

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

**NATO UNCLASSIFIED**

4 February 2016

**DOCUMENT**  
C-M(2016)0010-AS1

**IBAN REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS OF THE SCIENCE  
AND TECHNOLOGY ORGANISATION (STO) FOR 2014**

**ACTION SHEET**

On 3 February 2016, under the silence procedure, the Council noted the IBAN report IBA-AR(2015)36 attached to C-M(2016)0010 and agreed the RPPB recommendation regarding public disclosure.

(Signed) Alexander Vershbow  
Deputy Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2016)0010.

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29 January 2016

**DOCUMENT**  
C-M(2016)0010  
**Silence Procedure ends:**  
**3 Feb 2016 18:00**

**IBAN REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS OF THE SCIENCE  
AND TECHNOLOGY ORGANISATION (STO) FOR 2014**

**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 Science and Technology Organisation (STO) for the year ended 31 December 2014. The audit report sets out an unqualified opinion.
2. The IBAN report has been reviewed by the Resource Policy and Planning Board (RPPB). In line with PO(2015)0052, the RPPB report, agreed on 21 December 2015, recommends to Council that the subject audit report, together with the related 2014 financial statements, be made available to the public (Annex).
3. I consider that no further discussion regarding this report is required. Consequently, **unless I hear to the contrary by 18:00 hours on Wednesday, 3 February 2016**, I shall assume that the Council has noted the IBAN report IBA-AR(2015)36 and agreed the RPPB recommendation regarding public disclosure.

(Signed) Alexander Vershbow

4 Annexes  
1 Enclosure

Original: English

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**IBAN REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS OF THE SCIENCE  
AND TECHNOLOGY ORGANISATION (STO) FOR 2014**

**Report by the Resource Policy and Planning Board**

References:

- a) IBA-A(2015)197 & IBA-AR(2015)36
- b) Letter from the IMS Financial Controller regarding public disclosure – reference IMSTAM(FC)-0060-2015, dated 15 December 2015

1. Council agreed with PO(2015)0052 that, in principle, unclassified IBAN audit reports, together with any related financial statements, should be made publicly available after they have been dealt with by Council.
2. The IBAN issued an unqualified audit opinion on the Science and Technology Organisation (STO) 2014 Financial Statements. The unqualified audit report (reference (A)) will be forwarded to Council for notation, as per agreed procedures.
3. In reference (B), the International Military Staff Financial Controller concludes that the 2014 STO Financial Statements can be disclosed.
4. With regard to public disclosure, the RPPB concludes that the subject IBAN report does not contain information which, according to NATO Policy on Disclosure of NATO Information, shall be withheld from public disclosure, and in line with the agreed policy in PO(2015)0052, therefore recommends that the Council agree to the public disclosure of the subject IBAN report and the related financial statements.

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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 2014**

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 Board issued an unqualified opinion on the STO Consolidated Financial Statements and an unqualified opinion on compliance for the year ended 31 December 2014.

During the audit, the Board reported two observations and related recommendations:

1. Centre for Maritime Research and Experimentation (CMRE) – Improvements Needed in Accounting to Recognize its Customer Funded Status
2. CMRE – Fixed Assets Not Sufficiently Labelled

The factual and formal comments of the STO to these observations and recommendations have been included in the Letter of Observations and Recommendations. The STO agreed with the Board's observations.

The Board also followed up on the status of the observations from the previous year's audit and found that five have been settled and one has been partially settled.

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ANNEX 3  
C-M(2016)0010  
IBA-AR(2015)36

27 November 2015

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

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

**THE SCIENCE AND TECHNOLOGY ORGANIZATION**

**(STO)**

**FOR THE YEAR ENDED 31 DECEMBER 2014**

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**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 attached Consolidated Financial Statements of STO, which comprised the Statement of Financial Position as at 31 December 2014, the Statement of Financial Performance, Statement of Changes in Net Equity and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The Board also audited the Statements of Budget Execution of the Office of the Chief Scientist and the Collaboration Support Office included in Annex 1 of the financial statements.

*Management's Responsibility for the Financial Statements*

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

*Opinion on Financial Statements*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of STO as of 31 December 2014, and of its financial performance and its cash flows for the year then ended 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, 27 November 2015

Lyn Sachs  
Chairman

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ANNEX 4  
C-M(2016)0010  
IBA-AR(2015)36

27 November 2015

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

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

**FOR THE YEAR ENDED 31 DECEMBER 2014**

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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 2014, and issued an unqualified opinion on the financial statements and unqualified opinion on compliance.

## **Observations and Recommendations**

During the audit, the Board reported two observations and related recommendations:

1. Centre for Maritime Research and Experimentation (CMRE) – Improvements Needed in Accounting to Recognize its Customer Funded Status
2. CMRE – Fixed Assets Not Sufficiently Labelled

The Board also followed up on the status of the observations from the previous year's audit and found that five have been settled and one has been partially settled.

## OBSERVATIONS AND RECOMMENDATIONS

### 1. CENTRE FOR MARITIME RESEARCH AND EXPERIMENTATION (CMRE) – IMPROVEMENTS NEEDED IN ACCOUNTING TO RECOGNIZE ITS CUSTOMER FUNDED STATUS

#### 1.1 Improvements needed to management accounting by project

##### Reasoning

1.1.1 As a customer funded entity, CMRE provides goods and services to its customers through a variety of different projects. For example, CMRE had 13 separately identified projects with ACT in 2014 representing over 90% of CMRE's revenue. The ACT projects are based on fixed price contracts.

1.1.2 Proper contract management is essential to an entity such as CMRE. A key aspect of contract management is the ability to determine all of the costs associated with each of the contracts, including: set up costs, recurring costs, fixed costs, and the organisation's own overheads in managing the contract.

##### Observation

1.1.3 The Board found that CMRE does not determine the costs associated with each of the 13 separately identified projects with ACT. According to CMRE, this is because it does not have the proper tools or resources to allocate the overhead costs per project. As a result of this, CMRE does not know whether the individual ACT projects are generating surpluses or deficits.

1.1.4 The Board found, though, that CMRE does determine the costs associated with the individual projects that it performs for the European Union. These projects are based on actual costs.

