

	<b>NATO</b>	NORTH ATLANTIC COUNCIL
	<b>OTAN</b>	CONSEIL DE L'ATLANTIQUE NORD

**NATO UNCLASSIFIED**

1 October 2015

**DOCUMENT**  
C-M(2015)0065-AS1

**IBAN REPORT ON THE AUDIT OF THE 2013 FINANCIAL STATEMENTS OF THE  
NATO SCIENCE AND TECHNOLOGY ORGANISATION (STO)**

**ACTION SHEET**

On 30 September 2015, under the silence procedure, the Council noted the IBAN report IBA-AR(2015)10 attached to C-M(2015)0065 and agreed the recommendations contained in the RPPB report.

(Signed) Alexander Vershbow  
Deputy Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2015)0065.

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24 September 2015

**DOCUMENT**  
C-M(2015)0065  
**Silence Procedure ends:**  
**30 Sep 2015 18:00**

**IBAN REPORT ON THE AUDIT OF THE 2013 FINANCIAL STATEMENTS OF THE  
NATO SCIENCE AND TECHNOLOGY ORGANISATION (STO)**

**Note by the Deputy Secretary General**

1. I attach the International Board of Auditors for NATO (IBAN) report on the audit of the financial statements of the NATO Science and Technology Organisation for the year ended 31 December 2013.
2. The IBAN issued a qualification on the 2013 financial statements and an unqualified opinion on compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations. Like other organisations set up under the NATO reforms, business continuity has needed to be balanced against the provisions of the STO Charter and the STO accounts continue to reflect transitional issues. The completion of accounting transition at the end of 2014 should remove many of the causes for the observations and allow the STO to fully meet NATO accounting requirements under the International Public Sector Accounting Standards (IPSAS) adapted accounting framework.
3. The IBAN report has been reviewed by the Resource Policy and Planning Board (RPPB), which has provided its own report with conclusions and recommendations to Council.
4. I consider that no further discussion regarding this report is required. Consequently, **unless I hear to the contrary by 18:00 hours on Wednesday, 30 September 2015**, I shall assume that the Council has noted the IBAN report IBA-AR(2015)10 and agreed the recommendations contained in the RPPB report.

(Signed) Alexander Vershbow

4 annexes

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ANNEX 1  
C-M(2015)0065

11 September 2015

**NOTICE**  
AC/335-N(2015)0053-REV1  
**Silence Procedure ends:**  
**18 Sep 2015 15:00**

**RESOURCE POLICY AND PLANNING BOARD (RPPB)**

**IBAN REPORT ON THE AUDIT OF THE 2013 FINANCIAL STATEMENTS OF  
THE NATO SCIENCE AND TECHNOLOGY ORGANISATION (STO)**

**Note by the Chairman**

1. I attach a draft revised RPPB report on the International Board of Auditors for NATO (IBAN) report on the audit of the International Staff restated financial statements for 2013. The report is based on the full review of the audit report provided by the Budget Committee (BC).
2. In line with the modified procedure in handling of qualified financial audit reports, as discussed at the Board's meeting on 29 January 2015, the draft report was issued to Nations for comments (reference AC/335-N(2015)0053, dated 22 July 2015). No comments were received. The document is now issued for agreement under a silence procedure.
3. Agreement to the report will be assumed unless comments to the contrary are received by **15.00, Friday 18 September 2015**.

(Signed) Giorgio Romano

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**IBAN REPORT ON THE AUDIT OF THE 2013 FINANCIAL STATEMENTS  
OF THE NATO SCIENCE AND TECHNOLOGY ORGANISATION (STO)**

**Draft Report by the Resource Policy and Planning Board (RPPB)**

References: (a) IBA-A(2015)86 & IBA-AR(2015)10  
(b) BC-D(2015)0089-FINAL

**Introduction**

1. The present report by the Resource Policy and Planning Board (RPPB) contains the RPPB's observations and recommendations concerning the International Board of Auditors for NATO (IBAN) report (reference (a)).
2. The report is based on the full review and findings and recommendations provided by the Budget Committee (BC) at reference (b).

**Background**

3. The IBAN issued a qualification on the 2013 financial statements and an unqualified opinion on compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations. These opinions follow a disclaimer of opinion on the 2012 STO Financial Statements and an unqualified opinion in respect of compliance<sup>1</sup>.
4. The IBAN issued a qualification on the 2013 financial statements as a result of four main reasons:
  - 4.1. budgetary credits carried forward in respect of the NATO Underwater Research Centre (NURC) part of Allied Command Transformation (ACT) prior to July 2012, when it became customer funded as the STO Centre for Maritime Research and Experimentation (CMRE), were not recorded in the CMRE statements;
  - 4.2. an inability to compare the 2013 figures with corresponding 2012 figures;
  - 4.3. material misstatement of cash flow at the CMRE; and
  - 4.4. incorrect representation of cruise leave liability as a 2013 expense at the CMRE.

**RPPB Conclusions**

5. The Board notes that the IBAN has issued a qualification on the 2013 financial statements and an unqualified opinion on compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations. This follows on from the disclaimer of opinion in the 2012 STO financial statements. Like other organisations set up under the NATO reforms, business continuity has needed to be balanced against the provisions of the STO Charter<sup>2</sup> and the STO accounts continue to reflect transitional issues. The accounting transition should have been completed at the end of 2014 when the 2012 credits will have been fully expensed and many of the related difficulties resolved. This should remove many

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<sup>1</sup> C-M(2015)0010

<sup>2</sup> C-M(2012)0046

of the causes for the observations and allow the STO to fully meet NATO accounting requirements under the IPSAS-adapted accounting framework.

6. The 2013 STO financial statements are the first Consolidated Financial Statements of the different entities and, despite the qualified opinion; the Board is pleased to note that the IBAN has commented favourably on the effort put into their preparation. The implementation of the IBAN recommendations by the STO for future financial statements should allow for continued improvement. In particular, improvement of the STO financial reporting control procedures, including management reviews to adequately mitigate the risk of errors is expected and will be followed up.

7. The IBAN has expressed an unqualified opinion on compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations. Outstanding observations from previous audits have been settled or are superseded by current observations and will continue to be monitored.

8. The STO Financial Controller and the NATO Chief Scientist have reviewed the financial statements in accordance with agreed policies (C-M(2018)0116 and PO(2015)0052) and do not have any issues which they wish to highlight for consideration by the RPPB before it concludes its recommendations to Council. The RPPB concludes that the subject audit report does not contain information which, according to the NATO Policy on Public Disclosure of NATO Information, shall be withheld from public disclosure, and in line with the agreed policy in PO(2015)0052, recommends that Council agree to the public disclosure of the 2013 STO financial statements and of the subject IBAN report.

#### **RPPB Recommendations**

9. The Resource Policy and Planning Board (RPPB) recommends that Council:
- (a) note the present report along with IBA-AR(2015)10;
  - (b) endorse the conclusions outlined in paragraphs 5 through 8;
  - (c) invite the STO to implement the IBAN recommendations;
  - (d) note that the resource committees intend to continue to monitor the status of outstanding audit observations;
  - (e) in line with the agreed policy in PO(2015)0052, agree to the public disclosure of the Science and Technology (STO) 2013 financial statements and the associated IBAN report (IBA-AR(2014)10).

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**Summary Note for Council  
by the International Board of Auditors for NATO (Board)  
on the audit of the Consolidated Financial Statements of the  
Science and Technology Organisation (STO)  
for the year ended 31 December 2013**

The Board audited the Science and Technology Organisation (STO), which became a NATO body on 1 July 2012. Its mission is to help position the Nations' and NATO's Science and Technology investments as a strategic enabler of the knowledge and technology advantage for the defence and security posture of NATO nations and partner Nations.

The STO comprises three executive bodies: the STO Office of the Chief Scientist (OCS) located in Brussels, Belgium, under the authority of the Chief Scientist; the STO Collaboration Support Office (CSO) located in Neuilly-sur-seine, France, under the authority of its Director; and the STO Centre for Maritime Research and Experimentation (CMRE) located in La Spezia, Italy, under the authority of its Director. The CMRE was previously known as the NATO Undersea Research Centre (NURC) and was a part of Allied Command Transformation (ACT).

The total expenses of the STO in 2013 amounted to approximately EUR 33 million, including EUR 3 million of CMRE related expenses that were only reported in the 2013 ACT Consolidated Financial Statements.

The Board issued a qualified opinion on the STO Consolidated Financial Statements and an unqualified opinion on compliance for the year ended 31 December 2013.

During the audit, the Board identified six observations and provided a recommendation to each observation. Observations and recommendations 1, 2 and 4 impact the audit opinion on the financial statements. The six observations are summarised herein:

- CMRE - Incomplete reporting of CMRE related revenue and expenses.
- CMRE - 2013 expenses overstated by cruise leave provision.
- CMRE - Unexpected 2013 surplus.
- STO's financial reporting processes do not yet fully mitigate the risk of errors in the financial statements.
- Non-compliance with fixed asset disclosure requirements.
- Non-compliance with the representation allowance disclosure requirements.

The factual and formal comments of the STO to these observations and recommendations have been included at the Attachment of the Letter of Observations and Recommendations. The STO disagreed with four of the Board's observations. The Board has considered the STO's comments, however, it maintains its positions. The Board's positions have been included on those comments where appropriate.

The Board also followed up on the status of four observations from previous years' audits and found that two observations were settled and two were superseded by current year observations.

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30 April 2015

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF THE**

**THE NATO SCIENCE AND TECHNOLOGY ORGANISATION**

**(STO)**

**FOR THE YEAR ENDED 31 DECEMBER 2013**



**REPORT OF THE INTERNATIONAL BOARD OF AUDITORS  
FOR NATO TO THE NORTH ATLANTIC COUNCIL**

**Report on the Financial Statements**

The International Board of Auditors for NATO (Board) audited the accompanying Financial Statements of the NATO Science and Technology Organisation (STO), which comprised the Statement of Financial Position as at 31 December 2013, the Statement of Financial Performance, the Statement of Change in Net Equity and the Statement of Cash Flow for the year then ended, and Notes to the Financial Statements, including a Statement of Accounting Policies.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these Financial Statements in accordance with the NATO Accounting Framework and the requirements of the NATO Financial Regulations as authorized by the North Atlantic Council (NAC). This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these Financial Statements based on our audit, which is conducted in accordance with our Charter and international standards on auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Financial Statements, due to fraud or error. In making those risk assessments, internal control relevant to the entity's preparation and presentation of Financial Statements is considered 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 internal control. An audit also includes evaluating the appropriateness of accounting policies used, the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Basis for Qualified Opinion on the Financial Statements*

STO became a NATO agency as from 1 July 2012 as part of NATO's Agency Reform. The Centre for Maritime Research and Experimentation (CMRE) is part of STO. Before 1 July 2012, the CMRE was called the NATO Undersea Research Centre (NURC) and was part of NATO's Allied Command Transformation (ACT). The Board's opinion is that all activities as from 1 July 2012 that relate to CMRE, including those funded by ACT budgetary credits (NURC budget 242), should have been reported in the 2013 STO Financial Statements. The Board found that the 2013 STO Financial Statements did not include EUR 3 million of CMRE related revenues and expenses that were funded by carried forward 2012 ACT budget credits (NURC budget 242).

The Board is also not able to provide audit assurance on the 2013 Financial Statements in respect to the 2012 comparative information presented in those statements. This limitation is linked to the Board's prior year disclaimer of opinion on the 2012 STO Financial Statements. As a result, our opinion on the 2013 Financial Statements is also modified because of the potential effect of this matter on the comparability of the current period's figures and corresponding 2012 figures.

The Board found that the Statement of Cash Flow was materially misstated. The change reported in both other current liabilities and provisions in the operating activities section of the Statement of Cash Flow was not consistent with the Statement of Financial Position. The 'Increase/(Decrease) in other current liabilities' should have been reported as EUR 915,613 rather than EUR 1,832,911, and the 'Increase/(Decrease) in provisions' should have been reported as EUR 959,231 rather than EUR 4,523,235.

