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

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6 December 2016

**DOCUMENT**  
C-M(2016)0068-AS1 (INV)

**IBAN AUDIT ON THE 2015 FINANCIAL STATEMENTS OF THE SCIENCE AND  
TECHNOLOGY ORGANISATION (STO)**

**ACTION SHEET**

On 6 December 2016, under the silence procedure, the Council noted the IBAN report attached to C-M(2016)0068 (INV) on the 2015 financial statements of the STO and agreed the RPPB recommendation regarding public disclosure.

(Signed) Rose E. Gottemoeller  
Deputy Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2016)0068 (INV).

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21 November 2016

**DOCUMENT**  
C-M(2016)0068 (INV)  
**Silence Procedure ends:**  
**6 Dec 2016 17:00**

**IBAN AUDIT ON THE 2015 FINANCIAL STATEMENTS OF THE 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 2015 financial statements of the Science and Technology Organisation (STO).
2. The IBAN report on the STO sets out an unqualified opinion on the financial statements and an unqualified opinion on compliance.
3. The IBAN report has been reviewed by the Resource Policy and Planning Board (RPPB) (see Annexes) which has concluded that the unqualified audit opinion on the 2015 financial statements of the STO reflects the hard work to implement the range of measures approved by Council in recent years to improve financial and accounting regulations, governance, transparency and accountability.
4. I do not believe that this matter requires discussion in the Council. Consequently, **unless I hear to the contrary by 17:00 hours on Tuesday, 6 December 2016**, I shall assume that the Council has noted the IBAN report on the 2015 financial statements of the STO and agreed the RPPB recommendation regarding public disclosure.

(Signed) Rose E. Gottemoeller

4 Annexes  
1 Enclosure

Original: English

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**IBAN AUDIT ON THE 2015 FINANCIAL STATEMENTS OF THE SCIENCE AND  
TECHNOLOGY ORGANISATION (STO)**

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

**References:**

- a) IBA-A(2016)90 – IBAN report
- b) C-M(2015)0025 – NATO Financial Regulations (NFRs)
- c) IMSTAM(FC)-0048-2016 – Letter from Financial Controller
- d) PO(2015)0052 – Wales Summit tasker on transparency and accountability

**Introduction**

1. This report contains the RPPB's observations and recommendations on the IBAN audit of the 2015 financial statements of the STO (reference a)).

**Discussion**

2. The Board is pleased to note that the IBAN have issued an unqualified opinion on the financial statements of the STO and an unqualified opinion on compliance for the 2015 financial year.

3. The Board notes the steps that the STO has taken (especially the support sought from the NATO Communications and Information Agency Internal Audit) towards complying with the articles on internal control, risk management and internal audit contained in the revised NFRs (reference b)). The Board understands 2015 to be a transition year and therefore expects the STO to make more progress in the near future. The Board invites the Head of Financial Reporting Policy to encourage the sharing of best practice across NATO entities in this area.

4. The Board notes the confirmation (reference c)) that there are no reasons why the 2015 financial statements of the STO should be withheld from public disclosure.

**Conclusions**

5. The Board is pleased with the unqualified audit opinion on the STO financial statements which reflects the hard work by management and staff to implement the range of measures recommended by the Board and approved by Council in recent years to improve financial and accounting regulations, governance, transparency and accountability. The Board notes that further work needs to be done to fully implement these measures.

6. The RPPB concludes that the subject IBAN report and the related financial statements by the STO do not contain information which, according to the NATO Policy on Disclosure of NATO Information, should be withheld from public disclosure.

**Recommendation**

7. The RPPB recommends that Council:
- a) note the IBAN report on the 2015 financial statements of the STO together with this report by the Board;
  - b) endorse the Board's conclusions at paragraphs 5-6;
  - c) agree to the public disclosure of this report, the IBAN audit (reference a)) and the associated 2015 financial statements of the STO, in line with the policy set out at reference d).

**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 2015**

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 2015.

During the audit, the Board reported one observation and related recommendations in respect to further steps that are required to achieve full compliance with the revised NATO Financial Regulations, particularly those Articles on Internal Control, Risk Management and Internal Audit.

The factual and formal comments of the STO to this observation 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 one is partially settled and one is outstanding.

For STO's Formal Comments see the Letter of Observations and Recommendations (Annex 4).

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**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 2015**



**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 Organization (STO), which comprised the Statement of Financial Position as at 31 December 2015, 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 of the Financial Statements.

*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.