##### Recommendation

1.1.5 The Board recommends that CMRE develop a methodology that will allow it to determine the costs per project, including the allocation of overhead costs to individual projects. This will allow for the determination of surplus or deficit by project, and provide management with information that is useful in managing the business.

##### STO Comments

*Agreed.*

*In the context of a NATO Capability Package covering all the NATO Military Authorities, (the Log FS project), and the EBA initiative at the NCIA, the CMRE*

*expects to have a full project costing functionality installed during FY 2017. In the meantime, without having the material means to be fully compliant, the CMRE will continue to improve its current project costing methodology.*

## **1.2 Improvements needed in matching of expenses to related revenue**

1.2.1 Under the accrual basis of accounting, entities should report expenses in the same period as the related revenue. This is called the matching principle<sup>1</sup>.

### **Observation**

1.2.2 The Board found that CMRE recognizes revenue from its ACT projects under a basis of accounting that is very similar to what it was doing when it was a budget-funded segment of ACT. Under this approach, revenue equal to the amount of 'commitments' that CMRE has entered into before 31 December is deferred (as "Unearned Revenue", a liability in the Statement of Financial Position) until the time that those 'commitments' become expenses in future periods (i.e. the goods and services are received from the suppliers). The amount of such revenue deferred at 31 December 2014 was EUR 3.2 million.

1.2.3 This approach isn't consistent with the fixed price contracting that CMRE now has with ACT under the customer funding approach. CMRE and ACT agreed that all deliverables under the 2014 projects were delivered in 2014. Since all the goods and services were delivered, there should have been no deferral of revenue into 2015.

1.2.4 As entities should report expenses in the same period as the related revenue under the matching principle, it is the 2014 expenses that allowed CMRE to fully deliver on the 2014 ACT projects. As a result, these 2014 expenses are the ones to be matched to the 2014 project revenue, not any of the 2015 expenses. The 2015 expenses should contribute to the generation of 2015 revenue.

1.2.5 Furthermore, the Board found that STO has made a change to its accounting policies in which a portion of revenue is recorded to exactly match depreciation expense for the period. In the Board's view, under customer funding, revenue should be recognized based on an assessment of goods or services rendered during the period according to the terms of customer agreements rather than simply matching revenue to depreciation expense.

### **Recommendation**

1.2.6 The Board recommends that STO review its revenue recognition accounting policies related to CMRE to align expenses and the related revenue that they are generating to recognize its customer funded status.

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<sup>1</sup> This does not mean, though, that revenue has to equal expenses.

1.2.7 The Board recommends that revenue be recognized based on an assessment of goods or services rendered during the period according to the terms of customer agreements.

**STO Comments**

*Agreed.*

*The STO will adopt this IBAN proposal to recognise revenue based on the extent that goods or services have been rendered to CMRE customers in the current financial year. Adjustments to the opening comparative balances will be required in the FY 2015 financial statements.*

*To exercise its governance role coherently, the STB would welcome stable accounting policies.*

**2. CMRE - FIXED ASSETS NOT SUFFICIENTLY LABELLED**

**Reasoning**

2.1 Assets should be easy to identify and reconcile with the asset register.

**Observation**

2.2 During a physical inspection, the Board could not trace some assets to the accounting details and registry. The reason is that those assets were not labelled.

**Recommendation**

2.3 The Board recommends CMRE to develop a tagging or recognition system which would allow an automatic linkage with the accounting registry and aid in the follow-up of the use of the assets.

**STO Comments**

*Agreed.*

*The STO will develop methods of labelling all assets, including those deployed in a marine environment, and provide an automated link to the asset registry.*

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

The Board reviewed the status of the observation and recommendation arising from the previous audits. The observation and its status are summarised in the table below.

**Status of previous year's observations**

<b>OBSERVATION / RECOMMENDATION</b>	<b>ACTION TAKEN</b>	<b>STATUS</b>
<b>(1) 2013 STO Audit Report IBA-AR(2015)10 - Section 1</b>  <b>Recommendation</b> 1.6 The Board recommends that, in the future, all CMRE related activities be reported in the STO financial statements	All CMRE activities were reported in the 2014 financial statements.	Observation <b>Settled</b> .
<b>(2) 2013 STO Audit Report IBA-AR(2015)10 - Section 2</b>  <b>Recommendation</b> 2.3 The Board recommends that STO should ensure, in future, that reported expenses only include those that have been incurred during the period.	The Board did not identify any material instances of this in the 2014 financial statements.	Observation <b>Settled</b> .
<b>(3) 2013 STO Audit Report IBA-AR(2015)10 – Section 3</b>  <b>Recommendation</b> 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.	STO has reviewed the CMRE charge-out rates.	Observation <b>Settled</b> .
<b>(4) 2013 STO Audit Report IBA-AR(2015)10 – Section 4</b>  <b>Recommendation</b> 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.	Improvements were noted. The Board provided some verbal recommendations on improving the note disclosures.	Observation <b>Settled</b> .



OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p><b>(5) 2013 STO Audit Report</b> <b>IBA-AR(2015)10 – Section 5</b></p> <p><b>Recommendation</b> 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.</p>	<p>The Board observed improvement in the disclosure note related to assets.</p>	<p>Observation <b>Settled.</b></p>
<p><b>(6) 2013 STO Audit Report</b> <b>IBA-AR(2015)10 – Section 6</b></p> <p><b>Recommendation</b> 6.3 The Board recommends STO to disclose information on representation allowance in the financial statements, as required by the Council approved procedures.</p>	<p>The Board observed a disclosure note related to representation allowances. However, the note did not provide a summary of the expenses incurred as required by Council.</p>	<p>Observation <b>Partially Settled.</b></p>

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# SCIENCE AND TECHNOLOGY ORGANIZATION FINANCIAL STATEMENTS

31 December 2014



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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 S&T investments as a strategic enabler of the NATO's knowledge and technology advantage for the defence and security posture of NATO 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

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- 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.
- b. The S&T Collaboration Support Office (CSO), located in Neuilly sur Seine, Paris, provides the executive and administrative support to the collaborative S&T activities conducted through the STO level 2 committees and level 3 working groups.
- 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.

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

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

These consolidated Financial Statements (FS) for the STO cover the period from 1 January 2014 to 31 December 2014. As recommended by the IBAN, adjustments have been made to the FY 2013 comparative balances, in accordance with IPSAS 3.

