and the environment they interact with. We train employees to value each other, provide necessary support systems for people with different needs and have a system in place that encourages acceptance of cultural diversity. Further, we continually seek to improve our employees through structured programs for personal and professional development.

Health and Safety

The Authority aim to ensure a safe and healthy working environment for all our employees and customers. The Authority aims to comply with all relevant legislation or regulations and best practice guidelines recommended by national health and safety authorities. We also liaise with staff regarding our policies and practices so that we can continue to maintain a healthy, safe and enjoyable work environment.



Joseph Kiptoo Chebungei
Ag. DIRECTOR GENERAL

KENYA CIVIL AVIATION AUTHORITY

VIII. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2014 which show the state of the Authority's affairs.

Principal activities

The Kenya Civil Aviation Authority ("KCAA") was established on 24th October 2002 by the Civil Aviation (Amendment) Act, 2002, now superseded by the Civil Aviation Act 2013, with the primary functions of the technical and economic regulation of civil aviation in Kenya, provision of air navigation services within the Nairobi Flight Information Region and Training in Aviation.

Results

The results of the Authority for the year ended June 30, 2014 are set out on page 1.

Directors

The members of the Board of Directors who served during the year are shown on page viii – xi.

Auditors

The Auditor General is responsible for the statutory audit of the Authority in accordance with Section 14 of the State Corporations Act and Section 33 of the Civil Aviation Act, 2013 and Section 81 of the Public Finance Management Act, 2012, which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

By Order of the Board

**Corporation Secretary
Nairobi**

Date: 22/04/2015

REPUBLIC OF KENYA

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P.O. Box 30084-00100
NAIROBI

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON KENYA CIVIL AVIATION AUTHORITY FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya Civil Aviation Authority set out on pages 1 to 27, which comprise the statement of financial position as at 30 June 2014, and the statement of financial performance, the statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

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

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15(2) of the Public Audit Act, 2003. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of

the Authority's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

1. PROPERTY, PLANT AND EQUIPMENT

(i). Land and Buildings

As reported in 2012/2013 audit report, ownership documents for various assets belonging to the Authority including 31 housing units in Nyali, Mombasa, 13 units in Bamburi, Mombasa, 87 acres of land at the East African School of Aviation, Nairobi, 132 acres at the Central Transmitting Station along Mombasa Road and Miritini Staff Houses in Mombasa, were not made available for audit verification. Although according to information available the documents are under process at the Ministry of Lands, no reason has however been provided for the inordinate delay in having the documents issued.

(ii). Properties allocated to Third Parties

In addition, records available indicated that the following parcels of land belonging to the Authority were registered in the names of third parties:-

Parcel of Land	Measurement	Third party
Mtito Andei-Ngai Ndeithya Settlement Scheme/161	13 acres	individual
Bamburi Staff Housing	Not Known	individual
Central Stores in Nairobi	0.7733 hectares	individual
East African School of Aviation	37 acres	various

Although the Public Investments Committee in its 19th Report recommended that the National Land Commission revoke the titles for Mtito Andei-Ngai Ndeithya, Bamburi Staff Housing and East African School of Aviation Plots and the same re-issued to Kenya Civil Aviation Authority and register all parcels of land under the Authority, as at 30 April 2015, no action had been taken.

In addition, the Public Investments Committee recommended that the National Land Commission investigate circumstances under which plot L.R. No. 209/14372 moved from public to private ownership with a view to restitution in line with Article 40(6) of the

Constitution and Section 5 of the National Land Commission Act, 2012, as at 30 April 2014, no evidence was seen on any action taken.

2. CURRENT ASSETS

2.1 Receivables from non-exchange transactions

The statement of financial position as at 30 June 2014 reflects current assets of Kshs.2,362,809,319 out of which Kshs.35,075,014 relate to receivables from non-exchange transactions. The balance of Kshs.35,075,014 include station imprest balance of Kshs.2,187,115 which had minimum movement from the previous year balance of Kshs.2,238,865 without a satisfactory explanation.

2.2 Receivables from exchange transactions

Further, receivables totalling to Kshs.6,097,930.40 from Kenya Airports Authority were not supported despite the fact that the same have been outstanding for many years. In the circumstances, it has not been possible to confirm the correctness and the accuracy of current assets balance of Kshs.2,362,809,319 as at 30 June 2014.

3.0 CONSTRUCTION OF PERIMETER WALL AT EAST AFRICAN SCHOOL OF AVIATION

Evidence available indicates that the Maintenance Department of East African School of Aviation (EASA) through a memo of 17 October 2011 made a request to Director East African School of Aviation (DEASA) to approve the building of a perimeter wall allegedly to block trespassers from Mradi and Tassia areas.

The requisition number 1034066 estimated the cost of the project at Kshs.1,290,540.00. The work entailed site clearance, foundation works, walling and steel reinforcements of 400 metres of EASA perimeter fence

Examination of payment vouchers relating to this project revealed that Kshs8,157,060.00 had been incurred as at 30 June 2014. Out of this amount, Kshs.1,261,210.00 relate to expenditure on materials purchased during the month of June 2012, Kshs.2,511,162.00 relates to materials purchased during 2013/2014 financial year, while expenditure amounting to Kshs.4,384,687.85 relates to payment of casuals hired to construct the wall. Although management had estimated the cost of perimeter at Kshs.1,290,540 in 2011, a visit in July 2014 confirmed that the wall had not been completed while an expenditure of Kshs.8,157,060 had been incurred. In addition, management has not satisfactory explained why open tendering was not used in line with Public Procurement and Disposal Act, 2005.

In the circumstances, it has not been possible to confirm the Propriety of the total expenditure amounting to Kshs.8,157,060 incurred on construction of the perimeter wall and whether the Authority got value for money.

4.0 UNAUTHORISED CALL ACCOUNT

A scrutiny of East African School of Aviation current bank account No. 0180299978478 held at Equity Bank revealed that on 6 November 2013, the bank debited the account with US Dollar 720,000. Also, on 7 November 2013, the account was further debited with US Dollar 30,000. However, there was no evidence from the authorised signatories to debit the account with the total of U\$ Dollars 750,000 equivalent to Kshs.64 million.