Lastly, the Board found that the STO recorded EUR 959 thousand of 2013 expenses relating to the provision for cruise leave. However, these expenses had actually been incurred in previous years, not in 2013. As such, they should not have been reported as 2013 expenses. Rather, the opening Net Assets/Equity in the Statement of Financial Position comparative 2012 balances should have been reduced. As a result, opening 2013 Net Assets/Equity is overstated and the surplus for the period is understated by EUR 959 thousand.

*Opinion on the Financial Statements*

In our opinion, except for the effects and possible effects of the matters described in the *Basis for Qualified Opinion on the Financial Statements* paragraph, the Financial Statements present fairly, in all material respects, the financial position of STO as of 31 December 2013, and of its financial performance and its cash flows for the year then ended are in accordance with the NATO Accounting Framework.

## Report on Compliance

### *Management's Responsibility for Compliance*

In addition to the responsibility for the preparation and presentation of the Financial Statements described above, management is also responsible for ensuring that the financial transactions and information reflected in the financial statements are in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations as authorised by the North Atlantic Council (NAC).

### *Auditor's Responsibility*

In addition to the responsibility to express an opinion on the Financial Statements described above, our responsibility includes expressing an opinion on whether the financial transactions and information reflected in the Financial Statements are, in all material respects, in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations. This responsibility includes performing procedures to obtain reasonable assurance about whether the funds have been used for the settlement of authorised expenditure and whether their operations have been carried out in compliance with the financial and personnel regulations in force. Such procedures include the assessment of the risks of material non-compliance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Opinion on Compliance*

In our opinion, in all material respects the financial transactions and information reflected in the Financial Statements are in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

Brussels, 30 April 2015

Dr Charilaos Charisis  
Chairman

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ANNEX 3  
C-M(2015)0065  
IBA-AR(2015)10

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**LETTER OF OBSERVATIONS AND RECOMMENDATIONS  
FOR THE SCIENCE AND TECHNOLOGY ORGANIZATION  
(STO)**

**FOR THE YEAR ENDED 31 DECEMBER 2013**

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## **Introduction**

The International Board of Auditors for NATO (Board) audited the Science and Technology Organisation (STO) Consolidated Financial Statements for the year ended 31 December 2013, and issued a qualified opinion on the financial statements, and an unqualified opinion on compliance.

## **Observations and Recommendations**

During the audit, the Board identified six observations and provided a recommendation to each observation. Observations and recommendations 1, 2 and 4 impact the audit opinion. The six observations are summarised herein:

- CMRE - Incomplete reporting of CMRE related revenue and expenses.
- CMRE - 2013 expenses overstated by cruise leave provision.
- CMRE - Unexpected 2013 surplus.
- STO's financial reporting processes do not yet fully mitigate the risk of errors in the financial statements.
- Non-compliance with fixed asset disclosure requirements.
- Non-compliance with the representation allowance disclosure requirements.

The Board also followed up on the status of four observations from previous years' audits: two related to CMRE as contained in the ACT 2012 report (IBA-AR(2013)21); one from the STO 2012 report (IBA-AR(2013)34); and one from the RTA 2011 report (IBA-AR(2013)01). Two observations were settled and two were superseded by current year observations.

The factual and formal comments of the STO to these observations and recommendations have been included at the Attachment of this letter. The STO disagreed with four of the Board's observations. The Board has considered the STO's comments, however, it maintains its positions. The Board's positions have been included on those comments where appropriate.

## **OBSERVATIONS AND RECOMMENDATIONS**

### **1. CMRE - INCOMPLETE REPORTING OF CMRE RELATED REVENUES AND EXPENSES**

#### **Reasoning**

1.1 STO became a NATO agency as from 1 July 2012. The Centre for Maritime Research and Experimentation (CMRE) is part of STO. Before 1 July 2012, the CMRE was called the NATO Undersea Research Centre (NURC) and was part of NATO's Allied Command Transformation (ACT).

1.2 The Board's position on Agency Reform and on the 2012 STO and ACT financial statements is that STO was created on 1 July 2012 and, thus, there should have been proper closing and opening financial statements as of that date. This would have clarified STO's assumption of responsibilities and its assets and liabilities at that date, and would have ensured that all CMRE related activities subsequent to 1 July 2012 were being properly presented in consolidated STO financial statements. However, this did not happen and STO consolidated financial statements were not prepared for the 6-month period ending 31 December 2012. As a result, the Board disclaimed its opinion on the 2012 financial statements.

#### **Observation**

1.3 The Board found that the 2013 STO Financial Statements did not include EUR 3 million of CMRE related revenues and expenses that were funded by carried forward 2012 ACT budget credits. As the customer, ACT had properly presented these expenses in their 2013 financial statements.

1.4 However, considering its position on Agency Reform in paragraph 1.2 above, the Board believes that the 2013 STO Financial Statements should have included all CMRE related activities. This includes the EUR 3 million of CMRE related revenues and expenses that were reported in the 2013 ACT Financial Statements. This would have provided the reader of the STO financial statements with a more complete view of the CMRE related activities in 2013 (see also observation 3 below).

1.5 Furthermore, the comparative 2012 revenues and 2012 expenses presented in the 2013 financial statements should have reported all CMRE related revenues and expenses as from 1 July through 31 December 2012. Since there was no proper closing at 1 July 2012, this was not done. As a result, no audit assurance is provided on the comparability of the 2013 Statement of Financial Performance balances to the 2012 comparative information.

**Recommendation 1**

1.6 The Board recommends that, in future, all CMRE related activities be reported in the STO Financial Statements.

**2. CMRE - 2013 EXPENSES OVERSTATED BY CRUISE LEAVE PROVISION****Reasoning**

2.1 Expenses presented in the financial statements should reflect those costs that have been incurred in the current year.

**Observation**

2.2 The Board found that the STO recorded EUR 959 thousand of expenses relating to the provision for cruise leave. However, these expenses had actually been incurred in previous years, not in 2013. As such, they should not have been reported as 2013 expenses. Rather, the opening Net Assets/Equity in the Statement of Financial Position comparative 2012 balances should have been reduced. As a result, opening 2013 Net Assets/Equity is overstated and the surplus for the period is understated by EUR 959 thousand (the surplus should be increased from EUR 4.3 million to EUR 5.2 million). The provision (liability) is correctly stated, though.

**Recommendation 2**

2.3 The Board recommends that STO should ensure, in future, that reported expenses only include those that have been incurred during the period.

**3. CMRE - UNEXPECTED 2013 SURPLUS****Reasoning**

3.1 Paragraph 23.1 of the STO Charter states that “the Financial Plan will be elaborated on a no-profit/no-loss basis globally over the planning period.” Furthermore, paragraph 23.3 of the STO Charter states “To facilitate its operations, the STB may establish a Net Equity Fund (NEF) for the CMRE to provide liquidity for its projects and to act as a buffer for project gains and losses within the planning period.” The planning period is 3 years.

3.2 The 2013 CMRE Financial Plan forecast that both CMRE revenues and CMRE expenses would be EUR 28.1 million, resulting in no expected net surplus or deficit. The 2013 STO Financial Statements, though, reported a CMRE surplus of EUR 4.3 million (EUR 28.5 million of CMRE revenue and EUR 24.2 million of CMRE expenses). After

taking account of the Board's observation relating to cruise leave (see observation 2 above), this surplus, in the Board's view, should have been reported as EUR 5.2 million.

### Observation

3.3 In order to try to provide a better overview of the CMRE related revenues and expenses during the transition from ACT to STO, the Board prepared the following summary table of CMRE<sup>1</sup> activities from 2009 to 2013. This overview more clearly shows the CMRE activities compared to what is separately shown in the STO and ACT 2013 Financial Statements. It highlights that in 2013, the first full year of STO under customer funding, that expenses *decreased* by 8% while revenues *increased* by 11%. The Nations did not benefit from the decrease in expenses.

Year	CMRE Revenues	CMRE Expenses	Surplus
2009	30.0	30.0	-
2010	31.5	31.5	-
2011	26.7	26.7	-
2012	28.5	28.5	-
2013	31.5	26.3*	5.2

Sources: 2009-2013 ACT Financial Statements and 2013 STO Financial Statements.

\* EUR 27.2 million reported in 2013 STO and ACT Financial Statements minus EUR 959 thousand overstatement of expenses related to cruise leave (see observation 2 above).

3.4 This surplus was not expected in the 2013 CMRE Financial Plan, which anticipated no surplus or deficit. The 2013 charge-out rates paid by customers (mainly ACT) ultimately proved to be too high.

### Recommendation 3

3.5 The Board recommends that STO review the CMRE charge-out rates that are being charged to its customers (mainly ACT) in the future to ensure that they are being adequately reduced to take into account this large 2013 surplus and to comply with the STO Charter requirement that there be no-profit or loss over the 3 year planning periods.

<sup>1</sup> NURC revenues and expenses before 1 July 2012 - when it was part of ACT.



#### **4. STO'S FINANCIAL REPORTING PROCESSES DO NOT YET FULLY MITIGATE THE RISK OF ERRORS IN THE FINANCIAL STATEMENTS**

##### **Reasoning**

4.1 IPSAS 1, *Presentation of Financial Statements*, requires that financial statements be reliable so that users can depend upon them to faithfully represent that which they purport to represent. To be reliable, the financial statements should be free of any mathematical or transposition errors, non-reconciling items, or any other errors and omissions. Entities should have proper internal controls, including reviews, in place to ensure the consistency and accuracy of information presented and disclosed in the financial statements before their issuance.

##### **Observation**

4.2 The 2013 STO Financial Statements were the first Consolidated Financial Statements of the different entities and were originally issued within the deadline of 30 April 2014. Much effort was put into the preparation of these financial statements.

4.3 While recognizing the above efforts and progress made by STO, there remain improvements to be made to the financial reporting process to better mitigate the risk of errors in the financial statements. The Board found material errors in the Cash Flow Statement. The change reported in both other current liabilities and provisions in the operating activities section of the Statement of Cash Flow was not consistent with the Statement of Financial Position. The 'Increase/(Decrease) in other current liabilities' should have been reported as EUR 915,613 rather than EUR 1,832,911, and the 'Increase/(Decrease) in provisions' should have been reported as EUR 959,231 rather than EUR 4,523,235. There were numerous other immaterial mathematical errors, non-reconciling items and/or omitted information in the financial statements as published on 24 April 2014 (Reference SRO-OCS(2014)0029).

##### **Recommendation 4**

4.4 The Board recommends STO to improve its financial reporting control procedures, including management reviews, in order to ensure that they adequately mitigate the risk of errors in the financial statements.

**5. NON COMPLIANCE WITH FIXED ASSET DISCLOSURE REQUIREMENTS****Reasoning**

5.1 The NATO Accounting Framework in respect of PPE, states that for items purchased before 1 January 2013 and not previously recognized as an asset, the notes to the financial statements should provide a brief description of the items held in their recording systems. The notes should include as a minimum the types of items held, locations held, and the approximate number of items held per asset category.

**Observation**

5.2 The Board found that the STO have followed the option set out in the NATO Accounting Framework to consider fully expensed all Property, Plant & Equipment (PP&E) acquired prior to 1 January 2013. This has led to the removal of EUR 1.226 million from the STO Financial Statements in relation to CSO assets. The CMRE entity was incorporated into ACT Financial Statements in 2012 and no fixed assets were reported.

5.3 Whilst the STO disclosure note for PP&E records the location of each entity and the host nation arrangements with regard to the premises, there is no further disclosure regarding any types of assets except for the two additions that occurred at the CMRE in 2013.

5.4 Additionally, this type of qualitative information if carefully reviewed could be useful to the reader of the accounts and provide an analysis of what types of scientific assets the STO holds.

**Recommendation 5**

5.5 The Board recommends that the disclosure note could be improved to include as a minimum the types of items held, their location and approximate number of assets to be in compliance with the NATO Accounting Framework.

**6. NON-COMPLIANCE WITH REPRESENTATION ALLOWANCE DISCLOSURE REQUIREMENTS****Reasoning**

6.1 In 2013, the North Atlantic Council (Council) issued updated rules and procedures relating to the receipt and use of representation allowances (PO(2013)0154). The new rules are applicable to all those in NATO entitled to such allowances and were to be effective on 1 June 2013. These allowances should now only be paid on a reimbursable basis, as opposed to being given to the recipient up-front, and the NATO bodies Financial Controllers are now responsible to ensuring the expenditures meet the criteria for reimbursement.