These FY 2014 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.

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

<sup>2</sup> C-M(2013)0039

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The Financial Statements have been prepared primarily using the data from the FinS accounting software, in which each executive body is represented with a separate set of financial books / balancing segment.

The STO, finalizing its transition phase, pursues full compliance. It remains committed to developing its Financial Reporting expertise and to producing fully compliant Financial Statements in accordance with the applicable standards, and any instructions issued by Nations, e.g. from the NATO Resource Policy and Planning Board. It also remains dedicated to continue to work openly and constructively with the IBAN.

Conditions for success need to be met. Staff needs to maintain up-to-date knowledge as the NATO Accounting Framework and IPSAS standards are continuously evolving, accounting tools need to be suitably maintained and, when appropriate, upgraded and NATO Bodies should undertake financial reporting in a consistent way. The STO will therefore continue to maintain a dialogue with the other NATO Bodies and to play a full part in the Accounting Working Group and the Working Group of Financial Controllers.

## Statement of Internal Control

The Chief Scientist and Chairman of the Science and Technology Board (STB), together with 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 STB's objective 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 Board are 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.

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

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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 STB and relevant NATO Committees.

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; and
- 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:

- a. Documenting policies, rules, and procedures governing financial management activities;
- b. Utilizing suitably qualified staff throughout the financial system, and ensuring that staff have a sound understanding of their responsibilities as set out in the NATO Financial Regulations (NFR) and the policies promulgated by the STB;
- 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. Maintaining access rights for Internal Audit Service providers as commissioned on an occasional basis by the STO Financial Controller and the STB;
- f. Acting upon any recommendations and observations made by the IBAN during their external audit of financial statements; and

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g. Periodic reporting to the STB and relevant committees aspects of management execution.

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Peter Bontinck  
Financial Controller  
Science and Technology Organization  
Albert Husniaux  
Major General, BEAF  
Chairman  
NATO Science and Technology Board



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\*This column reports the restatement of prior year comparative balances. Refer to Section A (changes in accounting policy) and Section C

## Statement 2 STO Consolidated Statement of Financial Performance

		2014	2013*	(in euro) 2013
	Notes			
<b>REVENUES</b>	12			
Operating Revenues		33,332,436	36,807,331	33,892,643
Financial Revenues		55,399	32,787	11,882
<b>TOTAL REVENUES</b>		<b>33,387,835</b>	<b>36,840,118</b>	<b>33,904,525</b>
<b>EXPENSES</b>	13			
Personnel		19,977,528	18,685,297	18,678,380
Supplies and Services		11,866,663	11,350,035	9,491,424
Capital and Investments Depreciation		390,955	1,576,523	418,080
Financial Expenses		278,439	54,641	54,641
Provision Expenses for Cruise Leave		44,575	51,518	30,613
<b>TOTAL EXPENSES</b>		<b>32,558,159</b>	<b>31,718,014</b>	<b>29,632,369</b>
<b>SURPLUS/(DEFICIT) FOR THE PERIOD</b>	14	<b>829,675</b>	<b>5,122,104</b>	<b>4,272,156</b>

\*This column reports the restatement of prior year comparative balances. Refer to Section A (changes in accounting policy) and Section C

## Statement 3 STO Consolidated Statement of Cash Flow

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2014

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	(in euro) <b>2014</b>	<b>2013*</b>	As Per FS <b>2013</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
<i>Surplus / (Deficit)</i>	<b>829,675</b>	<b>5,122,104</b>	<b>4,272,156</b>
Depreciation	278,439	54,641	54,641
Increase / (Decrease) in payables	618,200	777,943	777,943
Increase / (Decrease) in other current liabilities	824,289	915,613	1,832,911
Increase / (Decrease) in Provisions	449,186	1,068,513	4,523,235
Decrease / (Increase) in receivables	-159,448	-1,494,450	-1,494,450
(Gains) / Losses on sale of property, plant and equipment	-51,737	-314,702	-314,702
Decrease / (Increase) in other-Current Assets			109,282
Increase / (Decrease) in Non-Current Assets			
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>2,788,604</b>	<b>6,129,662</b>	<b>9,761,016</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>-844,198</b>	<b>-163,924</b>	<b>-163,924</b>
Purchase of property, plant and equipment			
Proceeds from sale of property, plant and equipment			
Cash Advances			
<b>NET CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>-844,198</b>	<b>-163,924</b>	<b>-163,924</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Net equity provision			
Increase in borrowings		-959,231	
Repayment of borrowings		2,101,206	
<b>NET CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>-2,101,206</b>	<b>1,141,975</b>	<b>2,101,206</b>
<b>NET INCREASE/DECREASE CASH AND CASH EQUIVALENT</b>	<b>-156,800</b>	<b>7,107,713</b>	<b>7,107,713</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>	<b>13,491,204</b>	<b>6,383,490</b>	<b>6,383,490</b>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<b>-156,800</b>	<b>7,107,713</b>	<b>7,107,714</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	<b>13,334,404</b>	<b>13,491,204</b>	<b>13,491,204</b>

\*This column reports the restatement of prior year comparative balances. Refer to Section A (changes in accounting policy) and Section C

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

	(in euro)
	<b>Amount</b>
<b>Balance at 31-December 2013</b>	<b>7,235,670</b>
Change in accounting policy	-109,282
<b>Restated Balance</b>	<b>7,126,387</b>
Net increase/(decrease) of bookvalue of property, plant and equipment	
Net increase/(decrease) of reserves	
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	829,675
<b>Balance at 31-December 2014</b>	<b>7,956,063</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 2014. 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).

#### 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, applicable from 2013, was 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.

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

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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 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

There is a change in accounting policy for the CMRE segment for FY 2014. Reserves for depreciation are now accounted for under long-term liabilities, rather than Net Equity. Depreciation expense in the Statement of Financial Performance is matched by an equal amount of revenue from this longterm liability. Revenue associated with the acquisition of assets is only recognized as the asset is depreciated. Depreciation therefore has no net impact on the operating surplus.