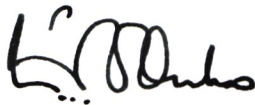
However, further audit revealed that two fixed deposits receipts serial No. 207851 dated 6/11/13 for US Dollars 720,000 and receipt No. 207852 dated 7/6/2013 for US Dollar 30,000, were placed on call deposit at an interest rate of 0.5% per annum but no evidence was availed to confirm how the rate was arrived at. Evidence available indicates that the bank credited back the EASA account with U\$720,000 and U\$ 30,000 on 15 November 2013 and 15 November 2013 respectively.

The management has explained that the debits were due to communication breakdown between the bank and the Authority and that on 29 August 2014, the bank credited interest of US\$67.07 and US\$2.79 for the two transfers of US\$720,000 and US\$30,000 to the Authority's bank account.

No evidence was availed to confirm how the rate of interest of 0.5% per annum was arrived at, why it took the bank over a year to credit the interest to the Authority's bank account and what measures have been put in place to deter and avoid a recurrence of the same action by the bank in future without directors approval.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Authority as at 30 June 2014, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards and comply with the Kenya Civil Aviation (Amendment) Act, 2002.



Edward R.O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

12 May 2015

KENYA CIVIL AVIATION AUTHORITY

XI. STATEMENT OF FINANCIAL PERFORMANCE For the year ended 30 June 2014

	Note	2014 Kshs	2013 Kshs
Revenue from non-exchange transactions			
Licenses and permits	3	<u>273,611,474</u>	<u>237,129,124</u>
		<u>273,611,474</u>	<u>237,129,124</u>
Revenue from exchange transactions			
Rendering of services	3	3,242,771,376	3,392,374,093
Rental revenue from facilities and equipment	3	18,538,547	15,064,500
Finance income	3	111,932,521	103,542,975
Other income	3	5,789,626	11,874,904
		<u>3,379,032,070</u>	<u>3,522,856,472</u>
Total revenue		<u>3,652,643,544</u>	<u>3,759,985,596</u>
Expenses			
Employee costs	4	1,778,132,795	1,711,285,745
Board of Directors' Expenses	5	16,011,483	20,985,766
Depreciation and amortization expense	6	583,603,535	560,346,606
Repairs and maintenance	7	143,593,446	109,143,343
Contracted services	8	105,594,484	120,172,818
General expenses	9	398,702,628	403,848,560
NCTIP & KTSSP Expenses	10	119,215,573	36,481,147
Finance costs	11	61,955,149	117,278,806
Collection cost (KRA Agency Fee)		<u>70,773,477</u>	<u>72,911,459</u>
Total expenses		<u>3,277,582,570</u>	<u>3,152,454,250</u>
Other gains/(losses)			
Gain/(Loss) on sale of assets	12	(2,167,517)	-
Gain/(Loss) on foreign exchange transactions		(512,250)	(599,214)
Surplus before tax		<u>372,381,208</u>	<u>606,932,132</u>
Taxation	13(a)	(49,075,659)	(232,417,668)
Appropriation Reserve A/c		-	(268,324,030)
Surplus for the period		<u>323,305,550</u>	<u>106,190,434</u>
Surplus/(deficit) B/F		<u>3,070,632,057</u>	<u>2,964,441,623</u>
Surplus/(deficit) C/F		<u>3,393,937,607</u>	<u>3,070,632,057</u>

The notes set out on pages 6 to 23 form an integral part of the Financial Statements

KENYA CIVIL AVIATION AUTHORITY

XII. STATEMENT OF FINANCIAL POSITION As at 30 June 2014

	Note	2014 Kshs	2013 Kshs
Assets			
Current Assets			
Cash and cash equivalents	14	1,771,648,926	1,831,423,771
Receivables from exchange transactions	15	417,252,816	433,861,233
Receivables from non-exchange transactions	16	35,075,014	55,737,757
Inventories	17	18,198,119	16,047,273
Tax Recoverable	13(b)	120,634,444	-
		2,362,809,319	2,337,070,034
Non-current Assets			
Property, plant and equipment (net)	20	8,603,243,889	8,404,768,807
		8,603,243,889	8,404,768,807
Total Assets		10,966,053,208	10,741,838,841
Liabilities			
Current Liabilities			
Trade and other payables from exchange transactions	18	569,426,413	716,664,729
Current portion of IDA Loans	19	44,519,684	-
Taxation Payable		-	178,960,283
		613,946,097	895,625,012
Non-current Liabilities			
Borrowings (Long term)	19	1,269,741,842	1,191,536,528
Deferred tax liabilities	13	21,039,804	53,457,385
		1,290,781,646	1,244,993,913
Total Liabilities		1,904,727,743	2,140,618,925
Net Assets/Equity		9,061,325,465	8,601,219,916
Reserves		5,667,387,859	5,530,587,859
Accumulated surplus		3,393,937,607	3,070,632,057
Total Net Assets and Liabilities		10,966,053,208	10,741,838,841

The Financial Statements set out on pages 1 and 2 were signed on behalf of the Board of Directors by:



Joseph Kiptoo Chebungei
Ag. DIRECTOR GENERAL

Date: 22/04/2015



Hon. Samuel Poghismo, EGH
CHAIRMAN OF THE BOARD

Date: 22/04/2015

KENYA CIVIL AVIATION AUTHORITY

XIII. STATEMENT OF CHANGES IN NET ASSETS For the year ended 30 June 2014

	Reserves				Total Kshs
	Revaluation Reserve Kshs	Government Grants Reserve Kshs	Appropriation Reserve Kshs	Accumulated Surplus Kshs	
Balance as at 30 June 2012	5,211,086,850	333,333,333	501,035,489	2,463,406,134	8,508,861,806
Surplus for the period	-	-	-	106,190,434	106,190,434
Transfers to/from accumulated surplus	(420,156,354)	138,000,000	(232,711,459)	501,035,489	(13,832,324)
Balance as at 30 June 2013	4,790,930,496	471,333,333	268,324,030	3,070,632,057	8,601,219,916
Surplus for the period	-	-	-	323,305,550	323,305,550
Transfers to/from accumulated surplus	268,324,030	136,800,000	(268,324,030)	-	136,800,000
Balance as at 30 June 2014	5,059,254,526	608,133,333	-	3,393,937,607	9,061,325,466