**Observation**

6.2 The Board found that STO entities did follow the new regulations as from 1 June 2013. However, STO did not disclose any information on representation allowance in the financial statements.

**Recommendation 6**

6.3 The Board recommends STO to disclose information on representation allowance in the financial statements, as required by the Council approved procedures.

**FOLLOW-UP OF PREVIOUS YEAR'S OBSERVATIONS**

The Board reviewed the status of the observations and recommendations arising from previous audits. The observations and their status are summarised in the table below.

**Status of previous years' observations**

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<b>(1) 2012 STO Audit Report</b> <b>IBA-AR(2013)34 - Section 5</b>  <b>Observation</b> There was a lack of financial closure of the STO legacy entities at 30 June 2012, as would normally be expected when entities are closed, in order to identify all assets and liabilities to hand over to the new entity for its opening balances and accounts.  <b>Recommendation</b> 5.7 The Board recommends that Council gives clear and timely guidance on how to dissolve and change NATO entities, including from a financial reporting perspective, to ensure that future restructuring of NATO entities takes into account the need for financial reporting to reflect the organisational structure in place. For future reorganisations, the Board recommends that Council considers the effective date to be the beginning of a calendar year, to reduce the burden on NATO bodies.	Recommendation was noted and agreed by NATO committees.	Observation <b>Settled.</b>
<b>(2) 2012 ACT Audit Report</b> <b>IBA-AR(2013)21 - Section 5</b>		

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p><b>Observation</b> The Board audited the CMRE as part of its audit of the ACT Financial Statements. The audit opinion on the ACT Financial Statements was qualified as the Board did not consider the CMRE's revenues and expenditures related to the Charter and Supplementary Work should have been consolidated, as CMRE did not belong to ACT after 1 July 2012. The related net assets were considered by the Board to represent a material overstatement of assets.</p> <p><b>(3) 2012 ACT Audit Report IBA-AR(2013)21 - Section 5</b></p> <p><b>Observation</b> The Board found that the balance of cruise leave as of end of 2012 was not recognised in the accounts of CMRE as a liability, valuing approximately EUR 800,000.</p> <p><b>Recommendation</b> 5.1.20 The Board recommends that CMRE and STO recognise any outstanding balance of cruise leave at 31 December 2013 in the STO Consolidated Financial Statements for 2013.</p>	<p>STO recorded these net assets as mentioned in the prior year observation as STO's in the 2013 STO Financial Statements.</p> <p>A provision was made for Cruise Leave in the 2013 Financial Statements totaling EUR 959,000.</p> <p>However, the full amount of EUR 959,000 was expensed in 2013, whereas the incurrence of these expenses was before 2013. See current year observation 3 above.</p> <p>Also, the amount disclosed as a liability did not include the amount of cruise leave earned since 1 July 2012, which was an additional 136 days (or approximately EUR 50,000), which is not material.</p>	<p>Observation <b>Settled.</b></p> <p>Observation <b>Superseded by current year observation 2.</b></p>
<p><b>(4) RTA FY 2011 C-M(2013)0033 &amp; IBA-AR(2013)01 Property, Plant and Equipment (PP&amp;E) section 5.1</b></p> <p>In 2011, the Board noted that the narrative in the financial statements explaining why PP&amp;E was not valued could be improved to be clearer on the CSO's control of the main building provided by the Host Nation, compared to the Annex building constructed by CSO.</p>	<p>For the 2012 audit, the Board believes the narrative in the note to the financial statements could be improved further to be clearer on the different treatment of the buildings to recognise the differing levels of control associated with the two buildings.</p>	<p>Observation <b>Superseded by current year observation 5.</b></p>

**STO-OCS(2015)0032**

**NATO CHIEF SCIENTIST/CHAIRMAN OF THE SCIENCE AND TECHNOLOGY BOARD'S  
COMMENTS ON THE IBAN REPORT COVERING THE AUDIT OF  
THE STO CONSOLIDATED FINANCIAL STATEMENTS FY 2013**

***Observation 1: CMRE - Incomplete Reporting of CMRE Related Revenues and Expenditures***

*Not Agreed.*

*Rationale*

*STO financial accounting was in coherence with the transition measures pertaining to the NATO Agencies Reform.*

*Detailed comments*

*In June 2011, with PO(2011 )0242, Council decided that concerning the NATO Science and Technology Organization (STO), the reform would be implemented in two phases. During Phase 1, ending in December 2012, common funded budgets for the NURC would be used. For 2013 and beyond, maritime S&T would be customer funded.*

*The Accounting treatments related to FY 2012 are covered by two detailed policy decisions relating to the transitional arrangements.*

- With AC/335-N(2012)0075 the Nations agreed that entities “operating under Agency Reform will prepare Financial Statement for the full year January to December 2012”. The legacy entity - the NURC - was part of ACT during 2012 and the ACT complied with this directive when producing their financial statements.*

- With ACT's request BC-D(2012)0100 (para 2) and BC-DS(2012)0026 (para 3.3.1), the Nations “confirmed the ACT FC's authority to execute and account for the 2012 NURC budget throughout its full life cycle i.e. until 2014 in accordance with the NFRs”. ACT duly executed the 2012 budget credits carried forward in FY 2013. The execution during FY 2013 was duly audited by the IBAN (IBA-AR(2013)16) without comment or qualification.*

*The financial reporting and budget execution of 2012 credits were therefore consistent with the transition measures defined by the 28 Nations.*

**Board's position**

The STO Charter states that the CMRE is to be customer funded, and that customer funding includes that which is provided by common-funded sources. ACT, funded by the Military Budget, is the primary customer of the CMRE. As a

result, the Board's view is that all of the CMRE's 2013 activities that were funded by common-funded sources, in this case by ACT budgets, should have been included in the 2013 STO Financial Statements. This would have provided the reader with a more complete picture of the actual expenses incurred by CMRE during 2013.

As a customer, ACT is paying for activities performed by CMRE. As such, it is appropriate that ACT report such costs in its financial statements. ACT properly did this, and the Board's unqualified audit opinion on the 2013 ACT Financial Statements reflected this.

### ***Observation 2: CMRE - Expenses Overstated by Cruise Leave Provision***

*Not Agreed.*

#### *Rationale*

*STO (CMRE) accounting was coherent with previous IBAN guidance. IBAN guidance has evolved after the production of the accounts.*

#### *Detailed comments*

*The treatment of the Cruise Leave liability was previously addressed by the IBAN in the Audit Report covering FY 2012 (IBA-AR(2013)34). At that time the IBAN "recommend that for future years, this liability is recognised in the STO accounts as a liability". By contrast, in this Audit Report covering FY 2013, the IBAN states that this balance should have been included against prior year balances in FY 2012.*

*Further, in their report on FY 2012, the IBAN states that the accounting adjustments for Cruise Leave should include "a corresponding receivable from the nations". By contrast, in the IBAN Report on FY 2013 this requirement does not appear.*

*All parties agree a liability exists, and that is correctly accounted for in the STO FY 2013 statement of financial position. However, IBAN advice about the nature of the accounting adjustment has evolved over time.*

### **Board's position**

The IBAN guidance is consistent.

The STO is correct that the IBAN recommended that, for future years (i.e. 2013 and later until the liability is settled), this liability should be recognized in the STO financial statements as a liability. This was correctly done by STO because, at

31 December 2013, the liability had not yet been settled.

However, the Board's current year observation focuses only on the recording of an expense, not the liability. As stated above, the liability was not yet settled at 31 December 2013, so it was appropriate for STO to continue to report the outstanding liability. This was in line with the Board's prior year observation. However, the liability was not incurred in 2013, but rather, was incurred over numerous years before 2013, and thus, should not have been recorded as a 2013 expense. Rather, the opening equity that was transferred from ACT to CMRE at the creation of STO should have been reduced by this amount.

### **Observation 3: Unexpected 2013 Surplus**

*Not Agreed.*

#### Rationale

*The CMRE surplus was not unexpected. The Science and Technology Board remained fully informed of the evolving financial situation. Moreover, the CMRE surplus was at the upper end of the range of surpluses analysed in the Financial Plan.*

#### Detailed comments

*Being a customer funded entity, the CMRE bases its Financial Plan on a Statement of Planned Income and Expenditure (SPIE). The Financial Plan includes various scenarios (and their probability), with corresponding expected surpluses.*

*2013 was the first full year of customer funding for the CMRE. The STB and the CMRE joined forces to ensure expenses would decrease and that revenue would increase. The positive outcome of these efforts materialized at the upper end of the range of surpluses analysed in the Financial Plan.*

*The surplus has benefited the Nations and has positively influenced the CMRE charge-out rates, which were reduced both in 2014 and 2015.*

*It should be noted that Nations asked for a surplus to be generated to pay back the loan granted for the initial Net Equity Fund (NEF), to create CMRE's own NEF, and to address the liabilities generated during the NURC period, where the CMRE was part of ACT. Moreover, 1.5 M€ of the surplus has been reserved to pay for the dry docking of NRV Alliance in 2016, thereby reducing vessel rates for the Centre's principal customer ACT.*

**Board's position**

The 2013 Financial Plan foresaw revenues and expenses of EUR 28.1 million, resulting in no surplus or deficit. The 2013 Financial Plan, though, did also have an “ambition” revenue forecast of EUR 35.2 million. However, the plan is not specific on what level of surplus was expected at the “ambition” revenue forecast. Expenses presented in the 2013 Financial Plan were only based on the revenue forecast of EUR 28.1 million. No specific expense forecast was provided for the ambition revenue forecast of EUR 35.2 million. In the Board's view, it is unlikely for expenses to remain constant while revenues increase by 25%.

Furthermore, the actual surplus was earned on a much lower actual revenue base (EUR 28.5 million as reported in the STO Statement of Financial Performance) than the ambitious revenue forecast of EUR 35.2 million. While it perhaps could have been expected that a large surplus be generated at revenue of EUR 35.2 million, the Board continues to believe that it is unexpected at actual revenues of only EUR 28.5 million.

The Board would expect the large 2013 surplus to be offset by deficits in 2014 and 2015 in order to meet the Charter requirement of no profit or loss over 3-year planning periods. It will be seen whether the reduction to the 2014 and 2015 charge-out rates will accomplish this.

***Observation 4: STO Financial Reporting Process do not yet fully mitigate risk of errors in the Financial Statements***

*Agreed.*

**Rationale**

*The STO has revised the process by which the Financial Statements are reviewed before issue.*



**Observation 5: Non Compliance with Fixed Asset disclosure Requirements**

*Not Agreed.*

*Rationale*

*As stated by the IBAN, the “STO have followed the option set out in the NATO Accounting Framework”.*

*Detailed Comments*

*Because the items purchased before 1 January were previously recognised as an asset, there is now no further requirement to provide a brief description of these assets. However, the proposal by the IBAN to add further optional information will be considered by STO management.*

**Board’s position**

The Board’s view is that those items purchased before 1 January 2013 that were previously recognised as an asset should either continue to be reported as assets or, if removed as an asset, be included in the brief description of these assets as required by the NATO Accounting Framework.

Furthermore, not all CMRE assets purchased before 1 January 2013 were previously recognised correctly as assets. The ACT’s 2011 and 2012 audit opinions were qualified in respect to PP&E.

**Observation 6: Non Compliance with Representation Allowance Disclosures Requirements**

*Agreed.*

*Rationale*

*The STO will add the required disclosure note to the FY 2014 statements.*

**Status of Prior Year Observations**

*Agreed that the two of the four open observations from prior years have been settled. Noted that the two remaining observations have been superseded by current year observations 2 and 5 above.*



# SCIENCE AND TECHNOLOGY ORGANIZATION FINANCIAL STATEMENTS

31 December 2013



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## Executive summary

The Science & Technology Organization (STO) was created in July 2012 as part of NATO Agencies Reform. The mission of the STO is to help position the Nations' and NATO's S&T investments as a strategic enabler of the knowledge and technology advantage for the defence and security posture of NATO Nations and partner Nations by:

- a. Conducting and promoting S&T activities that augment and leverage the capabilities and programmes of the Alliance, of the NATO Nations and the partner Nations, in support of NATO's objectives;
- b. Contributing to NATO's ability to enable and influence security- and defence related capability development and threat mitigation in NATO and partner Nations, in accordance with NATO policies and;
- c. Supporting decision-making in NATO Nations and NATO.