*Opinion on Financial Statements*

In our opinion, the Financial Statements present fairly, in all material respects, the financial position of STO as of 31 December 2015, 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, 23 August 2016

Lyn Sachs  
Chairman

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**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

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

**FOR THE YEAR ENDED 31 DECEMBER 2015**

## **Introduction**

The International Board of Auditors for NATO (Board) audited the Science and Technology Organization (STO) Consolidated Financial Statements for the year ended 31 December 2015, and issued an unqualified opinion on the financial statements and unqualified opinion on compliance.

## **Observations and Recommendations**

During the audit, the Board reported one observation and related recommendations:

1. Further steps are required to achieve full compliance with the revised NATO Financial Regulations, particularly those articles on Internal Control, Risk Management and Internal Audit.

The Board also followed up on the status of the observations from the previous year's audit and found that two recommendations have been settled and two are outstanding.

This Letter of Observations and Recommendations was formally cleared with STO, and the formal comments are included.

## **OBSERVATIONS AND RECOMMENDATIONS**

### **1. FURTHER STEPS ARE REQUIRED TO ACHIEVE FULL COMPLIANCE WITH THE REVISED NATO FINANCIAL REGULATIONS, PARTICULARLY THOSE ARTICLES ON INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT**

#### **Reasoning**

1.1 The North Atlantic Council (Council) approved revised NATO Financial Regulations (NFRs) effective as from 4 May 2015. This was the first time in more than 30 years that the NFRs have been revised. While Article 36 of the revised NFRs states that “*the NFRs will take effect immediately (i.e. 4 May 2015)*”, Council also agreed that full implementation was only expected by the end of 2015. Furthermore, Article 4 of the revised NFRs states that “*the finance committee shall approve a set of Financial Rules and Procedures (FRPs) that provide additional guidance to ensure the effective implementation of the revised NFRs.*”

1.2 The revised NFRs are more explicit than the previous version in the areas of Risk Management (Article 11), Internal Control (Article 12), Internal Audit (Article 13) and the establishment of an Audit Advisory Panel (Article 16). They require the establishment of effective, efficient and economical risk management procedures, that there are necessary management functions in place to support effective internal control, and that NATO bodies have access to a permanent, adequately resourced, internal audit function that is compliant with internationally accepted Internal Auditing Standards. They also require the establishment of an Audit Advisory Panel. Furthermore, Article 3 requires, as a demonstration of responsibility and accountability, that both the annual Financial Statements and Statements of Internal Control be signed by both the NATO Head of Body and Financial Controller.

1.3 These revised NFRs provide an opportunity for NATO bodies to solidify and codify their overall internal control framework, including risk management. They also provide internal audit functions, whether in-house or outsourced, with clear expectations that they must be in a position to fully evaluate the effectiveness and efficiency of operations and internal controls, including risk management. Finally, the Council will ensure that the detailed FRPs are consistent, to the maximum extent possible, across NATO.

#### **Observations**

1.4 Due to the lack of detailed regulations throughout 2015, the Board considers 2015 to be a transition year. It has chosen to report on the progress against certain of these revised Articles of the NFRs, and to make recommendations against that progress. The compliance audit opinion will not be impacted in 2015 as a result of these observations. This will begin as from 2016, though.

1.4.1 The Board reports the status of the following areas:

Article 3 Responsibility and Accountability

1.4.1.1 The Board found that both the NATO Chief Scientist and the STO Financial Controller signed the Statement of Internal Control, and that only the NATO Chief Scientist signed the financial statements.

Article 11 Risk Management

1.4.1.2 The Board found that the STO has not yet developed a documented Risk Management policy or framework, and procedures. Such a policy is essential in order to ensure and to clearly demonstrate to others that efficient, effective and economic risk management procedures are in place and that risk management is aligned with the STO's overall operational and financial objectives.

1.4.1.3 The Board understands that the common funded entity CSO and the customer funded entity CMRE, both part of STO, will develop, with the help of the NATO Communications and Information Agency (NCIA) Internal Audit, risk registers that identifies risks relevant to their activities.

Article 12 Internal Control

1.4.1.4 The Board found that STO has not yet adopted and complied with a specific Internal Control Framework. Also, no common NATO-wide Internal Control Framework has been chosen. Such a framework, with the appropriate supporting documentation and procedures, is essential in order to ensure and to clearly demonstrate to others that a complete system of internal financial and budgetary controls is in place.