KENYA CIVIL AVIATION AUTHORITY

XIV. STATEMENT OF CASH FLOWS

	Note	2014 Kshs	2013 Kshs
Cash flows from operating activities			
Receipts			
Licenses and Permits	3	273,611,474	237,129,124
Rendering of services	3	3,279,914,662	3,766,006,901
Finance income	3	111,932,521	103,542,975
Other income, rentals and agency fees	3	22,861,096	26,939,404
		3,688,319,753	4,133,618,404
Payments			
Compensation of employees	4	1,686,627,881	1,623,005,856
Goods and services		794,025,987	749,220,791
Finance cost		135,408,393	175,945,319
Rent paid		7,962,991	8,053,745
Taxation paid		381,087,967	202,661,357
Other payments		119,266,772	-
		3,124,379,991	2,758,887,068
Net cash flows from operating activities		563,939,762	1,374,731,337
Cash flows from investing activities			
Purchase of property, plant, equipment and intangible assets		(884,906,685)	(790,270,907)
Proceeds from sale of property, plant and equipment		1,667,100	735,405
Net cash flows used in investing activities		(883,239,585)	(789,535,502)
Cash flows from financing activities			
Proceeds from borrowings		438,214,026	620,162,351
Repayment of borrowings		(315,489,048)	(596,817,661)
Government Grants and Subsidies		136,800,000	138,000,000
Net cash flows from financing activities		259,524,978	161,344,691
Net increase/(decrease)in cash and cash equivalents		(59,774,845)	746,540,525
Cash and cash equivalents at 1 JULY	14	1,831,423,771	1,084,883,246
Cash and cash equivalents at 30 JUNE	14	1,771,648,926	1,831,423,771

KENYA CIVIL AVIATION AUTHORITY

XV. i. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Original budget		Adjustments		Final budget		Actual on comparable basis		Performance difference		% Change	
	2013-2014	Kshs '000	2013-2014	Kshs '000	2013-2014	Kshs '000	2013-2014	Kshs '000	2013-2014	Kshs '000	2013-2014	Kshs '000
Revenue												
Licenses and Permits	1,055,719,500.00	-	685,626,148.00		370,093,352.00		273,611,474.00	-	96,481,878.00		-26%	
Rendering of Services	3,191,980,316.00		111,674,494.00		3,303,654,810.00		3,242,771,376.00	-	60,883,434.00		-2%	
Rental Income	29,948,184.00		6,180,000.00		36,128,184.00		18,538,547.00	-	17,589,637.00		-49%	
Finance Income	45,000,000.00		65,650,000.00		110,650,000.00		111,932,521.00		1,282,521.00		1%	
Other Income	4,493,888.00		1,219,999.50		5,713,887.50		5,789,626.00		75,738.50		1%	
IDA Loans, GOK Grants and Reserves	1,543,985,905.00		367,160,489.88		1,911,146,394.88		843,338,056.00	-	1,067,808,338.88		-56%	
Total income	5,871,127,793.00	-	133,741,164.62		5,737,386,628.38		4,495,981,600.00	-	1,241,405,028.38		-22%	
Expenses												
Employee Costs	1,937,590,081.00	-	42,545,564.00		1,895,044,517.00		1,778,132,795.00		116,911,722.00		6%	
Board of Directors	21,000,000.00		-		21,000,000.00		16,011,483.00		4,988,517.00		24%	
Depreciation Expenses	489,761,384.00		130,129,235.55		619,890,619.55		583,603,535.00		36,287,084.55		6%	
Repairs and Maintenance Costs	237,583,350.00	-	21,418,400.00		216,164,950.00		143,593,446.00		72,571,504.00		34%	
Contracted Services	183,760,000.00	-	44,500,000.00		139,260,000.00		105,594,484.00		33,665,516.00		24%	
General Expenses	664,348,378.52	-	38,215,336.76		626,133,041.76		398,702,628.00		227,430,413.76		36%	
Taxation Expense			199,301,664.00		199,301,664.00		81,493,240.00		117,808,424.00		59%	
Finance Cost	99,569,812.00	-	484,595.35		99,085,216.65		64,634,916.00		34,450,300.65		35%	
Collection Cost	81,093,796.00	-	11,105,272.77		69,988,523.23		70,773,477.00	-	784,953.77		-1%	
NCTIP & KTSSP Recurrent Expenses	196,278,921.00		36,139,184.00		232,418,105.00		119,215,573.00		113,202,532.00		49%	
NCTIP & KTSSP Capital Expenses	1,081,221,079.00	-	325,530,683.36		755,690,395.64		516,213,077.16		239,477,318.48		32%	
Capital Expenditure	796,805,926.00		66,603,669.83		863,409,595.83		562,341,934.09		301,067,661.74		35%	
Total expenditure	5,789,012,727.52	-	51,626,098.86		5,737,386,628.66		4,440,310,588.25	-	1,297,076,040.41		23%	
Surplus for the period	82,115,065.48	-	82,115,065.76	-	0.28		372,381,208.00					

The Surplus for the period is before tax and excludes IDA Loans, GOK Grants and Reserves on the receipts side and Taxation expense, NCTIP and KTSSP Capital Expenses and the Capital Expenditure on the expenses side.