The STO is composed of:

- a. The Science and Technology Board (STB);
- b. Executive Bodies; and
- c. Scientific and technical committees.

Governance of the STO is vested in the STB which reports to the NAC through the Military Committee and the Conference of National Armaments Directors (CNAD). Leadership of the STO is exercised by the Chief Scientists through his roles as Chair of the STB and Senior scientific advisor to NATO leadership

There are three executive bodies comprising the STO:

- a. The Office of the Chief Scientist (OCS), located within NATO Headquarters, Brussels, provides executive and administrative support to the NATO Chief Scientist in fulfilling his/her roles as the Chair of the Science & Technology Board (STB) and the Senior Scientific Advisor at NATO Headquarters. The OCS is common funded.
- b. The S&T Collaboration Support Office (CSO), located in Neuilly sur Seine, Paris, provides the executive and administrative support to the S&T activities conducted through the STO level 2 committees and level 3 working groups. The CSO is common funded.
- c. The Centre for Maritime Research and Experimentation (CMRE) located in La Spezia, Italy, organizes and conducts scientific research and technology development and delivers innovative and field-tested S&T solutions to address the defence and security needs of the Alliance. The CMRE is customer funded.

In accordance with the STO Charter<sup>1</sup> the Chief Scientist, supported by STO Financial Controller (FC), shall submit to the STB and IBAN consolidated financial statements in accordance with applicable International Public Sector Accounting Standards (IPSAS) as adapted by NATO<sup>2</sup>, and the NATO Financial Regulations.

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<sup>1</sup> C-M(2012)0046 Annex 1 para 25.1

<sup>2</sup> C-M(2013)0006

The STB shall approve the consolidated annual financial statements taking into the audit report of the International Board of Auditors for NATO (IBAN) and, where necessary, the comments of the STB Finance and Audit Sub-Group (FASG).

These are the first consolidated Financial Statements (FS) for the STO and are for the period from 1 January 2013 to 31 December 2013.

The statements reflect the financial position, the financial performance, the budget execution, the cash flow and the change in net assets for the reporting period. Notes provide further disclosures on key transactions following the materiality principle and where appropriate, segmented reporting.

The financial statements have been prepared primarily using the data from the FinS accounting software, where each executive body is a separate set of financial books / balancing segment.

As the IPSAS standards are continuously evolving, compliance is a dynamic process that requires staff to maintain up-to-date knowledge. It also requires that the accounting tools are suitably maintained and, when appropriate, upgraded. Therefore the STO maintains a dialogue with the other NATO Bodies and plays a full part in the IPSAS Working Group (IPSAS WG) and the Working Group of Financial Controllers. The STO remains committed to developing its IPSAS expertise and producing fully compliant financial statement using the applicable standards (as adapted, where relevant, by NATO) and any instructions issued by Nations e.g. from the NATO Resource Policy and Planning Board. The STO will also continue to work openly and constructively with the IBAN.



## Statement of Internal Control

The NATO Chief Scientist, Head of the Office of the Chief Scientist (OCS) and Chairman of the Science and Technology Board (STB) and the Directors of the Centre for Maritime Research and Experimentation (CMRE) and Collaborative Support Office (CSO), as Heads of the three respective Executive Bodies of the STO, collectively exercise the overall responsibility for maintaining a sound system of internal control.

The system of internal controls provides reasonable assurance regarding the achievement of the Boards objectives of adherence to NATO corporate governance principles<sup>3</sup>, specifically:

- a. Effectiveness and efficiency of operation;
- b. Reliability of internal and external reporting; and
- c. Compliance with applicable laws and regulations and internal policies.

The Science and Technology Board (STB) is advised and assisted in discharging these responsibilities by the STB Finance and Audit Sub-Group (FASG). The key roles of the FASG are to provide advice and recommendations to the STB in support of:

- a. All governance domains: direction and guidance, execution oversight, finance oversight and assessment;
- b. The Financial Management Activities of the STO Executive Bodies;
- c. The Audit Management Activities of the STO Executive Bodies; and
- d. The Risk Management Activities of the STO Executive Bodies

The STO Financial Controller (FC) exercises the control of the financial management system and related internal controls in the name of the respective Heads of the Executive Bodies and is responsible for the proper application of the NATO Financial Regulations and those financial policies approved by the Board. The FC maintains and controls the:

- a. Quality and accountability of financial systems;
- b. Accuracy of the organization's accounts;
- c. Quality of financial information;
- d. Internal financial supervision;
- e. Financial risk management;
- f. Control of funds;
- g. Application of financial regulations.

The system of internal control is designed to manage and reduce, rather than entirely eliminate, the risk of failure to achieve the organization's policies, aims, and objectives; it can therefore provide reasonable but not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of the organization's policies, aims, and objectives, to evaluate the nature and extent of those risks, and to manage them efficiently, effectively, and economically. The system of internal control can be primarily summarized as follows:

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<sup>3</sup> C-M(2005)0087

- a. Documenting policies, rules, and procedures governing financial management activities.
- b. Utilizing suitably qualified staff throughout the financial system, and ensuring that staff has a sound understanding of their responsibilities as set out in the NATO Financial Regulations (NFR) and the policies promulgated by the Board.
- c. Utilizing the principles of checks and balances, segregation of duties and reconciliations, management supervision, and a system of delegation to support this framework.
- d. Maximizing the use of our common accounting system, FinS, that has built in approval workflows and controls together with audit trails. Transactions are recorded using a consistent approach based on the Military Budget Chart of Accounts.
- e. Performing direct inspection on a sample basis of financial records and activities with a financial impact. This includes when necessary undertaking formal internal audits.
- f. Acting upon any recommendations and observations made by the IBAN during their external audit of financial statements.
- g. Reducing risk by utilizing proven services provided by other NATO Bodies and through outsourcing where practical. This is also an efficiency measure to avoiding duplication of services and seeks economies of scale.
- h. Reporting and explaining aspects of financial management control and execution to the STB and the relevant finance committee(s).



Peter Bontinck  
Financial Controller  
Science and Technology Organization



Albert Husniaux  
Major General, BEAF  
Chairman  
NATO Science and Technology Board



**Statement 1 – STO Consolidated Statement of Financial Position**

		(in euro)		
		2013	2012 Restated *	2012
<b>ASSETS</b>				
<b>Current Assets</b>	Notes			
Cash and Cash Equivalents	1	13,491,204	6,383,490	6,383,490
Receivables	2	2,510,052	1,015,602	1,015,602
Prepayments and Miscellaneous Assets	3	407,991	93,288	93,288
		<b>16,409,247</b>	<b>7,492,380</b>	<b>7,492,380</b>
<b>Non-current Assets</b>				
Property, Plant and Equipment	4	109,282	-	1,226,175
<b>TOTAL ASSETS</b>		<b>16,518,529</b>	<b>7,492,380</b>	<b>8,718,556</b>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Payables	5	1,245,701	467,758	467,758
Advances from Customers	6	810,444	1,078,739	1,078,739
Unearned Revenues	7	4,166,277	2,982,369	2,982,369
		<b>6,222,422</b>	<b>4,528,866</b>	<b>4,528,866</b>
<b>Non-current Liabilities</b>				
Provisions	8	959,231	-	1,226,175
Long-term Borrowing	9	2,101,206	-	-
		<b>3,060,436</b>	<b>-</b>	<b>1,226,175</b>
<b>TOTAL LIABILITIES</b>		<b>9,282,859</b>	<b>4,528,866</b>	<b>5,755,041</b>
<b>NET ASSETS</b>		<b>7,235,670</b>	<b>2,963,514</b>	<b>2,963,514</b>
<b>NET ASSETS/EQUITY</b>				
Accumulated surplus	10	2,963,514	2,785,896	2,785,896
Result of the period (deficit)		4,272,156	177,619	177,619
		<b>7,235,670</b>	<b>2,963,514</b>	<b>2,963,514</b>

\* This column reports the restatement of the Property, Plant and Equipment and related provisions (see Notes 4 and 8)

**Statement 2 – STO Consolidated Statement of Financial Performance**

		(in euro)		
		2013	2012 Restated *	2012
		<hr/>		
<b>REVENUES</b>	Notes 11			
Operating Revenues		33,892,643	6,501,432	6,570,624
Financial Revenues		11,882	21,667	21,667
<b>TOTAL REVENUES</b>		<b>33,904,525</b>	<b>6,523,100</b>	<b>6,592,292</b>
		<hr/>		
<b>EXPENSES</b>	12			
Personnel		18,678,380	4,535,473	4,535,473
Supplies and Services		9,491,424	1,670,666	1,563,880
Capital and Investments		418,080	124,665	118,333
Depreciation		54,641	-	182,311
Financial Expenses		30,613	14,676	14,676
Provision Expenses for Cruise Leave		959,231	-	-
<b>TOTAL EXPENSES</b>		<b>29,632,369</b>	<b>6,345,481</b>	<b>6,414,673</b>
		<hr/>		
<b>SURPLUS/(DEFICIT) FOR THE PERIOD</b>	13	<b>4,272,156</b>	<b>177,619</b>	<b>177,619</b>
		<hr/>		

\* This column reports the restatement of the Depreciation expenses and the associated changes in Revenues and Expenses (See notes 11 and 12)

**Statement 3 – STO Consolidated Statement of Cash Flow**

	(in euro) <b>2013</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	
<i>Surplus / (Deficit)</i>	<b>4,272,156</b>
Depreciation	54,641
Increase / (Decrease) in payables	777,943
Increase / (Decrease) in other current liabilities	1,832,911
Increase / (Decrease) in Provisions	4,523,235
Decrease / (Increase) in receivables	(1,494,450)
(Gains) / Losses on sale of property, plant and equipment	-
Decrease / (Increase) in other-Current Assets	(314,702)
Increase / (Decrease) in Non-Current Assets	109,282
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	<b><u>9,761,016</u></b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>	
Purchase of property, plant and equipment	(163,924)
Proceeds from sale of property, plant and equipment	-
Cash Advances	-
<b>NET CASH FLOW FROM INVESTING ACTIVITIES</b>	<b><u>(163,924)</u></b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>	
Increase in borrow ings	2,101,206
Repayment of borrow ings	-
<b>NET CASH FLOW FROM FINANCING ACTIVITIES</b>	<b><u>2,101,206</u></b>
<b>NET INCREASE/DECREASE CASH AND CASH EQUIVALENT</b>	<b>7,107,714</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>	<b><u>6,383,490</u></b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b><u>7,107,714</u></b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	<b><u>13,491,204</u></b>

**Statement 4 – STO Consolidated Statement of Change in Net Equity**

	(in euro)				
	Contributed Capital	Revaluation Reserve	Translation Reserve	Accumulated Surplus/(Deficit)	Total
<b>Balance at 31-December 2011</b>	-	-	-	2,785,895	2,785,895
Change in accounting policy					-
Net increase/(decrease) of bookvalue of property, plant and equipment					-
Surplus/(deficit) on revaluation of property					-
Currency translation differences					-
<b>Net increase/(decrease) of reserves</b>	-	-	-	-	-
Net gains/(losses) not recognized in the Statement of Financial Performance					-
Net surplus for the period				177,619	177,619
<b>Balance at 31-December 2012</b>				2,963,514	2,963,514
Change in accounting policy					-
Net increase/(decrease) of bookvalue of property, plant and equipment					-
Surplus/(deficit) on revaluation of property					-
Currency translation differences					-
<b>Net increase/(decrease) of reserves</b>	-	-	-	-	-
Net gains/(losses) not recognized in the Statement of Financial Performance					-
Net surplus for the period				4,272,156	4,272,156
<b>Balance at 31-December 2013</b>	-	-	-	7,235,670	7,235,670
<b>CHANGE IN NET ASSETS/EQUITY (OPERATING FUND)</b>	-	-	-	-	<b>4,272,156</b>



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## NOTES TO THE STO CONSOLIDATED FINANCIAL STATEMENTS

### A. ACCOUNTING POLICIES

#### Accounting Period

The STO Financial Statements are based on the accounting records of the STO as of 31 December 2013. In accordance with Article 2 of the NATO Financial Regulation (NFRs), the financial year for STO begins on 1 January and ends on 31 December of the year.