This treatment of depreciation is now consistent with that already applicable to the Budget Funded elements of the STO: the Office of the Chief Scientist (OCS) and the Collaborative Support Office (CSO). In accordance with IPSAS 3, this change in policy at the CMRE has also been reflected in the prior year comparative figures for FY 2013.

### 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 2014.

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

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.

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.

### 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 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.

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**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.

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

Principles:

- In accordance with the NATO Accounting Framework, 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;
- Other property, plant and equipment are stated at historical cost less accumulated depreciation and any recognized impairment loss;

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- No external evaluator to set values for assets;
- No grouping of assets;
- Full depreciation / amortization in the year of acquisition, and none in the year of disposal.

PP&E categorizations for purposes of determining the appropriate depreciable life of the assets are 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	3	Straight line
Communications	50,000	10	Straight line
Automated information systems	50,000	3	Straight line

***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.



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***c. Intangible Assets***

The basic principles for PP&E apply to intangible assets. No intangible asset has been purchased in 2014.

**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 cash received 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 that have been called for current or prior year budgets 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 year activities but for which goods have not been delivered / services have not been rendered at year-end.

***d. Employee benefits***

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

- 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 defined benefit plan. Under this plan and upon completion of 10 years employment with NATO, the employees are entitled to retirement benefits of 2% of final basic salary per year of service, payable on attainment of a retirement age of 60. Staff members whose length of service is not sufficient to entitle them to a retirement pension are eligible for a leaving allowance.

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Employees who have joined NATO after 1 July 2005 are members of the NATO Defined Contribution Pension Scheme (DCPS), which provides pensions on a money purchase basis. Under this plan and upon completion of six years employment with NATO and attainment of a retirement age of 60, the employees are entitled to retirement benefits purchased from a commercial pension provider at commercial rates available at time.

Contributions to these Plans are limited to periods of 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 postretirement 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.

##### ***Depreciation Reserve for PP&E***

Revenue is recognized incrementally and equally with the depreciation. The reserve for depreciation is the counterpart of the PP&E and Intangible Assets Net Value.

#### Net Assets

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

#### 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.

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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 2014, 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.

For the CMRE, which is customer funded, the surplus or deficit of the period is recognized when services are rendered. 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. RESTATEMENT OF PRIOR YEAR FY 2013 COMPARATIVE BALANCE

The IBAN Audit of FY 2013 (IBA-AR(2015)10) resulted in a qualified audit opinion on the 2013 Financial Statements. In particular, the prior year statements were qualified for three reasons:

Firstly *“the 2013 STO Financial Statements did not include 3 million of CMRE related revenues and expenses that were funded by carried forward 2012 ACT budget credits [NURC budget 242]”*. As directed by the IBAN, the FY 2013 comparative figures for revenue and expenditure have been adjusted so as to include 3 million of transactions proposed by the IBAN. However, it should be noted that this restatement has no impact on the FY 2013 surplus.

Secondly, *“the Statement of Cash Flow was materially misstated. The change 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”*. As directed by the IBAN, the FY 2013 comparative figures in the cash flow statement have been adjusted so as to correct the presentation. However, it should be noted that this restatement has no impact on closing and opening cash positions, which were correctly stated.

Thirdly *“the STO recorded 959 KEUR of 2013 expenses relating to the provision for [CMRE] cruise leave, however these expenses had actually been incurred in previous years, not in 2013”*. As directed by the IBAN, this expense is now recorded as an opening liability in the FY 2013 comparative figures. However it should be noted that this restatement has no impact on the 2013 accumulated surplus, which was correctly stated.

In accordance with IPSAS 3, the above adjustments have been made to the prior year (FY 2013) comparative figures. It should be noted that the changes made have no impact on the closing balances for cash and accumulated surpluses for FY 2013 and FY 2014. In addition, to these adjustments directed by the IBAN, a further adjustment has been made due to a change in STO accounting policy for depreciation (ref section A).

## D. NOTES TO THE STATEMENT OF FINANCIAL POSITION

### 1. Cash and cash equivalents

Cash and Cash Equivalent		(in euro)		
		2014	2013	Variance
Petty Cash		8,716	6,822	1,894
Bank accounts	EUR	11,225,530	9,067,553	2,157,977
	GBP	6,737	64,615	-57,878

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	USD	143,422	303,214	-159,792
<u>Short-term deposits</u>		<u>1,950,000</u>	<u>4,049,000</u>	<u>-2,099,000</u>
<b>Total Cash and Cash Equivalents</b>		<b>13,334,405</b>	<b>13,491,204</b>	<b>-156,800</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.

The short term deposits are highly liquid investments that are readily convertible to cash and that are not subject to significant risk of change in value.

At year-end 2013, short-term deposits included the Budget Committee loan to the OCS for the initial funding of the CMRE Net Equity Fund (NEF) (See Note 9). This loan was repaid by the OCS via the Second Call for Contributions 2014.

## 2. Accounts receivable

Receivables	(in euro)		
	2014	2013	Variance
Receivable from NATO Entities	1,676,157	1,367,550	308,608
Receivable from Staff Members	7,916		7,916
Receivable from Third Parties	381,760	641,908	-260,148
Receivable from Governments	123,463	127,881	-4,418
Prepaid Expenses	56,243	143,377	-87,134
Invoices to be established	408,089	205,794	202,295
Other Receivable	15,872	23,543	-7,671
<b>Total Receivables</b>	<b>2,669,500</b>	<b>2,510,052</b>	<b>159,448</b>

### *Receivable from NATO Entities*

Significant receivables from NATO Entities at year-end 2014 include a CMRE Invoice to NATO HQ SACT for the 2014 Programme of Work (EUR 1,660,130).

### *Receivables from Staff Members*

These are receivables from staff members, such as short-term loans, salaries to be reimbursed, allowances to be reimbursed by staff members and receivables not belonging to these categories. Collections are assured through payroll withholding and staff separate payments.

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***Receivable Third Parties***

Significant receivables from Third Parties at year-end 2014 include CMRE Invoices from Nations (EUR 307,987).

***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 146,124) and Nations (EUR 172,140), 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.

**3. Prepayments and Miscellaneous assets**

Prepayments are mainly in respect of advance payments provided to the Ship Management Company (EUR 368,993), for crew salaries, stores, insurance and spare parts.