KENYA CIVIL AVIATION AUTHORITY

XVI. ii. EXPLANATION OF MATERIAL DIFFERENCE

KENYA CIVIL AVIATION AUTHORITY

EXPLANATION OF MATERIAL DIFFERENCE BETWEEN THE BUDGET AND ACTUAL AMOUNTS

Revenue / Expenditure Centre	Explanation
Revenue, Grants and Loans	
Licenses and Permits	The Air Passenger Act changes was not passed hence Flight Safety Charge revenue not realised
Rental Income	Court case that estopped the Authority from increasing the rentals till full determination
IDA Loans, GOK Grants and Reserves	Delayed Project Implementation due to efforts to meet all the laid down World Bank Procurement Regulations
Total Income, Grants and Loans	Failure to realise Flight Safety Charge, court injunction on rentals and logistical delays of World Bank Funded Projects in efforts to meet the guidelines and regulations
Expenses - Recurrent and Capital	
Board of Directors	Most board training were held as a group and locally with an aim of cost minimization
Repairs and Maintenance Costs	Disposal of old equipments and vehicles that required regular maintenance and purchase of new ones as well as assigning one service provider to service related class of equipments
Contracted Services	Failure for the Regional Aviation Medical Centre to pick up
General Expenses	Prudent competitive outsourcing of service providers in the market and picking the lowest
Taxation Expense	The Authority used the instalment tax approach in remitting the corporation tax. However the overall Performance was lower than had been projected
Finance Cost	Clearance of payments that were CIC Bank facilitated and that used to attract Letter of Credit (LC) Charges
NCTIP and KTSSP Recurrent Expenses	Group trainings that reduced training costs significantly, and dismissal of a contracted professional due to failure to meet contractual obligations
NCTIP and KTSSP Capital Expenses	KTSSP Principal Loan grace period and late awards for the Support to EASA Equipments due logistical and need to meet World Bank procurement regulations
Capital Expenditure	Construction of Regional Aviation Medical Centre and Wilson Control Tower did not pick up due to logistical challenges
Total Expenditure	Competitive outsourcing hence reduced costs, delays to start up Regional Medical Centre and Wilson Control Tower

XVII. NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The Authority's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Authority. The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the direct method. The financial statements are prepared on accrual basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Revenue recognition

i) Revenue from non-exchange transactions

Licenses and Permits

The Authority recognizes revenues from licenses and permits when the event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the Authority and the fair value of the asset can be measured reliably.

ii) Revenue from exchange transactions

Rendering of services

The Authority recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. The stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours.

Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

Interest income

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

KENYA CIVIL AVIATION AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

b) Budget information

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the Authority. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or Authority differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

c) Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted, at the reporting date in the area where the Authority operates and generates taxable income.

Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized. Deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

KENYA CIVIL AVIATION AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Deferred tax (Continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit.

Deferred tax items are recognized in correlation to the underlying transaction in net assets.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

d) Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the Authority recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

Depreciation is calculated on a straight line basis to write down the cost/ revalued values of each asset to its residual value over its estimated useful life using the following annual rates:

	Rate %
Buildings	2.5
Air Navigation Equipment	10
Plant & Other Equipment	20
Computers, Copiers and faxes	30
Motor vehicles	20
Furniture and fittings	20
Freehold land	0

The assets' residual values and useful lives are reviewed, and adjusted prospectively, if appropriate, at the end of each reporting period.

An asset's carrying amount is written down at the reporting date to its recoverable amount, or service recoverable amount, if the asset's carrying amount is greater than its estimated recoverable amount or recoverable service amount.

KENYA CIVIL AVIATION AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

d) Property, plant and equipment

The Authority derecognizes items of property, plant and equipment and/or any significant part of an asset upon disposal or when no future economic benefits or service potential is expected from its continuing use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the surplus or deficit when the asset is derecognized.

e) Financial instruments

Financial assets

Initial recognition and measurement

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Authority determines the classification of its financial assets at initial recognition.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

Impairment of financial assets

The Authority assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or a group of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

KENYA CIVIL AVIATION AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Authority determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

Subsequent Measurement

The measurement of financial liabilities depends on their classification.

Loans and borrowing

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

f) Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Cost is determined by first-in first-out (FIFO) method. Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Authority.

g) Provisions

Provisions are recognized when the Authority has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

KENYA CIVIL AVIATION AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (continued)

g) Provisions (continued)

Where the Authority expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

Contingent liabilities

The Authority does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

Contingent assets

The Authority does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Authority in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

h) Nature and purpose of reserves

The Authority creates and maintains reserves in terms of specific requirements.

i) Changes in accounting policies and estimates

The Authority recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

j) Employee benefits

Retirement benefit plans

The Authority provides retirement benefits for its employees. Defined contribution plans are post employment benefit plans under which an Authority pays fixed contributions into a separate Scheme (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

KENYA CIVIL AVIATION AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

k) Foreign currency transactions

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

l) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or stations which were not surrendered or accounted for at the end of the financial year.

m) Comparative figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

n) Significant judgments and sources of estimation uncertainty

The preparation of the Authority's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Authority based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Authority. Such changes are reflected in the assumptions when they occur.

KENYA CIVIL AVIATION AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS (Continued)

i) Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Authority
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market in relation to the asset

ii) Provisions for doubtful debts

The authority reviews its debtors' portfolio regularly to assess the likelihood of impairment. Specific and General provision are made as per the rates established by the Board.

iii) Provision for obsolete, defective and slow moving stocks

Management reviews its stocks periodically to assess the likelihood of impairment. This requires an estimate of the amounts that are considered unrealizable.

o) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2014.

3. REVENUE

	2014	2013
	Shs	Shs
Revenue Source		
Licenses and permits		
<i>Licenses and permits</i>	273,611,474	237,129,124
Total Licenses and permits	<u>273,611,474</u>	<u>237,129,124</u>
Rendering of services		
<i>Air Navigation Service Charges</i>	3,134,309,189	3,266,998,787
<i>AIP sales</i>	1,121,620	1,382,157
<i>EASA Revenue</i>	107,340,567	123,993,149
Total revenue from the rendering of services	<u>3,242,771,376</u>	<u>3,392,374,093</u>
Rental revenue from facilities and equipment		
<i>House Rent Income</i>	18,538,547	15,064,500
Total Rentals	<u>18,538,547</u>	<u>15,064,500</u>
Finance income - external investments		
<i>Interest Income on Cash deposits</i>	111,932,521	103,542,975
Total finance income - external investments	<u>111,932,521</u>	<u>103,542,975</u>
Other income		
<i>Gain on disposal of Assets</i>	158,000	74,441
<i>Miscellaneous Receipts</i>	5,566,134	2,470,852
<i>Gain On Foreign Exchange</i>	65,492	9,329,611
Total other income	<u>5,789,626</u>	<u>11,874,904</u>
Total Revenue	<u>3,652,643,544</u>	<u>3,759,985,596</u>