#### Reporting Currency

The functional and reporting currency used throughout these Financial Statements is the Euro (EUR).

#### Basis for Preparation

The Financial Statements have been prepared on a going-concern basis. The STO includes the Centre for Maritime Research and Experimentation (CMRE), the Collaboration Support Office (CSO) and the Office of the Chief Scientist (OCS). Due to the establishment of the STO on 1 July 2012, Consolidated STO Financial Statements have been produced for the first time in 2013.

#### Financial Reporting Framework

The STO Financial Statements have been prepared in accordance and comply with the NATO Accounting Framework<sup>4</sup> for all NATO Reporting Entities<sup>5</sup>, an adapted version of International Public Sector Accounting Standards (IPSAS).

This Accounting Framework has been developed to provide minimum requirements for financial reporting for all NATO Reporting Entities and was approved by the North Atlantic Council on 14 February 2013 as an IPSAS-adapted accounting framework for the Alliance.

This Accounting Framework is applicable for financial reporting periods beginning on 1 January 2013.

The accounting principles recognized as appropriate for the recognition, measurement and reporting of the financial position, performance and cash flows on an accrual based accounting using historical costs have been applied consistently throughout the reporting period to ensure that the financial statements provide information that is relevant to the decision-making and reliable, comparable, and understandable in light of the qualitative characteristics of financial reporting as well as of the principle of the right balance between the benefits derived from the information and the costs of providing it as required by IPSAS 1.29 and further summarized in Appendix A of IPSAS 1.

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<sup>4</sup> C-M(2013)0006

<sup>5</sup> A NATO Reporting Entity is a NATO entity which is required to produce financial statements and where the audit opinion is addressed to the North Atlantic Council.

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The Cash Flow Statement is prepared using the indirect method and the format follows the layout provided by IPSAS 2 (Cash flow Statements).

The STO Financial Statements have also been prepared in accordance with the accounting requirements of the NFRs and the Financial Rules and Procedures (FRP) and the relevant entity directives and policies. In instances where there is a conflict between IPSAS and the NFRs and FRP, this has been noted.

#### Changes in Accounting Policy

The same accounting policies are applied within each period and from one period to the next, unless a change in accounting policy meets one of the criteria set out in IPSAS 3.

The STO followed the option set in the NATO Accounting Framework to consider fully expensed all PP&E acquired prior to 1 January 2013. Therefore, the 2012 Financial Statements have been restated accordingly.

For the 2013 Financial Statements, the accounting policies have been applied consistently throughout the reporting period. As of 1 January 2013, the new NATO Accounting Framework has been applied to the STO, mainly for the items related to IPSAS 17 – Property, Plant and Equipment (PP&E).

#### Foreign Currency Transactions

Transactions in currencies other than the functional currency are converted into Euro at the NATO exchange rates prevailing at the time of the transaction. Monetary assets and liabilities at year-end which were denominated in foreign currencies were converted into Euro using the NATO exchange rates that were applicable on 31 December 2013.

Realized and unrealized gains and losses resulting from the settlement of such transactions and from the revaluation at the reporting dates of monetary assets and liabilities denominated in foreign currencies are recognized in the Statement of Financial Performance.

#### Consolidation

Consolidated Financial Statements include the financial results of the controlling entity and its controlled entities. When consolidation occurs, inter-entity balances and transactions are eliminated.

According to the Article 25 of the Charter of the NATO Science and Technology Organization, the Chief Scientist, supported by the STO Financial Controller, shall submit to the STB and the International Board of Auditors for NATO (IBAN) Consolidated Annual Financial Statements.

#### Services In-Kind

Services in-kind are services provided by individuals to public sector entities in a non-exchange transaction. These services meet the definition of an asset because the entity controls a resource from which future economic benefits or service potential is expected to flow to the entity. An entity may, but



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is not required to, recognize services in-kind as revenue and as an asset, and a decrease in an asset and an expense upon consumption of the service in-kind. Due to many circumstances surrounding services in-kind, including the ability to exercise control over the services, and measuring the fair value of the services, IPSAS does not require the recognition of services in-kind.

**Assets – Current Assets**

The entity holds the following types of current assets:

***a. Cash and Cash Equivalents***

Cash and Cash Equivalents are defined as short-term assets. They include cash on-hand, petty cash, current bank accounts, deposits held with banks, other short-term highly liquid investments.

***b. Receivables***

Receivables are stated at net realizable value, after provision for doubtful and uncollectible debts.

In accordance with IPSAS, receivables are broken down into amounts receivable from user charges, taxes, receivable from related parties, etc.

Contributions receivable are recognized when a call for contribution has been issued to the member nations. No allowance for loss is recorded with respect to member countries' assessed contributions receivable except for exceptional and agreed technical reasons.

***c. Inventories***

IPSAS 12 defines inventories, establishes measurement requirements under the historical costs system, and establishes disclosure requirements. The STO assesses inventories under IPSAS 12 and the outcome of this assessment is that the value of the inventories is immaterial both in value and in terms of the nature of the items held. Consequently, inventory is fully expensed on receipt.

***d. Prepayments***

Prepayments are mainly in respect of advance payments made to third parties.

**Assets – Non - Current Assets**

In this category, the STO is reporting all assets invested for more than 12 months or receivable beyond 12 months from the closing date of the Financial Statements.

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**a. Property, Plant and Equipment (PP&E)**

Basic Principles:

- In accordance with the NATO Accounting Framework, all the PP&E acquired prior to 1 January 2013 have been fully expensed;
- Buildings are shown at their revalued amounts, which will be revalued in case any relevant information is received from the Host Nations;
- All other property, plant and equipment are stated at historical cost less accumulated depreciation and any recognized impairment loss;
- No external evaluator to set values for assets;
- No grouping of assets;
- Full depreciation / amortization in the month of acquisition, and none in the month of disposal.

PP&E categorizations for purposes of determining the appropriate depreciable life of the assets is listed in the table below. The categories for both tangible and intangible assets complete with the years in which the asset is to be depreciated.

Straight-line depreciation method is used for all categories; however the depreciable life of an asset is dependent on the particular category it is in.

As an accounting principle, Land cannot be depreciated.

Category	Threshold	Depreciation life	Method
Land	200,000	N/A	N/A
Buildings	200,000	40	Straight line
Other infrastructure	200,000	40	Straight line
Installed equipment	30,000	10	Straight line
Machinery	30,000	10	Straight line
Vehicles	10,000	5	Straight line
Aircraft	200,000	Dependent on type	Straight line
Vessels	200,000	Dependent on type	Straight line
Mission equipment	50,000	3	Straight line
Furniture	30,000	10	Straight line
Communications	50,000	3	Straight line
Automated information systems	50,000	3	Straight line



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***b. Impairment of tangible assets***

The carrying values of fixed assets are reviewed for impairment if events or changes in circumstances indicate that they may be not recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Any provision for impairment is charged against the statement of financial performance in the year concerned.

***c. Intangible Assets***

The basic principles for PP&E apply to intangible assets. No intangible asset has been purchased in 2013.

**Liabilities – Current Liabilities**

***a. Payables***

Payables are amounts due to third parties for goods received or services provided that remain unpaid as of the reporting date. Accruals are estimates of the cost for goods and services received at year-end but not yet invoiced.

***b. Advances from Customers***

Advance from customers are either made cash to serve as working capital or result from advance billings to customers where the cost burn rate slips in comparison with the agreed payment milestones. The latter will be compensated at the time the income will be earned.

***c. Unearned Revenue***

For CSO and OCS, unearned revenue represents contributions from Nations and/or third parties that have been called for current or prior years' budgets but that have not yet been recognized. Funds are called in advance of their need because the entity has no capital that would allow it to pre-finance any of its activities.

For CMRE, unearned revenue represents revenue from customers that have been invoiced for current or prior years' activities but that have not yet been recognized.

***d. Employee benefits***

IPSAS 25 prescribes the accounting treatment of the following employee benefits:

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- Short-term benefits which fall due wholly within twelve months after the end of the accounting period in which employees render the related service;
- Post-employment benefits;
- Termination benefits.

Employees who have joined NATO before 1 July 2005 are members of the NATO Coordinated Pension Scheme which is a funded defined benefit plan. Under the plans and upon completion of 10 years employment with NATO, the employees are entitled to retirement benefits of 2% per year of service of final basic salary on attainment of a retirement age of 60. No other post-retirement benefits are provided to these employees. Staff members whose length of service is not sufficient to entitle them to a retirement pension are eligible for a leaving allowance.

Employees who have joined NATO after 1 July 2005 participate in the New Defined Contribution Pension Scheme (DCPS) administered by NATO.

Contributions to these Plans are limited to matching the employees' contributions for current service.

The assets and liability for NATO's Coordinated Pension Scheme are accounted for centrally at NATO Headquarters and therefore are not recognized in these financial statements, whilst the employer's contribution made to the New Defined Contribution Pension Plan are expensed during the reporting period.

Members of the staff are eligible for the benefits of the group insurance scheme while employed. Staff members who leave the Organisation having completed a minimum of 10 years uninterrupted service and who have reached the age of 55 shall be permanently entitled to the reimbursement of medical expenses. The STO entities contribute a percentage of current payroll costs to provide benefits for current employees, but do not contribute to the provision of post-retirement benefits.

#### **Liabilities - Non-Current Liabilities**

##### ***Provisions***

Provisions are recognized when the entity has a legal or constructive obligation as a result of past event, and where it is probable that an outflow of resources will be required to settle the obligation, and where a reliable estimate of the amount of the obligation can be made.

##### **Net Assets**

Net assets represent the residual interest in the assets of the entity after deducting its liabilities.



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Revenue and Expense Recognition

**a. Revenue**

In accordance with IPSAS 1, revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners. In NATO, the contributions by nations relating to the execution of the annual budget are also included in revenue.

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be measured reliably. Revenue comprises contributions from Member Nations and other customers to fund the entity's activities.

Revenue is recognized in the Statement of Financial Performance when such revenue is used for its intended purpose as envisioned by operational budgets or projects. The balance of unspent revenue and other revenue that relates to future periods is deferred accordingly and is categorized as unearned revenue.

Where a budget transfer is subject to conditions that, if unfulfilled, require the return of the transferred resources, the entity recognizes a liability until the condition is fulfilled.

Bank interests earned and accrued as of 31 December 2013, exchange rate revenue due to transactions in foreign currency and realized exchange rate revenue in accordance with the entity Policy IPSAS 4 - Effect of the foreign exchange rate are recognized as financial revenue.

**b. Expenses**

Budgetary expenses are recognized when occurred. Accruing of expenses is based on the concept of accruing when goods and services are received.

Bank charges, exchange rate losses due to transaction in foreign currency and realized exchange rate losses in accordance with the IPSAS 4 - Effect of the foreign exchange rate - are recognized as financial expenses.

Surplus or Deficit for the Period

For the common funded entities (CSO and OCS), revenue is recognized up to the value of the matching expenses. Any resulting surplus is recorded as unearned revenue and categorized as miscellaneous income and lapsed budgetary credits. The unearned revenue represents a liability owed to the funding nations that is accounted for in the call for contributions of the subsequent year. The result is that no surplus is generated as a consequence of unearned revenue.

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For the CMRE, which is customer funded, unearned revenue is recorded as part of the surplus (or deficit) of the reporting period. As provided in the STO charter<sup>6</sup> the Centre operates on a no-profit / no-loss principle over time, however, the financial construct anticipates that a surplus or deficit may result in any given period.

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<sup>6</sup> C-M(2012)0046 Article 23.1

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## **B. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES**

In accordance with generally accepted accounting principles, the financial statements necessarily include amounts based on estimates and assumptions made by the management and based on historical experience as well as on the most reliable information available. In exercising the judgment to make the estimates a degree of caution was included in light of the principle of 'prudence' required by IPSAS in order not to overstate assets or revenue or understate liabilities or expenses.

The estimates and underlying assumptions are reviewed on an ongoing basis. These estimates and assumptions affect the amounts of assets, liabilities, revenues and expenses reported. By their nature, these estimates are subject to measurement uncertainty. The effect of changes to such estimates and assumptions in future periods could be significant to the financial statements.