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**4. Property, Plant and Equipment**

			(in euro)
	Mission Equipment	Working in progress	Total
Gross Book Value (31 Dec 2013)	163,924		163,924
Deletions (31 Dec 2013)			
<b>Gross Book Value (1 Jan 2014)</b>	<b>163,924</b>		<b>163,924</b>
Accumulated Depreciation (31 Dec 2013)	-54,641		-54,641
Deletions (31 Dec 2013)			
<b>Accumulated Depreciation (1 Jan 2014)</b>	<b>-54,641</b>		<b>-54,641</b>
<b>Net Book Value (1 Jan 2014)</b>	<b>109,283</b>		<b>109,283</b>
Additions in 2014	671,393	172,805	844,198
Disposal in 2014			
Depreciation in 2014	-278,439		-278,439
<b>Net Book Value (31 Dec 2014)</b>	<b>502,237</b>	<b>172,805</b>	<b>675,042</b>
<b>Gross Book Value (31 Dec 2014)</b>	<b>835,317</b>	<b>172,805</b>	<b>1,008,122</b>
<b>Accumulated Depreciation (31 Dec 2014)</b>	<b>-333,080</b>		<b>-333,080</b>
<b>Net Book Value (31 Dec 2014)</b>	<b>502,237</b>	<b>172,805</b>	<b>675,042</b>

**CMRE**

Mission equipment was purchased in 2014 by CMRE in order to maintain its cutting edge ocean engineering capabilities.

**Mission Equipment:**

- High Precision Acoustic Positioner (HIPAP 501) upgrade
- PHINS Inertial Navigation System for AUV
- Slocum G2 Underwater Glider
- Remote Environmental Monitoring Units (REMUS-100) Payload
  - Muscle Autonomous Underwater Vehicle spare parts
  - Meteo Bouy for ocean observation.

**Work in progress**

- HVAC piping replacement
- Very Low Frequency Synthetic Aperture Sonar (VLFSAS) Receiver prototype
  - Very Low Frequency Synthetic Aperture Sonar



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CMRE also has around 140 assets that were purchased prior to the implementation of the NATO accounting framework (01 Jan 2013).

- *Vessels (custodian is Headquarter, Supreme Allied Command Transformation HQ SACT) ○ The NRV Alliance ○ The CRV Leonardo*
- *IT Equipment ○ Disaster recovery ○ Satellite communication system ○ Various workstations and servers*
- *Mission Equipment ○ Multiple types of autonomous vehicles ○ Towed acoustics arrays ○ Multiple types of sonars*
- *Vehicles ○ Cars*
  - *Fork lift*
- *Machinery ○ Industrial shredding machine*
- *Installed Equipment ○ Air condition systems for the new and old building ○ Uninterrupted Power Supply (UPS) systems ○ TV closed circuit system*

### **CMRE Premises**

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

### **CSO**

#### **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. Extensions and significant upgrades have been added to the existing facilities. As they were done prior to 1 January 2013, they have been fully expensed in accordance with the NATO Accounting Framework

#### **Other PP&E**

The CSO owns two staff cars and other IT equipment (software) purchased before 1 January 2013.

### **OCS**

#### **OCS Premises**

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

## **5. Payables**

### **Payables**

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	2014	2013	(in euro) Variance
Payables to Suppliers	562,669	467,592	95,077
Accruals	1,301,233	778,110	523,123
<b>Total Payables</b>	<b>1,863,902</b>	<b>1,245,702</b>	<b>618,200</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 2014.

**6. Advances from Customers**

At year-end 2014, the advances amount to EUR 269,367. This includes amounts pre-financed by European Community Consortia for CMRE projects valued at EUR 240,491.

**7. Unearned Revenue and advances**

Unearned Revenue	(in euro)			
		CSO	CMRE	OCS
Unearned revenue	3,579,140	337,907	3,240,753	480
Advance Contributions	1,700,000	1,500,000		200,000
Other Unearned revenues	102,128	72,128	30,000	
Liabilities from Lapses	105,981	104,346		1,635
Liabilities from Operational Result	35,967	15,021		20,946
Liabilities from Financial Result	8,426	137		8,289
<b>Total Unearned Revenue</b>	<b>5,531,643</b>	<b>2,029,540</b>	<b>3,270,753</b>	<b>231,350</b>

***Unearned revenue***

Unearned revenue consists of 2014 contributions/revenues received for which corresponding expenses will be incurred after the reporting period (EUR 337,907 for the CSO, EUR 480 for the OCS and EUR 3,240,753 for CMRE).

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***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).

***Other Unearned revenues******CSO (EUR 72,128)***

This amount consists mainly of advances for future S&T activities, including € 52,627 VNC Funds, and € 19,501 invoiced to ACT for cost-shared events including ITEC 2015 and ITSEC 2015.

***CMRE (EUR 30,000)***

This amount reflects customer advances for multi-year CMRE activities that are not fully completed at the end of 2014 such software development.

***Liabilities from Lapses 2014***

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 2014 budget and of the lapses from the 2013 and 2012 budgets carried-forward to 2014.

***Liabilities from Operational Results***

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

They are mainly composed of written-off accruals from previous years where the final invoice was lower than the estimated accrued amount and education allowance that turned out to be too high.

***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 2014, after offsetting the expenses. The surplus of financial revenue has been transferred to the liabilities from financial results for an amount of € 8,426.

As the CMRE is customer-funded, there is no offsetting of financial revenue and expenses and the financial result has been reported as a gain of € 10,824. The main reason for this result is due to gain on exchange rate.

**8. Provision**

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Cruise Leave is a form of compensatory time off (CTO) for staff working on weekends and holidays while at sea on board CMRE's vessels. Over the years, a significant amount of compensatory time off in lieu was accumulated by staff under the legacy organization (the NATO Undersea Research Centre).

Following a recommendation of the IBAN, the value of this CTO has been recognised as an inherited liability from 2012, rather than a new liability as of 2013. As such, a prior year adjustment has been made to the comparative FY 2013 balances in these Financial Statements. However, this adjustment has no impact on the value of the opening the FY 2014 CTO liability.

As at 31st December 2014, the value of the CTO liability is estimated at 842 KEUR (or 2,338 days of CTO). STO management has taken steps to ensure no further long-term CTO is accumulated. In addition - following an STO proposal to the NATO Budget Committee and the STB - qualifying staff will have their CTO converted into monetary compensation.