KENYA CIVIL AVIATION AUTHORITY

4. EMPLOYEE COSTS

	2014	2013
	Shs	Shs
Employee related costs –salaries and wages	1,253,627,859	977,216,773
Housing benefits and allowances	199,281,823	194,727,109
Travel, motorcar, accommodation, subsistence and other allowances	101,971,099	333,041,607
Employee related costs –contributions to pensions	139,992,405	124,706,871
Medical Expenses In-patient	24,561,051	26,767,399
Medical Expenses Out-patient	41,548,323	41,804,098
Ex-Gratia	6,189,249	1,018,837
Group Life Insurance	10,960,986	12,003,051
Employee costs	1,778,132,795	1,711,285,745

5. REMUNERATION OF DIRECTORS

Board Expenses	16,011,483	20,985,766
Total Board remuneration	16,011,483	20,985,766

6. DEPRECIATION AND AMORTIZATION EXPENSE

Property, plant and equipment	581,065,673	560,346,606
Intangible assets	2,537,862	-
Total depreciation and amortization	583,603,535	560,346,606

7. REPAIRS AND MAINTENANCE

Property & Staff Houses	52,241,554	41,850,398
Plant & Equipment	82,449,727	59,455,899
Motor Vehicles	6,931,136	7,506,091
Others	1,971,029	330,955
Total repairs and maintenance	143,593,446	109,143,343

8. CONTRACTED SERVICES

Hire of Resource persons	32,291,727	33,141,438
Hire of Satellite Links	35,258,079	31,097,918
Contracted Professional Services	38,044,678	55,933,462
Total contracted services	105,594,484	120,172,818

KENYA CIVIL AVIATION AUTHORITY

9. GENERAL EXPENSES	2014 Shs	2013 Shs
Funeral Expenses	359,575	72,550
Tea & Water dispensers	12,171,578	10,317,306
Work Injury Benefit Act (WIBA)	2,409,843	3,000,000
HIV/AIDS	2,430,874	3,559,444
Official Entertainment	712,420	801,383
Drugs & Dressings	25,346	230,191
Fungicides & Spray	82,853	22,203
General Training	31,815,993	37,501,374
Training Levy	330,500	633,900
Workshops and Conferences	16,662,714	8,466,376
Pre-service Training Expenses	7,990,274	5,729,297
Local Travel	16,876,226	18,739,655
International Travel	26,101,258	31,324,353
Telephone Expenses	17,575,055	15,151,823
Electricity Expenses	24,227,435	25,382,376
Water Expense	3,187,749	4,222,290
Gas/Fuel Expenses	2,399,643	2,226,350
Dedicated Leased Communication Lines	14,973,278	13,188,195
Postal & Telegrams	1,861,184	1,864,595
Cleaning Services	11,888,744	14,461,425
Internet Expenses	813,746	1,559,095
Rents & Rates	7,962,991	8,053,745
Motor Vehicle Fuel	9,015,854	10,175,412
Insurance - Aviation Liability	22,099,037	23,999,998
Insurance Office Equipment	2,733,698	8,831,159
Motor Vehicle Insurance	1,620,381	1,682,688
EAC Activities	6,300,096	7,254,368
Subscription to International Organizations (ICAO, CASSOA, AFCAC & CANSO)	31,925,132	32,261,499
Subs Professional Bodies	567,330	401,580
Subscription to Publications	72,860	-
Secondment to AFCAC & ICAO Kenya Office	2,018,232	-
Advertisement and Publicity	13,707,052	9,676,619
Public Relations / Show Expenses	5,995,431	3,077,933
Filming & Photography	19,900	36,075
Events & Anniversaries	6,368,240	2,654,875
Legal & Contingent Expenses	22,851,943	14,629,597
Audit Fees	1,500,000	1,500,000
Audit ICAO USOAP Expenses	-	114,950
Food & Rations	30,367,881	25,534,703
Publishing and Printing	4,010,814	1,575,927

KENYA CIVIL AVIATION AUTHORITY

9. GENERAL EXPENSES (Continued)	2014 Shs	2013 Shs
Uniform and Clothing	1,317,833	108,919
Office Stationery	8,474,429	10,170,729
Computer Expenses	6,590,493	3,341,827
Consumable Stores	7,689,154	5,602,227
Library Expenses	3,945,340	2,404,461
Public Service Integrity Programme	1,685,267	747,055
Hire of Transport, P& M	464,673	441,425
Miscellaneous Other Charges	584,534	561,194
Search & Rescue	1,441,991	737,627
Implementation of SSP	-	1,345,985
Certification of Aerodromes & ANS Facilities	10,366,873	3,635,925
Implementation of ISO Activities	2,738,188	1,393,775
Communication Frequency Fees	76,985	3,380,221
Corporate Social Responsibility	373,000	891,134
Security Services	17,636,521	17,584,470
Sports Expenses	6,994,382	6,571,555
General Provision- Doubtful Debts	-52,654,173	15,096,152
Specific Provision - Doubtful Debts	3,455,740	-31,440,312
EASA Commercial Costs	13,488,238	11,358,882
Total general expenses	398,702,628	403,848,560
10. NCTIP & KTSSP EXPENSES		
NCTIP Recurrent Expense	-	144,775
NCTIP Training	-	1,854,724
Support to EASA	14,381,462	954,424
Flight Safety Consultancy	46,949,638	4,426,000
Aviation Safety & Security KTSSP	27,285,014	21,613,441
Aviation Equipment KTSSP	672,950	-
Training of Flight Staff KTSSP	453,321	4,915,890
Training of Other Staff KTSSP	5,225,350	475,470
KCAA Counterpart Funding(NCTIP)	4,752,928	-
KCAA Counterpart Funding(KTSSP)	19,494,910	2,096,423
Total NCTIP & KTSSP Expenses	119,215,573	36,481,147
11. FINANCE COSTS		
Finance charge (Bank Loan)	25,151,916	77,748,912
Bank Charges - Fees and Commissions	1,671,507	5,015,864
Interest on Long-term Loans (NCTIP)	35,131,726	34,514,030
Total Finance Costs	61,955,149	117,278,806