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## C. NOTES TO THE STATEMENT OF FINANCIAL POSITION

### 1. Cash and cash equivalents

Cash and Cash Equivalent		2013	2012	(in euro) Variance
Petty Cash		6,822	1,924	4,898
Bank accounts	EUR	9,067,553	4,294,853	4,772,701
	GBP	64,615	-	64,615
	USD	303,214	36,714	266,500
Short-term deposits		4,049,000	2,050,000	1,999,000
<b>Total Cash and Cash Equivalents</b>		<b>13,491,204</b>	<b>6,383,490</b>	<b>7,107,714</b>

Petty cash is a small fund of cash kept on hand for very small purchases or reimbursements.

Current Bank Accounts are held in EUR, GBP and USD. Bank deposits showed above that are denominated in foreign currencies have been converted to reporting currency at the closing date exchange rate.

Short-term deposits include the Budget Committee loan for the initial funding of the CMRE Net Equity Fund (NEF) (See Note 9). These are highly liquid investments that are readily convertible to cash and that are not subject to significant risk of change in value.

The 2013 bank accounts include cash associated with the first full year of CMRE customer funding regime, whereas the 2012 figures reflect only the cash associated with the former NURC Charter and Customer work programme.

### 2. Accounts receivable



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Receivables	(in euro)		
	2013	2012	Variance
Receivable from NATO Entities	1,367,550	84,029	1,283,520
Receivable from Staff Members	-	4,498	(4,498)
Receivable from Third Parties	641,908	693,044	(51,136)
Receivable from Governments	127,881	39,274	88,606
Prepaid Expenses	143,377	1,500	141,877
Invoices to be established	205,794	193,133	12,661
Other Receivable	23,543	123	23,417
<b>Total Receivables</b>	<b>2,510,052</b>	<b>1,015,602</b>	<b>1,494,450</b>

***Receivable from NATO Entities***

Significant receivables from NATO Entities at year-end 2013 include a CMRE Invoice to NATO HQ SACT for the 2013 Programme of Work (EUR 1,333,501).

***Receivable Third Parties***

Significant receivables from Third Parties at year-end 2013 include CMRE Invoices from Industry (EUR 323,500), and Nations (EUR 242,293).

***Receivable from Governments***

This relates to Value Added Tax (VAT) paid by the CSO and subject to reimbursements from the Host Nation.

***Prepaid expenses***

This item relates to the Ship Management contract for the management of the vessel NRV Alliance. The Ship Management Company receives an advance from CMRE and makes trial balance reconciliations that reflect their prepayments, accruals and petty cash transactions.

***Invoices to be established***

This relates to services that have been provided to the CMRE customers including European Community Consortia Projects (EUR 100,320) and Nations (EUR 102,501), but for which the related invoices have not been issued at the end of the reporting period.

***Other Receivable***

These are miscellaneous receivables from multiple sources.

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### 3. Prepayments and Miscellaneous assets

The advance to vendors is composed mainly of cash provided to the Ship Management Company (341,880 EUR), for crew salaries, stores, insurance and spare parts.

### 4. Property, Plant and Equipment

	(in euro)
	Mission Equipment
Gross Book Value (31 Dec 2012)	-
Deletions (31 Dec 2012)	-
<b>Gross Book Value (1 Jan 2013)</b>	-
Accumulated Depreciation (31 Dec 2012)	-
Deletions (31 Dec 2013)	-
<b>Accumulated Depreciation (1 Jan 2013)</b>	-
Net Book Value (1 Jan 2013)	-
Additions in 2013	163,924
Disposal in 2013	-
Depreciation in 2013	(54,641)
<b>Net Book Value (31 Dec 2013)</b>	<b>109,283</b>
<b>Gross Book Value (31 Dec 2013)</b>	<b>163,924</b>
<b>Accumulated Depreciation (31 Dec 2013)</b>	<b>(54,641)</b>
<b>Net Book Value (31 Dec 2013)</b>	<b>109,283</b>

Mission equipment was purchased in 2013 by CMRE in order to maintain its cutting edge ocean engineering capabilities.

- ScanFish Rocio Multi-purpose Remotely Operated Towed Vehicle(ROTV) for oceanographic surveys;
- Meteo Bouy for ocean observation.

#### **CMRE Premises**

CMRE is located in La Spezia (Italy) on the Italia Navy compound (CSSN). The majority of the premises are provided by the Host Nation at no cost to CMRE (HN).

#### **CSO Premises**

The Collaboration Support Office (CSO) is located in Neuilly-sur-Seine, France. The premises are provided by the Host Nation (HN). The CSO pays a nominal annual charge for use of the facilities.

#### **OCS Premises**



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The OCS is hosted in the NATO headquarters in Brussels. The premises are provided at no cost to the OCS.

## 5. Payables

Payables	(in euro)		
	2013	2012	Variance
Payables to Suppliers	467,591	224,393	243,199
Accruals	778,110	243,365	534,745
<b>Total Payables</b>	<b>1,245,701</b>	<b>467,758</b>	<b>777,943</b>

### *Payable to Suppliers*

Payables to Suppliers include invoices received from suppliers but not yet settled.

### *Accruals*

Accrued expenses are accounted for goods and services received from suppliers but not yet invoiced as of 31 December 2013.

## 6. Advances from Customers

At year-end 2013, the advances amount to EUR 810,444. This includes amounts pre-financed by European Community Consortia for CMRE projects valued at EUR 807,345.

## 7. Unearned Revenue and advances

	(in euro)
Unearned revenue	2,028,039
Advance Contributions	1,500,000
Costs to complete	165,000
Other Unearned revenues	127,099
Liabilities from Lapses	283,208
Liabilities from Operational Result	60,415
Liabilities from Financial Result	2,516
<b>Total Unearned Revenue</b>	<b>4,166,277</b>

### *Unearned revenue*

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Unearned revenue consists of 2013 contributions/revenues received for which corresponding expenses will be incurred after the reporting period (EUR 433,611 for the OCS EUR 25,790 for the OCS and EUR 1,568,637 for CMRE).

***Advance Contributions***

The Advance Contributions correspond to cash called from the Nations for the following financial year and represent approximately 25% of the provisional total budget allocation. This mechanism is applicable to the common fund organizations (CSO and OCS).

***Costs to complete***

The costs to complete represent costs outstanding at the end of the reporting period that are associated with the completion of CMRE customer funded projects. These costs consist of major equipment procurement that has been delayed in order to update performance specifications based on knowledge acquired in the course of project execution.

***Other Unearned revenues***

***CSO (EUR 68,860)***

This amount consists mainly of advances for future S&T activities, including € 46,359 VNC Funds, and € 20,000 invoiced to ACT for cost-shared events including ITEC 2014 and ITSEC 2014.

***CMRE (EUR 58,239)***

This amount reflects customer advances for multi-year CMRE activities that are not fully completed at the end of 2013 such conferences and software development.

***Liabilities from Lapses 2013***

The Liabilities from Lapsed Budget Authorization are, for the common-funded entities (CSO and OCS), predominantly due to lower than expected costs in the execution of the STO Program of Work as well as in the operation and maintenance area.

The lapses from budget authorizations are mainly composed of the lapses from the 2013 budget and of the lapses from the 2012 and 2011 budgets carried-forward to 2013.

***Liabilities from Operational Results***

The Liabilities from Operational Results are applicable to the common-funded organizations (CSO and OCS).



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They are composed of miscellaneous income generated by reimbursements (€ 6,227) and by the accrual write-off for previous years (€ 54,188) where the final invoice was lower than the estimated accrued amount.

***Liabilities from Financial Results***

The Liabilities from Financial Results are, for the common-funded entities (CSO and OCS), the net amount of bank interest received, bank charges and realized gains and losses generated during 2013, after offsetting the expenses. The surplus of financial revenue has been transferred to the liabilities from financial results for an amount of € 2,516.

As the CMRE is customer-funded, there is no offsetting of financial revenue and expenses and the financial result has been reported as a deficit of 18,731 EUR. The main reason for this result is due to loss on exchange rate.

**8. Provision**

In early 2012, the predecessor to the CMRE, the NATO Undersea Research Centre (NURC) undertook a review of the common funded business model that had been used up to that point in preparation for the transition to the STO and the customer funded business model. The NURC identified the accumulation of Cruise Leave (CL) as a potential obligation. Cruise Leave is a form of compensatory time off for working on weekends and holidays while at sea on-board CMRE's vessels. At that time, staff were permitted to accumulate CL if needed to mitigate the impact that using the leave would have on current operations. That practice was stopped.

Based on an assessment of the history and purpose of Cruise Leave it was determined that CMRE had a present obligation with respect to CL earned under the previous scheme and that resources would be required to settle the obligation. An audit of the 2012 CMRE accounts confirmed this assessment and the IBAN recommended that for future years the associated liability is recognised in the STO accounts as a provision. At the time of the recommendation a value of 800,000 Euro was assessed based on the estimated cost of paying staff for their leave.

As of 31 December 2013 the number of Cruise Leave days stood at 2,567. This balance was valued at € 959,408. The revised valuation was assessed by calculating the cost for individual staff members to use the leave using their 31 December 2013 salary and emoluments.

**9. Long term borrowings**

The Organisation holds a loan<sup>7</sup> from Nations which provides part of the initial funding of the CMRE Net Equity Fund (NEF). Each year the liability is increased with the accrued bank interests. The terms of the loan require return of the funds at the close of fiscal year 2014.

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<sup>7</sup> NATO Budget Committee Decision (BC-DS(2013)0009) of March 2013

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## 10. Accumulated Surplus

The STO Charter<sup>8</sup> provides that the governing board may establish a Net Equity Fund to facilitate the operations of the CMRE. The fund has been established to provide liquidity for projects, acts as a buffer for project gains and losses, and provides a source of funds for investment.

As a consequence of the implementation of IPSAS 17 a portion of the surplus has been categorised as a depreciation reserve representing the value of assets not yet fully depreciated.

### Net Equity Fund

		Net Equity funds categories			
		Working Capital Funds	Investment	Buffer Fund	Depreciation Reserve
Balance at 31-December 2012	2,963,514	1,563,514	-	1,400,000	-
2013 Surplus of the period	4,272,156	1,312,874	2,750,000	100,000	109,282
<b>Balance at 31-December 2013</b>	<b>7,235,670</b>	<b>2,876,388</b>	<b>2,750,000</b>	<b>1,500,000</b>	<b>109,282</b>

<sup>8</sup> STO Charter (C-M(2012)0046) articles 23.3 and 24.1

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**D. NOTES TO STATEMENT OF FINANCIAL PERFORMANCE****11. Revenue**

<b>Operating Revenues</b>			(in euro)
	2013	2012	Variance
Revenues from Contributions	5,406,160	5,264,278	141,882
Revenues from Services	28,469,266	1,193,447	27,275,819
Revenues from Reimbursable and Delegated Budget	17,217	43,707	(26,490)
Financial Revenues	11,882	21,667	(9,785)
			-
<b>Total Operating Revenues</b>	<b>33,904,525</b>	<b>6,523,100</b>	<b>27,381,425</b>

***Revenue from Contributions***

Contributions when called are booked as an advance under unearned revenue and subsequently recognized as revenue when earned.

The revenue recognition is matched with the recognition of expenses against the CSO Budget (908) and OCS Budget (907). For the Reimbursable Budget (International Military Staff Budget ZNC-504/508), revenues are recorded when the invoices are presented for reimbursement every quarter.

***Revenue from Services***

The revenue indicated is the value of the work completed and delivered by the CMRE at the end of 2013 under the customer funded business model.

Prior to 2013 the CMRE was a hybrid funded organisation in which the majority of its activity was undertaken using common funding while a small part of the activity was realised under the Supplementary Work (SWP) and Ship Charter Programmes (Charter) using a fee for service, customer funded payment model.

At the end of fiscal year 2012 the STO and HQ SACT implemented a Budget Committee decision<sup>9</sup> which provided that the assets and liabilities associated with the SWP and Charter Programmes would pass to the STO while those associated with the common funded HQ SACT Programme of Work remained under the governance of and be reported in financial statements of ACT. The 2012 figure above reflects the revenue associated with the SWP and Charter programmes.