#### 9. Depreciation Reserve for PP&E

This provision represents the Net book value of PP&E as of 31 December 2014. The provision is decreased with the annual depreciation and increased with any new acquisition.

#### 10. Long term borrowings

The loan for the initial funding of the CMRE Net Equity Fund (NEF) was repaid via the Second Call 2014. Due to the fact that the accrued bank interests were immaterial, they are accounted as Liabilities Financial Results, to be returned to the Nations with the Second Call 2015.

#### 11. Accumulated Surplus

The STO Charter<sup>7</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.

#### Statement of Changes to Net Assets/Equity

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<sup>7</sup> STO Charter (C-M(2012)0046) articles 23.3 and 24.1

	STB Equity Reserve (*)	General Reserves	Total Equity
Opening balance 1st January 2014 Financial Statements STO-OCS(2014)0029	3,500,000	3,735,670	7,235,670
Change in accounting policy: creation of depreciation reserve for PP&E		109,282	109,282
			7,126,388
Corrected opening balance 1st January 2014.	3,500,000	3,626,388	829,675
Surplus 2014			
Closing Net Equity 2014	3,500,000	4,456,063	7,956,063

\* As per STB policy, Total Equity shall not fall below €3.5m without prior approval.

## E. NOTES TO STATEMENT OF FINANCIAL PERFORMANCE

### 12. Revenue

#### Operating Revenues

(in euro)

	2014	2013*	Variance
Revenues from Contributions	6,244,821	5,406,160	838,661
Revenues from Services	27,080,919	31,383,954	-
			4,303,035
Revenues from Reimbursable and Delegated Budget	6,696	17,217	-10,521
<u>Financial Revenues</u>	<u>55,399</u>	<u>32,787</u>	<u>22,612</u>
<b>Total Operating Revenues</b>	<b>33,387,835</b>	<b>36,840,118</b>	<b>-3,452,283</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).

#### *Revenue from Services*

The revenue indicated is the value of the work completed and delivered by the CMRE at the end of 2014 under the customer funded business model.

#### *Revenues from Reimbursable budget*

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

For the Reimbursable Budget (International Military Staff Budget ZNC-504/508), revenues are recorded when the invoices are presented for reimbursement every quarter.

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**13. Expenses**

<b>Expenses</b>	(in euro)		
	2014	2013*	Variance
Personnel	19,977,528	18,685,297	1,292,230
Supplies and Services	11,866,663	11,350,035	516,629
Capital and Investments	390,955	1,576,523	(1,185,568)
Depreciation	278,439	54,641	223,798
Financial Costs	44,575	51,518	(6,943)
Provision Expenses for Cruise Leave	-	-	-
<b>Total Expenses</b>	<b>32,558,159</b>	<b>31,718,014</b>	<b>840,145</b>

***Personnel***

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

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**14. Surplus or Deficit for the Period**

The STO's result for 2014 showed a surplus of € 829,675. 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 11 to the Statement of Financial Position.

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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**F. 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 2014. 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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## G. 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	<input type="checkbox"/> NATO Chief Scientist
Centre for Maritime Research and Experimentation	<input type="checkbox"/> CMRE Director <input type="checkbox"/> CMRE Chief Operating Officer & Deputy Director <input type="checkbox"/> CMRE Chief Technical Officer
Collaborative Support Office	<input type="checkbox"/> CSO Director <input type="checkbox"/> CSO Deputy Director

The key management personnel of the STO have no significant known related party relationships that could affect the operation of the STO. However, the STO Financial Controller is also the Financial Controller of the NATO Defence College (NDC) and the International Military Staff (IMS). The STO, IMS and NDC are therefore related parties under a common Financial Controller. 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.

## H. 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

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**STO Workforce**

Peacetime Establishment	PE - Authorized			PE - Filled		
	Mil	Civ	Total	Mil	Civ	Total
CSO	14	38	52	10	35	45
OCS	4	5	9	3	5	8
CMRE	9	0	9	6	0	6
<b>International Manpower Ceiling</b>	<b>27</b>	<b>43</b>	<b>70</b>	<b>19</b>	<b>40</b>	<b>59</b>
CMRE - Customer Funding	N/A			150		

<b>Total Establishment Strength</b>	<b>27</b>	<b>43</b>	<b>70</b>	<b>19</b>	<b>190</b>	<b>209</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 size of 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 2014.

**Employee Benefits**

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

**Representation Allowance**

Three STO officials received Representation Allowances totalling euro 17,896. This allowance is paid to those senior officials whose positions entail responsibilities for establishing and maintaining relationships of value for their organisation.

**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).

The balance of untaken leave as of 31 December 2014 is shown below:

Untaken leave balance	(in days) 2014
OCS	27

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CSO	264
CMRE	1,741
<b>Total untaken leave balance</b>	<b>2,032</b>

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## I. 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 €).

#### CSO

	(in euro)
<b>Expenses</b>	<b>Actuals</b>
Personnel	4,147,879
Supplies and Services	1,293,856
Capital and Investments	19,100
<b>Total Expenses as per Budget Execution</b>	<b>5,460,835</b>

Property Plant and Equipment capitalized (Recognition from Capital and Investments)	
Depreciation	
Financial Costs	5,812
<b>Total Expenses as per Financial Performance</b>	<b>5,466,647</b>

#### OCS

	(in euro)
<b>Expenses</b>	<b>Actuals</b>
Personnel	722,570
Supplies and Services	68,112
Capital and Investments	
<b>Total Expenses as per Budget Execution</b>	<b>790,682</b>

Property Plant and Equipment capitalized (Recognition from Capital and Investments)	
Depreciation	
Financial Costs	
Provision Expenses for Cruise Leave	1,398
<b>Total Expenses as per Financial Performance</b>	<b>792,080</b>

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**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.