KENYA CIVIL AVIATION AUTHORITY

12. LOSS ON SALE OF ASSETS	2014	2013
	Shs	Shs
Property, plant and equipment	2,167,517	-
Other assets	-	-
Total loss on sale of assets	2,167,517	-

13(a). TAXATION	2014	2013
	Shs	Shs
Current income tax:		
Current income tax charge	81,493,240	178,960,283
Deferred tax:		
Current Year Charge	30,221,123	53,457,385
Prior Year Over-Provision (Instalment tax)	-62,638,704	-
Income tax expense reported in the statement of financial performance	49,075,659	232,417,668

The reconciliations between tax expense and the product of accounting profit multiplied by the Entity's tax rate for the years ended 30 June 2014 and 2013 are as follows:

	2014	2013
	Shs	Shs
Accounting surplus before income tax	372,381,208	606,932,132
Income tax at a rate of 30 %	111,714,363	182,079,640
Non-deductible expenses:		
Prior Year Over-Provision	-62,638,704	-
At the effective tax rate of 30 %	49,075,659	182,079,640

Deferred tax relates to the following:

	Statement of financial position		Statement of financial performance	
	2014	2013	2014	2013
	Shs	Shs	Shs	Shs
Accelerated depreciation for tax purposes	72,391,147	53,457,385	18,933,762	53,457,385
Provisions	-51,351,343	-	11,287,361	-
			-62,638,704	-
Deferred tax (income)			-32,417,581	53,457,385
Deferred tax (liabilities)	21,039,804	53,457,385		

KENYA CIVIL AVIATION AUTHORITY

13 (b) CURRENT INCOME TAX EXPENSE

	2014 Shs	2013 Shs
Deficit / Surplus Before Tax	372,381,208	606,932,132
Adjust for Non-Allowable Expenses		
Depreciation	583,603,535	560,346,606
General Provision for Bad Debts	(52,654,173)	15,096,152
Provision for Gratuity	16,147,573	
Accrual for Outstanding Leave Days	-	1,574,629
	919,478,143	1,183,949,519
Adjusted for Non-Taxable Revenue		
Accrual for Outstanding Leave Days	(1,117,935.00)	-
	918,360,208	1,183,949,519
Wear and Tear Allowances		
Air Navigation Equipment	539,546,752	507,937,961
Plant and Machinery	24,973,511	19,324,860
Furniture and Fittings	7,800,911	6,917,683
Motor Vehicles	21,063,522	14,745,350
Computers	53,331,379	38,489,387
Total Wear and Tear Allowances	646,716,075	587,415,241
Adjusted Surplus after Wear and Tear Allowances	271,644,133	596,534,278
Taxable Income /Tax Loss	271,644,133	596,534,278
Income Tax Expense @ 30%	81,493,240	178,960,283
Less: Instalment Tax Paid 2013-2014	202,127,684	-
Income Tax Liability 2013-2014	(120,634,444)	178,960,283

Income Tax is calculated using the enacted income tax rate of 30%

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14. CASH AND CASH EQUIVALENTS	2014	2013
	Shs	Shs
Bank & Cash Balances	1,771,648,926	1,831,423,771
Cash-on-hand and in transit	-	-
Short-term deposits	-	-
Total cash and cash equivalents	<u>1,771,648,926</u>	<u>1,831,423,771</u>
15. RECEIVABLES FROM EXCHANGE TRANSACTIONS		
Current receivables		
Aviation Revenue debtors	653,137,707	525,775,045
Other sundry debtors	10,607,235	29,525,921
	<u>663,744,942</u>	<u>555,300,966</u>
Less: Specific Provisions for bad and doubtful debts	(208,378,339)	(106,343,581)
less: General Provision for bad and doubtful debts	(38,113,787)	(15,096,152)
Total current receivables	<u>417,252,816</u>	<u>433,861,233</u>
16. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS		
Other debtors		
Prepayments (Insurance)	27,485,334	
Salary Advances	801,859	783,039
Medical Excess	4,301,779	14,894,100
Station Imprest	2,187,115	2,238,865
Staff Rent Receivable	108,800	-
Staff Imprest	190,127	385,603
Total Current Receivables	<u>35,075,014</u>	<u>18,301,607</u>
17. INVENTORIES		
Staff Welfare	658,759	-
Food & Rations	1,522,856	1,473,151
Publishing and Printing	2,102,925	2,699,370
Staff Welfare	-	291,915
Office Stationery	4,285,420	3,838,875
Computer Stationery	958,984	3,544,086
Consumable Items	8,299,574	3,270,320
Building Maintenance	369,601	929,556
Total inventories	<u>18,198,119</u>	<u>16,047,273</u>

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18. TRADE AND OTHER PAYABLES	2014	2013
	Shs	Shs
Trade payables	313,118,786	292,829,135
Payments received in advance	-	-
Employee advances/Liability	7,639,057	100,080,569
Third-party payments	14,348,606	15,176,149
Customer deposits (Cash Guarantee)	13,017,743	31,747,838
Staff pension & Gratuity	109,175,699	102,969,087
Leave Pay provision	106,607,053	107,724,988
Other payables	5,519,469	66,136,963
Total trade and other payables	569,426,413	716,664,729

19. BORROWINGS	2014	2013
	Shs	Shs
CfC Stabic Loan	-	268,324,030
IDA loans: KTSSP	659,430,945	221,216,899
IDA loans: NCTIP	654,830,581	701,995,599
Less: Current portion of bank loans(NCTIP)	-44,519,684	-
Total non-current borrowings	1,269,741,842	1,191,536,528

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20(a). PROPERTY, PLANT AND EQUIPMENT