***Revenues from Reimbursable budget***

<sup>9</sup> BC-DS(2012)0026 NURC Transition Update



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This relates to the CSO Partnership for Peace (PfP) budget for reimbursable activities.

## 12. Expenses

Expenses	(in euro)		
	2013	2012	Variance
Personnel	18,678,380	4,535,473	14,142,907
Supplies and Services	9,491,424	1,670,666	7,820,758
Capital and Investments	418,080	124,665	293,414
Depreciation	54,641	-	54,641
Financial Costs	30,613	14,676	15,937
Provision Expenses for Cruise Leave	959,231	-	959,231
<b>Total Expenses</b>	<b>29,632,369</b>	<b>6,345,481</b>	<b>23,286,888</b>

### Personnel

Personnel expenses for the period include salaries and emoluments for civilian positions and temporary personnel, other salary related and non-related allowances, such as overtime, medical examinations, and the cost of recruitment, installation, and household goods removal, and for contracted consultants and training.

### Supplies and Services

Supplies and Services include expenses required for STO activities: general administrative costs, maintenance costs of buildings/grounds, communications and information systems, transportation, travel expenses, representation/hospitality and miscellaneous expenses. Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term and are included as Contractual Supplies and Services expenses.

### Capital and Investments

Capital and Investments are reported as expenses. Capital and Investments which exceed the capitalisation thresholds are capitalized as PP&E and depreciated.

### Provision for Cruise Leave

See Note C8 related to the provision for Cruise Leave.

## 13. Surplus or Deficit for the Period

The STO's result for 2013 showed a surplus of EUR 4,272,156. This represents the surplus from operations at CMRE. Surpluses and deficits for the period are credited or debited to the CMRE Net Equity Fund as described above in note 10 to the Statement of Financial Position.

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For the common funded entities (CSO and OCS), the operating revenue is recognized up to the amount of the matching expenses. The financial revenue and the miscellaneous revenue, after offsetting the related expenses, are booked as liabilities to the Nations. Therefore they generate no surplus or deficit

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## **E. EVENTS AFTER REPORTING DATE**

Under IPSAS 14.5 (Events after the reporting date) reporting entities are required to disclose any event, both favourable and unfavourable, which occurs between the reporting date and the date when the financial statements are authorized for issue. STO's reporting date is the 31 Dec 2013. On the date of signing of these accounts there has been no material event, favourable or unfavourable incurred between the Statement of Financial Position date and the date when the Financial Statements have been authorized for issue that would have impacted these statements.



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## F. RELATED PARTIES DISCLOSURE

Under IPSAS 20 Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial and operating decisions. IPSAS 20 requires the disclosure of the existence of related party relationships, where control exists, and the disclosure of information about transactions between the entity and its related parties. This information is required for accountability purposes and to facilitate a better understanding of the financial position and performance of the reporting entity.

A specific statement on disclosure of Related Parties is signed by the Management Personnel and retained for auditing purposes.

The key management personnel consists of officers of flag rank or civilian equivalent:

Office of the Chief Scientist	<ul style="list-style-type: none"> <li>NATO Chief Scientist</li> </ul>
Centre for Maritime Research and Experimentation	<ul style="list-style-type: none"> <li>CMRE Director</li> <li>CMRE COO &amp; Deputy Director</li> <li>CMRE CTO</li> </ul>
Collaborative Support Office	<ul style="list-style-type: none"> <li>CSO Director</li> <li>CSO Deputy Director</li> </ul>

The key management personnel of the STO have no significant known related party relationships that could affect the operation of the STO. STO's key management personnel and S&T Board Members are remunerated in accordance with the applicable NATO or National pay scales.

### Compensation of key management personnel

S&T Board members receive no remuneration from NATO. Board Members do not receive any additional remuneration or access to preferential benefits from NATO for their Board responsibilities, such as the entitlement to receive loans.

STO's key management personnel are remunerated in accordance with the published NATO salary scales. The compensation consists of basic salary, various allowances, health insurance, pension plan and other benefits as agreed with each Host Nation and the Protocols of NATO.

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## G. EMPLOYEE DISCLOSURE

Employees of the STO are remunerated in accordance with the published NATO salary scales. The compensation consists of basic salary, various allowances, health insurance, pension plan and other benefits as agreed with each Host Nation.

### STO Workforce

Peacetime Establishment	PE - Authorized			PE - Filled		
	Mil	Civ	Total	Mil	Civ	Total
CSO	14	38	52	12	34	46
OCS	4	5	9	3	5	8
CMRE	9	0	9	5	0	5
<b>International Manpower Ceiling</b>	<b>27</b>	<b>43</b>	<b>70</b>	<b>20</b>	<b>39</b>	<b>59</b>
CMRE - Customer Funding	N/A				133	133
<b>Total Establishment Strength</b>	<b>27</b>	<b>43</b>	<b>70</b>	<b>20</b>	<b>172</b>	<b>192</b>

For OCS 2 Civilian positions are funded by Civil Budget

The personnel establishments of the STO entities are shown above. For the OCS, CSO, and the military component of the CMRE, the personnel establishment is fixed annually.

The CMRE civilian workforce is set annually by the governance board based on the anticipated work load. The figure above reflects the number of filled positions on 31 December 2013.

### Employee Benefits

The costs reported under Personnel Expenses cover staff members hired under the NATO Civilian Personnel Regulations as well as consultants and contractors.

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#### Untaken Leave

NATO civilian staff earn 2.5 days of leave for each month worked. Untaken leave at year-end may be carried-over to the following year.

The STO has taken measures to ensure all leave is taken by 30 April of the following year in accordance with the CPRs. Exceptionally, annual leave not taken by 31 October following the year in which it was accrued shall be forfeited (NCPR 42.3.6).

Leave may eventually be paid if they result from approved Council Operations or extended sick leave. In 2013, EUR 5,481 were paid by CMRE for a staff member on extended sick leave.

The balance of untaken leave as of 31 December 2013 is shown below:

OCS: days	0
CSO: days	238
CMRE: days	1,496



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## H. COMPARISON OF BUDGET EXECUTION AND STATEMENT FOR FINANCIAL PERFORMANCE

### Budget Execution

In the table below, the Budget Execution Statement is reconciled to the expenses in the STO Consolidated Statement of Financial Performance (amount in EUR).

	(in euro)
<b>Expenses</b>	<b>Actuals</b>
Personnel	18,678,380
Supplies and Services	9,491,424
Capital and Investments	582,004
<b>Total Expenses as per Budget Execution</b>	<b>28,751,808</b>
Property Plant and Equipment capitalized (Recognition from Capital and Investments)	(163,924)
Depreciation	54,641
Financial Costs	30,613
Provision Expenses for Cruise Leave	959,231
<b>Total Expenses as per Financial Performance</b>	<b>29,632,369</b>

### Statement of Credits Carried-Forward

As required by the NATO Financial Regulations the credits carried forward are presented in the Budget Execution Statement. They represent the unexpended balances at year end for which there is a legal liability and are equal to the closing Unearned Revenue.

STO Carried-Forward	Total
Carry-forward from 2013 into 2014	<b>1,991,529</b>
CSO	397,102
CMRE	1,568,637
OCS	25,790
Carry-forward from 2012 into 2014	<b>36,509</b>
CSO	36,509
CMRE	-
OCS	-
<b>Total Carried-Forward</b>	<b>2,028,039</b>

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## I. SEGMENT REPORTING

In accordance with IPSAS 18, the STO discloses financial statement information about distinguishable activities of its consolidated reporting entities. A 'segment' is a distinguishable activity or group of activities of an entity for which it is appropriate to separately report financial information. IPSAS 18 distinguishes two types of 'segments':

- 'Service segments' refer to a distinguishable component of an entity that is engaged in providing related outputs or achieving particular operating objectives consistent with the overall mission of each entity; and
- 'Geographical segments' are a distinguishable component of an entity that is engaged in providing outputs or achieving particular operating objectives within a specific geographical area.

STO is segmented into three executive bodies as provided in the STO Charter, CSO, CMRE and OCS.

The segment reporting includes the Statement of Financial Position, Performance and Budget Execution. For CMRE the Budget Execution Statement is omitted because the entity is customer funded

COLLABORATION SUPPORT OFFICE  
STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013  
(in euro)

	2013	2012 Restated	2012
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	2,168,679	2,374,937	2,374,937
Receivables	141,113	57,027	57,027
Prepayments and Miscellaneous Assets	27,225	45,497	45,497
	<b>2,337,017</b>	<b>2,477,461</b>	<b>2,477,461</b>
<b>Non-current Assets</b>			
Property, Plant and Equipment	-	-	1,226,175
	-	-	<b>1,226,175</b>
<b>TOTAL ASSETS</b>	<b>2,337,017</b>	<b>2,477,461</b>	<b>3,703,636</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Payables	108,211	385,491	385,491
Advances from Customers	-	-	-
Unearned Revenue	2,228,806	2,091,970	2,091,970
	<b>2,337,017</b>	<b>2,477,461</b>	<b>2,477,461</b>
<b>Non-current Liabilities</b>			
Provision	-	-	1,226,175
Long-term Borrowings	-	-	-
	-	-	<b>1,226,175</b>
<b>TOTAL LIABILITIES</b>	<b>2,337,017</b>	<b>2,477,461</b>	<b>3,703,636</b>
<b>NET ASSETS</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET ASSETS/EQUITY</b>			
Accumulated surplus	-	-	-
Result of the period (deficit)	-	-	-
	<b>-</b>	<b>-</b>	<b>-</b>

COLLABORATION SUPPORT OFFICE  
STATEMENT OF FINANCIAL PERFORMANCE AS AT 31 DECEMBER 2013  
(in euro)

	2013	2012 Restated	2012
<b>REVENUES</b>			
Operating Revenues	5,186,449	5,289,997	5,359,189
Financial Revenues	4,418	8,966	8,966
<b>TOTAL REVENUES</b>	<b>5,190,868</b>	<b>5,298,963</b>	<b>5,368,155</b>
<b>EXPENSES</b>			
Personnel	3,893,397	3,911,978	3,911,978
Supplies and Services	1,222,444	1,356,689	1,249,902
Capital and Investments	70,608	21,329	14,997
Depreciation	-	-	182,311
Financial Expenses	4,418	8,966	8,966
	-	-	-
<b>TOTAL EXPENSES</b>	<b>5,190,868</b>	<b>5,298,963</b>	<b>5,368,155</b>
<b>SURPLUS/(DEFICIT) FOR THE PERIOD</b>	<b>-</b>	<b>-</b>	<b>-</b>



**COLLABORATION SUPPORT OFFICE**  
**STATEMENT OF BUDGET EXECUTION AS AT 31 DECEMBER 2013**

**BUDGET 908 (CSO) 2013**

	Initial Budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments	Expenses	Total Spent	Carry Forward	Lapsed
Chapter 1	4,147,659	-	4,147,659	-	4,147,659	-	4,147,659	233,019	3,825,637	4,058,656	233,019	89,003
Chapter 2	1,216,757	-	1,216,757	-	1,216,757	-	1,216,757	144,182	936,784	1,080,966	144,182	135,791
Chapter 3	50,904	-	50,904	-	50,904	-	50,904	19,902	21,765	41,666	19,902	9,238
<b>TOTAL</b>	<b>5,415,320</b>	<b>-</b>	<b>5,415,320</b>	<b>-</b>	<b>5,415,320</b>	<b>-</b>	<b>5,415,320</b>	<b>397,102</b>	<b>4,784,186</b>	<b>5,181,288</b>	<b>397,102</b>	<b>234,032</b>
<b>TOTAL FY2013</b>	<b>5,415,320</b>	<b>-</b>	<b>5,415,320</b>	<b>-</b>	<b>5,415,320</b>	<b>-</b>	<b>5,415,320</b>	<b>397,102</b>	<b>4,784,186</b>	<b>5,181,288</b>	<b>397,102</b>	<b>234,032</b>