**Commitments at 31 December 2014**

CSO	337,907	CMRE	3,240,753	
OCS				480
<b>Total Carried Forward</b>				<b><u>3,579,140</u></b>

**Unearned Revenue**

CSO	337,907
CMRE	3,240,753
OCS	480
<b>Total Unearned Revenue</b>	
	<b><u>3,579,140</u></b>

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## J. 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

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COLLABORATION SUPPORT OFFICE  
STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER  
2014

(in euro)  
2014 2013

**ASSETS****Current Assets**

Cash and Cash Equivalents	2,056,695	2,168,679	139,965
	141,113		
Receivables Prepayments and Miscellaneous	48,741		27,225 Assets.
	<b>2,245,401</b>		

**2,337,017****Non-current Assets**

Property, Plant and Equipment

-

-

**TOTAL ASSETS****LIABILITIES Current Liabilities**

Payables

**2,337,017**

Advances from Customers

Unearned Revenue.

**Non-current Liabilities**

215,862

108,211

Provision

-

-

Depreciation Reserve for PPE

2,029,540

Long-term Borrowings

2,228,806

**2,245,401****2,337,017****TOTAL LIABILITIES****NET ASSETS**

-

-

**NET ASSETS/EQUITY**

Accumulated surplus

-

Result of the period (deficit)

**COLLABORATION SUPPORT OFFICE****STATEMENT OF FINANCIAL****PERFORMANCE AS AT 31 DECEMBER****2,337,017****2014**

(in euro)

**2013****2014**

-

-

-

-

-

-

STO-

**REVENUES**

Operating Revenues

Financial Revenues

5,460,835

5,186,449

5,812

4,418

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**TOTAL REVENUES****5,466,646****5,190,868****EXPENSES**

Personnel

Supplies and Services

Capital and Investments

Depreciation Financial Expenses

4,147,879

3,893,397

1,293,856

1,222,444

19,100

70,608

**TOTAL EXPENSES**

-

-

5,812

4,418

**SURPLUS/(DEFICIT) FOR THE PERIOD****5,466,646****5,190,868**

-

-



STO-OCS(2015)0048 NATO

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**Collaboration Support Office**  
**STATEMENT OF BUDGET EXECUTION AS OF 31 DECEMBER 2014**

	Initial Budget BA1	Transfers	Mid Year Review BA2	Transfers	BA3	Transfers	Final Budget	Commitments	Expenses	Total Spent	Carry-Forward	Lapsed
EURO												
<b>BUDGET 908 (CSO) 2014</b>												
Chapter 71	4,192,364	-	4,192,364	(51,920)	4,140,444	(116,834)	4,023,610	68,045	3,949,517	4,017,563	68,045	6,047
Chapter 72	1,219,512	-	1,219,512	51,920	1,271,432	109,584	1,381,016	183,239	1,170,506	1,353,744	183,239	27,272
Chapter 73	50,904	-	50,904	-	50,904	7,250	58,154	58,154	-	58,154	58,154	-
<b>TOTAL</b>	<b>5,462,780</b>	<b>-</b>	<b>5,462,780</b>	<b>-</b>	<b>5,462,780</b>	<b>-</b>	<b>5,462,780</b>	<b>309,438</b>	<b>5,120,023</b>	<b>5,429,461</b>	<b>309,438</b>	<b>33,319</b>
<b>BUDGET 908 (CSO) 2013</b>												
Chapter 71	233,019	-	-	-	-	-	233,019	8,391	195,170	203,561	8,391	29,458
Chapter 72	144,182	-	-	-	-	-	144,182	20,078	100,922	121,001	20,078	23,181
Chapter 73	19,902	-	-	-	-	-	19,902	-	19,100	19,100	-	802
<b>TOTAL</b>	<b>397,103</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>397,102</b>	<b>28,469</b>	<b>315,192</b>	<b>343,661</b>	<b>28,469</b>	<b>53,441</b>
<b>BUDGET 341/908 (RTA/CSO) 2012</b>												
Chapter 71	3,191	-	-	-	-	-	3,191	-	3,191	3,191	-	-
Chapter 72	33,318	-	-	-	-	-	33,318	-	15,732	15,732	-	17,586
Chapter 73	-	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>36,509</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>36,509</b>	<b>-</b>	<b>18,923</b>	<b>18,923</b>	<b>-</b>	<b>17,586</b>
<b>TOTAL BUDGET 341/908 (RTA/CSO)</b>	<b>5,896,392</b>	<b>-</b>	<b>5,462,780</b>	<b>-</b>	<b>5,462,780</b>	<b>-</b>	<b>5,896,391</b>	<b>337,907</b>	<b>5,454,138</b>	<b>5,792,045</b>	<b>337,907</b>	<b>104,346</b>
<b>BUDGET 504 (PiP) 2014</b>												
Chapter 71	10,200	-	-	-	-	(10,200)	-	-	-	-	-	-
Chapter 72	8,160	-	-	-	-	(1,464)	6,696	-	6,696	6,696	-	-
<b>TOTAL</b>	<b>18,360</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(11,664)</b>	<b>6,696</b>	<b>-</b>	<b>6,696</b>	<b>6,696</b>	<b>-</b>	<b>-</b>
<b>BUDGET 508 (MD) 2014</b>												
Chapter 2	12,240	-	-	-	-	(12,240)	-	-	-	-	-	-
<b>TOTAL</b>	<b>12,240</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(12,240)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL ZNC (Reimbursable) 2014</b>	<b>30,600</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(23,904)</b>	<b>6,696</b>	<b>-</b>	<b>6,696</b>	<b>6,696</b>	<b>-</b>	<b>-</b>
<b>TOTAL ALL BUDGETS</b>	<b>5,926,992</b>	<b>-</b>	<b>5,462,780</b>	<b>-</b>	<b>5,462,780</b>	<b>(23,904)</b>	<b>5,903,088</b>	<b>337,907</b>	<b>5,460,835</b>	<b>5,798,742</b>	<b>337,907</b>	<b>104,346</b>

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**CENTER FOR MARITIME RESEARCH & EXPERIMENTATION  
STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014**