Cost/Revaluation	Air Navigation Equipment	Land	Buildings	Motor Vehicles	Plant & Other Equipment	Computers	Furniture & Fittings	WIP	Grand Total
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
As at 1st July 2013	4,063,503,690	2,307,749,992	2,485,331,850	58,981,400	154,469,640	127,714,790	55,318,466	239,295,589	9,492,365,418
Additions	252,870,322	-	36,688,846	26,972,689	45,882,364	50,671,948	7,143,723	472,799,214	893,029,106
Disposals/Adjustment		-	-	(1,700,000)	(563,917)	(615,476)	(54,900)	(109,313,013)	(112,247,306)
As at 30th June 2013	4,316,374,013	2,307,749,992	2,522,020,696	84,254,089	199,788,087	177,771,262	62,407,289	602,781,790	10,273,147,218
DEPRECIATION									-
As at 1st July 2013	807,508,754	-	124,266,593	21,853,280	58,998,683	55,202,160	19,767,142	-	1,087,596,611
Charge As At 30th June 2014 Prior to Disposal Adjustment	416,053,309	-	62,648,379	13,542,524	34,637,924	44,650,230	12,071,164	-	583,603,530
On disposal / Adjustment	-	-	-	(680,000)	(225,567)	(369,286)	(21,960)	-	(1,296,812)
Charge as at 30/06/14	416,053,309	-	62,648,379	12,862,524	34,412,358	44,280,944	12,049,204	-	582,306,718
Accumulated Depreciation as at 30th June 2014	1,223,562,063	-	186,914,972	34,715,804	93,411,040	99,483,104	31,816,346	-	1,669,903,329
NET BOOK VALUE									-
As at 30th June 2014	3,092,811,950	2,307,749,992	2,335,105,724	49,538,285	106,377,046	78,288,159	30,590,943	602,781,790	8,603,243,889
As at 30th June 2013	3,255,994,937	2,307,749,992	2,361,065,258	37,128,120	95,470,957	72,512,631	35,551,324	239,295,589	8,404,768,807

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0 (b). WORK IN PROGRESS

	SUPPLIER	DESCRIPTION	AMOUNT
01	CGX AERO IN SYS	FLIGHT PROCEDURE DESIGN TOOL	23,153,686
02	SELEX ELSAG S.P.A	SUPPLY OF VHF, VOICE RECORDERS & VOICE COMMUNICATION SYSTEMS	70,682,458
03	LANDMARK HOLDINGS LTD	CONSTRUCTION OF KCAA HQ	218,209,868
04	MUTISO MENEZEZ INTERNATIONAL	DESIGN CONSULTANCY & CONSTRUCTION SUPERVISION OF KCAA HQ	32,049,000
05	THALES ELECTRONIC SYSTEMS GmbH	NAVIGATION AIDS SYSTEMS (ILS/DME & VOR/DME)	111,524,953
06	THALES ELECTRONIC SYSTEMS GmbH	ATS MESSAGE HANDING SYSTEMS	122,493,306
07	ESIKO KENYA ENTERPRISES LTD	CONSTRUCTION OF EASA ABLUTION BLOCK	2,381,922
08	INTERTECH BATINORM	10% ADVANCE PAYMENT SCREENING TEST EQPT	1,636,438
09	CORETEC SYSTEMS AND SOLUTIONS LTD	HUMAN RESOURCE MANAGEMENT SOLUTION	8,415,200
10	XRX TECHNOLOGIES	DOCUMENT MGT SYSTEM(CALS & SCANNERS)	9,100,871
11	FROTCOM LTD	CAR TRACK FLEET MANGEMENT SOLUTION	3,134,088
		TOTAL	602,781,790

21. WORLD BANK FINANCING

The Authority received financial support from the World Bank through Credit No. 3930 KE dated 25 June 2004 as part of on-lent funds to the Government of Kenya under the Northern Corridor Transport Improvement Project-NCTIP. The World Bank/IDA Credit No. 3930 KE became effective in September 2004. The total sum is SDR 6,750,000 (USD 10.03 million equivalents). The loan has a grace period of eight years and the principal repayment period is October 2012 to April 2027. Kshs. 47,165,018 was repaid during the year under review.

In addition, the Authority received financial support from the World Bank through Credit No. 4926 KE from the financial year 2012-2013 under the Kenya Transport Support Project (KTSSP). In summary the project is geared towards enhancing the Authority's Regulatory capacity building, modernization of Air Navigation Equipment's and construction of KCAA Headquarters.

The summary of the transactions during the year under the two projects are as given in the table below;

NCTIP - 3930 KE	2014	2013
	Kshs	Kshs
Cash balance at the beginning of the year	73,016,551	39,902,721
Amounts received during the year	-	39,680,000
Expenditure during the year	48043620.85	-21,743,471
NCTIP Cash balance end of the year	24,972,930.15	73,016,551
NCTIP Loan drawn by the end of 2013-14 FY	724,995,599	724,995,599
Loan Balance at start of year	701,995,599	724,995,599
Principal Loan Repayment during the year	-47,165,018	-23,000,000
NCTIP Loan Balance at year end	654,830,581	701,995,599

KTSSP - 4926 KE	2014	2013
	Kshs	Kshs
Cash balance at the end of the year	11,218,155	70,017,347
Amount received during the year	66,878,266	-

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Amount spent during the year	125,677,458	57,703,395
Direct payments	<u>371,335,760</u>	<u>93,496,157</u>
Loan Balance at year end	<u>659,430,925</u>	<u>221,216,899</u>

During the year 2013-2014 the Authority received a Capital Grant of Ksh 136.8 million to finance the establishment of an Aviation medical centre for the region.

22 RELATED PARTY

The entity regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the entity, or vice versa. The County and National Government and members of key management are regarded as related parties and comprise the chief executive officer, board members, and senior managers.

The related party disclosures for the period are;

	2014 Shs	2013 Shs
a) Nairobi County Government	118,822	-
b) National Government		
Budgetary Support-Grants	136,800,000	138,000,000
IDA Loans Facilitations- KTSSP (Receipts and Direct Payments)	438,214,026	221,216,899
IDA Loans Facilitations- NCTIP (Receipts)	-	39,680,000
IDA Loans Facilitations- NCTIP (Loan Repayment)	47,165,018	23,000,000
IDA Loans Facilitations- NCTIP (Interest Payment)	35,131,726	34,514,030
c) Key Management - Salaries and Other Short Term Benefits	49,895,652	45,965,986
d) Directors-Directors Fees and Allowances for Services	16,011,483	20,985,766

23 FINANCIAL RISK MANAGEMENT

The authority's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency exchange rates. The authority's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk.