**BUDGET 341/908 (RTA/CSO) 2012**

Chapter 1	78,389	-	78,389	-	78,389	-	78,389	3,191	65,493	68,684	3,191	9,705
Chapter 2	317,621	-	317,621	-	317,621	-	317,621	33,318	265,935	299,253	33,318	18,367
Chapter 3	48,843	-	48,843	-	48,843	-	48,843	-	48,843	48,843	-	-
<b>TOTAL</b>	<b>444,852</b>	<b>-</b>	<b>444,852</b>	<b>-</b>	<b>444,852</b>	<b>-</b>	<b>444,852</b>	<b>36,509</b>	<b>380,271</b>	<b>416,780</b>	<b>36,509</b>	<b>28,072</b>
<b>TOTAL FY2012</b>	<b>444,852</b>	<b>-</b>	<b>444,852</b>	<b>-</b>	<b>444,852</b>	<b>-</b>	<b>444,852</b>	<b>36,509</b>	<b>380,271</b>	<b>416,780</b>	<b>36,509</b>	<b>28,072</b>

**BUDGET 341 (RTA) 2011**

Chapter 1	2,267	-	2,267	-	2,267	-	2,267	-	2,267	2,267	-	-
Chapter 2	5,574	-	5,574	-	5,574	-	5,574	-	2,508	2,508	-	3,066
Chapter 3	-	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>7,841</b>	<b>-</b>	<b>7,841</b>	<b>-</b>	<b>7,841</b>	<b>-</b>	<b>7,841</b>	<b>-</b>	<b>4,775</b>	<b>4,775</b>	<b>-</b>	<b>3,066</b>
<b>TOTAL FY2011</b>	<b>7,841</b>	<b>-</b>	<b>7,841</b>	<b>-</b>	<b>7,841</b>	<b>-</b>	<b>7,841</b>	<b>-</b>	<b>4,775</b>	<b>4,775</b>	<b>-</b>	<b>3,066</b>

**BUDGET 504 (PfP) 2013**

Chapter 1	-	-	-	-	-	-	-	-	-	-	-	-
Chapter 2	25,000	-	25,000	-	25,000	(7,783)	17,217	-	17,217	17,217	-	-
Chapter 3	-	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>25,000</b>	<b>-</b>	<b>25,000</b>	<b>-</b>	<b>25,000</b>	<b>(7,783)</b>	<b>17,217</b>	<b>-</b>	<b>17,217</b>	<b>17,217</b>	<b>-</b>	<b>-</b>
<b>TOTAL FY2013</b>	<b>25,000</b>	<b>-</b>	<b>25,000</b>	<b>-</b>	<b>25,000</b>	<b>(7,783)</b>	<b>17,217</b>	<b>-</b>	<b>17,217</b>	<b>17,217</b>	<b>-</b>	<b>-</b>

**BUDGET 508 (MD) 2013**

Chapter 1	-	-	-	-	-	-	-	-	-	-	-	-
Chapter 2	5,000	-	5,000	-	5,000	(5,000)	-	-	-	-	-	-
Chapter 3	-	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>5,000</b>	<b>-</b>	<b>5,000</b>	<b>-</b>	<b>5,000</b>	<b>(5,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL ALL YEARS</b>	<b>5,898,014</b>	<b>-</b>	<b>5,898,014</b>	<b>-</b>	<b>5,898,014</b>	<b>(12,783)</b>	<b>5,885,231</b>	<b>433,611</b>	<b>5,186,449</b>	<b>5,620,061</b>	<b>433,611</b>	<b>265,170</b>

**CENTER FOR MARITIME RESEARCH & EXPERIMENTATION**  
**STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013**  
(in euro)

	2013	2012
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	9,061,497	3,826,542
Receivables	2,365,967	958,550
Prepayments and Miscellaneous Assets	368,417	47,791
	<u>11,795,881</u>	<u>4,832,883</u>
<b>Non-current Assets</b>		
Property, Plant and Equipment	109,282	-
	<u>109,282</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<u>11,905,164</u>	<u>4,832,883</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Payables	1,107,943	82,259
Advances from Customers	810,444	1,078,739
Unearned Revenue	1,791,876	708,371
	<u>3,710,263</u>	<u>1,869,369</u>
<b>Non-current Liabilities</b>		
Provision	959,231	-
Long-term Borrowings	-	-
	<u>959,231</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	<u>4,669,493</u>	<u>1,869,369</u>
<b>NET ASSETS</b>	<u>7,235,670</u>	<u>2,963,514</u>
<b>NET ASSETS/EQUITY</b>		
Accumulated surplus	2,963,514	2,785,896
Result of the period (deficit)	4,272,156	177,619
	<u>7,235,670</u>	<u>2,963,514</u>

**CENTER FOR MARITIME RESEARCH & EXPERIMENTATION**  
**STATEMENT OF FINANCIAL PERFORMANCE AS AT 31 DECEMBER 2013**  
(in euro)

	2013	2012
<b>REVENUES</b>		
Operating Revenues	28,469,266	1,193,447
Financial Revenues	7,342	12,693
<b>TOTAL REVENUES</b>	<u>28,476,608</u>	<u>1,206,140</u>
<b>EXPENSES</b>		
Personnel	14,613,923	623,495
Supplies and Services	8,214,426	295,988
Capital and Investments	336,158	103,336
Depreciation	54,641	-
Financial Expenses	26,073	5,702
Provision Expenses for Cruise Leave	959,231	-
<b>TOTAL EXPENSES</b>	<u>24,204,452</u>	<u>1,028,521</u>
<b>SURPLUS/(DEFICIT) FOR THE PERIOD</b>	<u>4,272,156</u>	<u>177,619</u>



OFFICE OF THE CHIEF SCIENTIST  
STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013  
(in euro)

	2013	2012
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	2,261,028	182,011
Receivables	2,972	25
Prepayments and Miscellaneous Assets	12,349	-
	<b>2,276,349</b>	<b>182,036</b>
<b>Non-current Assets</b>		
Property, Plant and Equipment	-	-
	<b>-</b>	<b>-</b>
<b>TOTAL ASSETS</b>	<b>2,276,349</b>	<b>182,036</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Payables	29,548	8
Advances from Customers	-	-
Unearned Revenue	145,595	182,029
	<b>175,143</b>	<b>182,036</b>
<b>Non-current Liabilities</b>		
Provision	-	-
Long-term Borrowings	2,101,206	-
	<b>2,101,206</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>	<b>2,276,349</b>	<b>182,036</b>
<b>NET ASSETS</b>	<b>-</b>	<b>-</b>
<b>NET ASSETS/EQUITY</b>		
Accumulated surplus	-	-
Result of the period (deficit)	-	-
	<b>-</b>	<b>-</b>

OFFICE OF THE CHIEF SCIENTIST  
STATEMENT OF FINANCIAL PERFORMANCE AS AT 31 DECEMBER 2013  
(in euro)

	2013	2012
<b>REVENUES</b>		
Operating Revenues	236,928	17,989
Financial Revenues	122	8
<b>TOTAL REVENUES</b>	<b>237,049</b>	<b>17,997</b>
<b>EXPENSES</b>		
Personnel	171,060	-
Supplies and Services	54,554	17,989
Capital and Investments	11,314	-
Depreciation	-	-
Financial Expenses	122	8
	<b>-</b>	<b>-</b>
<b>TOTAL EXPENSES</b>	<b>237,049</b>	<b>17,997</b>
<b>SURPLUS/(DEFICIT) FOR THE PERIOD</b>	<b>-</b>	<b>-</b>

OFFICE OF THE CHIEF SCIENTIST  
STATEMENT OF BUDGET EXECUTION AS AT 31 DECEMBER 2013

EURO  
BUDGET 907 (OCS)2013

Chapter 1  
Chapter 2  
Chapter 3

TOTAL

TOTAL FY2013

BUDGET 907 (OCS)2012

Chapter 1  
Chapter 2  
Chapter 3

TOTAL

TOTAL FY2012

BUDGET 907 (OCS)2011

Chapter 1  
Chapter 2  
Chapter 3

TOTAL

TOTAL FY2011

TOTAL ALL YEARS

Initial Budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments	Expenses	Total Spent	Carry Forward	Lapsed
585,530	(400,000)	185,530	(12,000)	173,530	5,698	179,228	8,168	171,060	179,228	8,168	-
95,226	-	95,226	-	95,226	(5,012)	90,214	17,622	54,554	72,176	17,622	18,038
-	-	-	12,000	12,000	(686)	11,314	-	11,314	11,314	-	-
<b>680,756</b>	<b>(400,000)</b>	<b>280,756</b>	<b>-</b>	<b>280,756</b>	<b>-</b>	<b>280,756</b>	<b>25,790</b>	<b>236,928</b>	<b>262,718</b>	<b>25,790</b>	<b>18,038</b>
<b>680,756</b>	<b>(400,000)</b>	<b>280,756</b>	<b>-</b>	<b>280,756</b>	<b>-</b>	<b>280,756</b>	<b>25,790</b>	<b>236,928</b>	<b>262,718</b>	<b>25,790</b>	<b>18,038</b>
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>680,756</b>	<b>(400,000)</b>	<b>280,756</b>	<b>-</b>	<b>280,756</b>	<b>-</b>	<b>280,756</b>	<b>25,790</b>	<b>236,928</b>	<b>262,718</b>	<b>25,790</b>	<b>18,038</b>

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## J. FINANCIAL INSTRUMENTS DISCLOSURE/PRESENTATION

STO uses only non-derivative financial instruments as part of its operations. These financial instruments include, cash, bank accounts, deposit accounts, accounts receivable, provisions and loans between NATO entities.

All the financial instruments are recognized in the Statement of Financial Position at their fair value.

**Credit Risk:** In the normal course of business, STO incurs credit risk from trade receivables and transactions with banking institutions. The STO manages its exposure to credit risk by:

- Holding current account bank balances and short-term deposits with registered banking institutions with a high credit rating;
- Maintaining credit control procedures over receivables.

The maximum exposure as at 31 December 2013 is equal to the total amount of bank balances, short-term deposits, and receivables disclosed in the Statement of Financial Position. There is a very limited credit risk associated with the realization of these instruments. Receivables considered uncollectible are adequately provided for.

**Currency risk:** The STO's exposure to foreign currency exchange risk is very limited, as most of its transactions are dealt with in Euros. A limited number of transactions are in other currencies.

**Liquidity risk:** The liquidity risk is based on the assessment whether the organization will encounter difficulties in meeting its obligations associated with financial liabilities.

For CSO & OCS there is a very limited exposure to liquidity risk because of the budget funding mechanism that guarantees contributions in relation to approved budgets. The limited risks are primarily the validity of forecasts that result in the calls for contributions. For CMRE liquidity risk is minimized by the cash available in the NEF and by the policy of requiring pre-payments & stage payments from customers.

**Interest rate risk:** The organization is restricted from entering into commercial borrowings and investments, and therefore there is no interest rate risk identified.

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**K. WRITE OFF**

In accordance with the NATO Financial Regulations (NFR II Art. 19, FRP XIX.c.), an annual summary of PP&E and cash written-off is provided to the annual financial statements below.

**CSO**

Items	Purchased in	Total cost	Report of Survey	Reason for write -off
Software	→ 2012	5,514 €	001/2013	Replace and upgrade
Laptop Computers	1998 → 2008	54,122 €	002/2013	
Desktop Computers	1998 → 2008	28,910 €	002/2013	
Servers	1998 → 2008	35,940 €	002/2013	
Keyboard/Mouse	1998 → 2008	2,202 €	002/2013	
Hard Drives	1998 → 2008	1,989 €	002/2013	Beyond state of repair. Not serviceable
Screen	1998 → 2008	1,980 €	002/2013	
Printers	1998 → 2008	2,615 €	002/2013	
Software	1998 → 2008	11,705 €	002/2013	
Miscellaneous	1998 → 2008	7,683 €	002/2013	
<b>Total</b>		<b>152,661 €</b>		

For OCS and CMRE no item has been written-off during the financial year 2013.



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## **L. MORALE & WELFARE ACTIVITY**

Morale and Welfare Activities (MWA) such as sport, community service, retail and concessionary activities are conducted by the CSO and CMRE. The OCS participates in the services and activities of NATO Headquarters.

In accordance with the NATO Accounting Framework, IPSAS 6 (Adapted) NATO Reporting Entities shall not consolidate MWA and / or Staff Association activities into their respective financial statements. The STO follows this practice and reports on the financial viability of MWA and Staff Association activities separately.