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	2014	2013*	(in euro) 2013
<b>ASSETS.</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents Receivables			
Prepayments and Miscellaneous Assets	11,072,408	9,061,497	9,061,497
	2,519,522	2,365,967	2,365,967
<b>Non-current Assets</b>			
Property, Plant and Equipment	392,539	368,417	368,417
	<b>13,984,469</b>	<b>11,795,881</b>	<b>11,795,881</b>
<b>TOTAL ASSETS</b>			
	675,042	109,282	109,282
<b>LIABILITIES Current Liabilities</b>	<b>675,042</b>	<b>109,282</b>	<b>109,282</b>
Payables			
Advances from Customers	<b>14,659,510</b>	<b>11,905,164</b>	<b>11,905,164</b>
Unearned Revenue			
<b>Non-current Liabilities</b>			
Provision	1,645,628	1,107,943	1,107,943
Depreciation Reserve for PPE	269,367	810,444	810,444
Long-term Borrowings	3,270,753	1,791,876	1,791,876
<b>TOTAL LIABILITIES</b>	<b>5,185,748</b>	<b>3,710,263</b>	<b>3,710,263</b>
<b>NET ASSETS</b>			
	842,658	959,231	959,231
<b>NET ASSETS/EQUITY</b>	675,042	109,282	-
Accumulated surplus	-	-	-
Result of the period (deficit)			
<b>CENTER FOR MARITIME RESEARCH &amp; EXPERIMENTATION</b>	<b>1,517,699</b>	<b>1,068,513</b>	<b>959,231</b>
<b>STATEMENT OF FINANCIAL PERFORMANCE AS AT 31 DECEMBER 2014</b>	<b>6,703,447</b>	<b>4,778,776</b>	<b>4,669,493</b>
(in euro)			
	<b>7,956,063</b>	<b>7,126,388</b>	<b>7,235,670</b>
	7,126,388	2,004,284	2,963,514
	829,675	5,122,104	4,272,156
	<b>7,956,063</b>	<b>7,126,388</b>	<b>7,235,670</b>

## REVENUES

:

.

Operating Revenues

2014

2013\*

2013

27,080,919

31,383,954

28,469,266

## STO-OCS(2015)0048 NATO

Financial Revenues

48,189	28,247	7,342
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## TOTAL REVENUES

27,129,108	31,412,201	28,476,608
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## EXPENSES

Personnel			
Supplies and Services	15,107,079	14,620,840	14,613,923
Capital and Investments Depreciation	10,504,695	10,073,036	8,214,426
Financial Expenses	371,855	1,494,602	336,158
Provision Expenses for Cruise Leave			
TOTAL EXPENSES	278,439	54,641	54,641
	37,365	46,977	26,073
	-	-	959,231

## SURPLUS/(DEFICIT) FOR THE PERIOD

26,299,433	26,290,097	24,204,452
------------	------------	------------

205,302	2,261,028
10,013	2,972
18,448	12,349
233,762	2,276,349

-	-
-	-

2,276,349
-----------

2,412	29,548
231,350	145,595
233,762	175,143

-	-
-	-
-	-
2,101,206	



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OFFICE OF THE CHIEF SCIENTIST  
STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014  
PERFORMANCE AS AT 31 DECEMBER 2014

**ASSETS.****Current Assets**

Cash and Cash Equivalents  
Receivables  
Prepayments and Miscellaneous Assets

**Non-current Assets**

Property, Plant and Equipment

**TOTAL ASSETS****LIABILITIES**

Payables  
Advances from Customers

**TOTAL LIABILITIES****NET ASSETS**

OFFICE OF THE CHIEF SCIENTIST  
STATEMENT OF FINANCIAL

**TOTAL REVENUES****EXPENSES**

Supplies and Services

**TOTAL EXPENSES****SURPLUS/(DEFICIT) FOR THE PERIOD**

(in euro)	
2014	2013
790,682	236,928
1,398	122
<b>792,080</b>	<b>237,049</b>
722,570	171,060
68,112	54,554
-	11,314
-	-
1,398	122
<b>792,080</b>	<b>237,050</b>
-	-

UNCLASSIFIED



## NET ASSETS/EQUITY

Accumulated surplus

Result of the period (deficit)

Office of the Chief Scientist

## STATEMENT OF BUDGET EXECUTION AS OF 31 DECEMBER 2014

	Initial Budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments	Expenses	Total Spent	Carry Forward	Lapsed
EURO												
<b>BUDGET 907 (OCS)2014</b>												
Chapter 1												
Chapter 2	660,920	-	660,920	-	660,920	53,987	714,907	480	714,427	714,907	480	-
Chapter 3 <b>TOTAL</b>	97,126	-	97,126	-	97,126	(45,026)	52,100	-	52,100	52,100	-	-
<b>BUDGET 907 (OCS)2013</b>	-	-	-	-	-	-	-	-	-	-	-	-
Chapter 1												
Chapter 2	<b>758,046</b>	-	<b>758,046</b>	-	<b>758,046</b>	<b>8,961</b>	<b>767,007</b>	<b>480</b>	<b>766,527</b>	<b>767,007</b>	<b>480</b>	-
Chapter 3 <b>TOTAL</b>												
	8,168	-	8,168	-	8,168	-	8,168	-	8,143	8,143	-	25
<b>TOTAL ALL BUDGETS</b>	17,622	-	17,622	-	17,622	-	17,622	-	16,012	16,012	-	1,610
	-	-	-	-	-	-	-	-	-	-	-	-
	<b>25,790</b>	-	<b>25,790</b>	-	<b>,790</b>	-	<b>,790</b>	<b>25</b>	<b>24,156</b>	<b>24,156</b>	-	<b>,635</b>
					<b>25</b>						<b>1</b>	
	<b>783,836</b>	-	<b>783,836</b>	-	<b>783,836</b>	<b>8,961</b>	<b>792,797</b>	<b>480</b>	<b>790,682</b>	<b>791,163</b>	<b>480</b>	<b>,635</b>
											<b>1</b>	

NATO UNCLASSIFIED

## K. 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 2014 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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ENCLOSURE TO  
C-M(2016)0010  
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## L. 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
Furniture	2004	2,459 €	2/2014	Disposed / Replaced
Reprographic equipment	2005	3,813 €	1/2014	
Lawn mower	2002	995 €	3/2014	Beyond state of repair.
Equipment	1998	112 €	3/2014	Not serviceable
Screens	1989 → 2001	1,571 €	3/2014	
Cash	2014	690 €	1/2014	Supplier's insolvency
<b>Total</b>		<b>9,640 €</b>		

For OCS and CMRE no item has been written-off during the financial year 2014.

## M. 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.