Foreign currency risk management

The authority undertakes certain transactions denominated in foreign currencies. Therefore, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters.

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23 FINANCIAL RISK MANAGEMENT (continued)

The carrying amounts of the authority's foreign currency denominated monetary assets and liabilities at the end of the reporting period are as follows:

	2014 Shs	2013 Shs
<i>Assets:</i>		
Trade and other receivables		
US Dollars	372,578,230	525,775,045
Bank and cash balances		
US Dollars	265,154,168	433,154,800
<i>Liabilities:</i>		
Trade and other payables		
US Dollars	-	-

10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates.

At 30 June 2014, if the Kenya Shilling had weakened/strengthened by 10% against the US dollar, with all other variables held constant, the impact on pre-tax profit for the year would have been Sh 64 million (2013: Sh 96 million) higher/lower.

Credit risk management

Credit risk refers to the risk that counterparties will default on their contractual obligations resulting in financial loss to the authority. The authority's credit risk is primarily attributable to its trade receivables. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the authority's management based on the authority policy.

The credit risk on trade receivables is limited because the customers are known entities and individuals with high credit ratings.

The authority does not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The authority defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk to any counterparty did not exceed 5% of gross monetary assets at any time during the year.

The credit risk on liquid funds with financial institutions is also low, because the counter parties are regulated banks.

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23 FINANCIAL RISK MANAGEMENT (continued)

The amount that best represents the authority's maximum exposure to credit risk is made up as follows:

	Fully performing Sh'000	Past due Sh'000	Impaired Sh'000	Total Sh'000
30 June 2014				
Trade receivables	364,598,644	-	3,455,740	368,054,384
Write-back in provision	-		52,654,172	52,654,172
Provision for doubtful debts	-	-	(3,455,740)	(3,455,740)
	<u>364,598,644</u>		<u>52,654,172</u>	<u>417,252,816</u>
Bank balances	1,771,648,926	-	-	1,771,648,926
	<u>2,136,247,570</u>	<u>-</u>	<u>52,654,172</u>	<u>2,188,901,742</u>
30 June 2013				
Trade receivables	433,861,233	-	121,439,733	555,300,966
Provision for doubtful debts	-	-	(121,439,733)	(121,439,733)
	<u>433,861,233</u>	<u>-</u>	<u>-</u>	<u>433,861,233</u>
Bank balances	1,831,423,771	-	-	1,831,423,771
	<u>2,265,285,004</u>	<u>-</u>	<u>-</u>	<u>2,265,285,004</u>

Cash and cash equivalents are fully performing.

The customers under the fully performing category are paying their debts as they continue trading. The default rate is low.

The debt that is past due is not impaired and continues to be paid. The finance department is actively pursuing this debt.

The debt that is impaired has been fully provided for. However, the Authority is still pursuing these debts.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the authority's short and medium-term funding and liquidity management requirements. The authority manages liquidity risk through continuous monitoring of forecast and actual cash flows.

The table below analyses the authority's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

23 FINANCIAL RISK MANAGEMENT (continued)

	Less than 1 month Sh'000	Between 3-12 months Sh'000	Over 12 months Sh'000	Total Sh'000
30 June 2014				
Trade payables	313,118,786	-	-	313,118,786
Borrowings	-	-	1,269,741,842	1,269,741,842
	<u>313,118,786</u>	<u>-</u>	<u>1,269,741,842</u>	<u>1,582,860,628</u>
30 June 2013				
Trade payables	292,829,135	-	-	292,829,135
Borrowings	-	-	1,191,536,528	1,191,536,528
	<u>292,829,135</u>	<u>-</u>	<u>1,191,536,528</u>	<u>1,484,365,663</u>

24. CONTINGENT ASSETS AND LIABILITIES

International Public Sector Accounting Standard No. 19 requires adequate disclosure in note form any contingent assets or liabilities which may arise from past events but whose impact on the Financial Statements will only take effect upon occurrence or non-occurrence of future events, some of which may be beyond the control of the Authority.

a) A Summary of the Contingent Liabilities is as follows:**i) Potential cost to African Commuter Services- Kshs 1,421,671,718**

A petition that has been long outstanding with regard to Busia Air crash (2003) in which instance KCAA was sued by African Commuter Services for the cancellation of its operating license was finally heard and determined in September 2014. KCAA was found culpable and therefore liable to compensate African Commuter Services damages amounting to Kshs 1,421,671,718 being the principal and accrued interest since the case was filed in court in 2003.

KCAA is still pursuing other legal and related suitable avenues to address this matter.

ii) Potential Debts/Claims owed to Suppliers Totalling Ksh 40.32 Million:

KAA billings for rent and utility charges for the period up to 30 June 2005 amounting to Ksh.40.32 Million.

iii) Potential claims arising from dismissed staff

There is a case pending in court where former staff who were dismissed because of engaging in an illegal strike in 2002 have sued the Authority. The verdict given by the court in 2009 was in favour of staff though the Authority has filed a record of appeal on 8th April 2010 in civil appeal NO 67 of 2010 in the court of appeal in Nairobi against the ruling. The exact value of the damages claimed has not been ascertained. The appeal proceeded for hearing on 7th January 2014. Ruling was delivered recently when the Court dismissed KCAA's appeal with costs. The Court of Appeal ordered the matter to be referred back to the High Court for assessment of total damages.

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KCAA has instructed its advocates to commence the process of appealing to the Supreme Court and a Notice of Appeal has already been filed.

iv) Potential Costs of Transfers of Vested Assets:

The vesting Order was published vide Legal Notice No.173 dated 13th October 2006, with an effective date of 24th October 2002. KCAA Stamp duties and capital gains taxes may accrue unless waived by the Government. Stamp Duties at the Revalued amounts for Assets that the Authority has ownership documents are approximated at KSh 91 million.

b) A Summary of the Contingent Assets is as Follows:

Pending Fraud Case:

Criminal Case No.2840/03 at the Anti-Corruption Court; this is a corruption case relating to a KRA officer who was responsible for collecting Air Navigation charges and is charged with defrauding KCAA of USD 100,465. None of these assets have been recognized in the accounts because there is material uncertainty on their realization.