1.4.1.5 The Board's audit of the STO's 2015 financial statements did not reveal significant weaknesses in internal control. However, until a specific Internal Control Framework is adopted and supported via a systematic documentation of internal control procedures, the Board will not be in a position to state that there is a full system of internal control in place that is in accordance with Article 12 of the revised NFRs.

Article 13 Internal Audit

1.4.1.6 The Board understand that CSO and CMRE would request NCIA Internal Audit to support Internal Audit activities for CMRE and CSO with effective support as from 2016 in the following areas: 1) Control self-assessment workshop for the financial year 2016, 2) Audit fieldwork activities informed by the above exercise to be performed during 2017.

1.4.1.7 The above efforts only relate specifically to CMRE and CSO. As a result, it cannot yet be stated that the STO has undertaken internal audit activities to fully evaluate, throughout the organisation, the risk exposures and the effectiveness of internal controls

in managing risk within the governance, operations and information systems as required by Article 13.

Article 16 Audit Advisory Panel

1.4.1.8 The Board found that the STO has not yet established an Audit Advisory Panel as required by Article 16.

**Recommendations**

1.5 The Board recommends that:

- a) STO prepare an entity-wide risk management policy and that risk registers are developed and employed throughout all of STO entities and operations. In the Board's opinion, this should be coordinated to ensure consistent treatment across NATO Bodies.

**STO's Formal Comment**

*Partly Agreed.*

*In response to the new NATO Financial Regulations (NFR), each separate executive body of the STO - in accordance to its relative size, complexity and responsibilities - will be covered as appropriate by an STO risk management policy. This will include a requirement for risk registers covering significant STO activities. However, NFR Article 11 presents a complex challenge, requiring several years of transition.*

- b) STO develop a specific, internationally accepted, Internal Control Framework, and that there be a systematic and detailed documentation of internal control procedures supporting the framework. In the Board's opinion, this should be coordinated to ensure that a common framework is chosen across NATO Bodies.

**STO's Formal Comment**

*Not Agreed.*

*The NFR do not contain a requirement for NATO bodies to adopt "an internationally accepted" Internal Control Framework. The IBAN recommendation is therefore extrajudicial.*

*Moreover, we do not accept the IBAN assertion in paras 1.5.5 and 1.5.6 that the STO is operating without a "documented" and "specific Internal Control Framework".*

*Across the STO, the Internal Control Framework (ICF) consists of a number of well documented elements, including the following:*

- *The STO Charter, which includes the corporate governance responsibilities of the NATO Chief Scientist and the Science and Technology Board (STB).*



- *The Terms of Reference (ToR) of the Finance and Audit Subgroup (FASG), which reports twice a year to the STB, in areas such as finance, budgeting, reporting, risk management and internal and external audit.*
- *Policies and directives of the STB, which define the planning and the execution of the STO's Program of Work (PoW).*
- *The Internal Control Framework, which also includes the STO Financial Procedures, as approved by the STB under AC/323-D(2103)0006. This document - of around 120 pages - is supported at the CMRE by staff notices and implementing instructions comprising a further 150 pages.*

*In addition to the above, all executive bodies of the STO are required to comply with the NATO Financial Regulations. Internal and external auditors (the IBAN) provide further and well documented Internal Control.*

#### **Board's Position**

The Board maintains its position. The varied documents referenced above do not constitute an Internal Control Framework. Furthermore, the Board, based on its authority to recommend better and more consistent practices, reiterates its recommendation that "an internationally accepted" Internal Control Framework be adopted as it sees no need for STO to incur additional time and resources to develop a separate framework.

- c) STO, through outsourcing if considered to be more cost effective, ensure internal audit activities are evaluating risk management and internal control throughout the STO.

#### **STO's Formal Comment**

*Agreed.*

*To prepare further action, the NATO Chief Scientist participated July 2016 to a DGIMS organized training and workshop about Risk Management.*

*When the revised STO Risk Management procedures are in place, our Internal Audit service providers will be invited to assess financial matters. In the meantime, our Internal Audit providers will be encouraged to examine non-financial operational matters.*

- d) STO establishes an Audit Advisory Panel.

#### **STO's Formal Comment**

*Agreed.*

*The STO Finance and Audit Subgroup (FASG), acting in accordance with its STB approved Terms of Reference, is responsible for most of the Audit Advisory Panel activities required by NFR Article 16.*

*The Terms of Reference of the FASG will be amended in order to be fully compliant with Article 16. This will include the requirement for an independent member (FRP XVI. 4).*

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

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

### **Status of previous year's observations**

<b>OBSERVATION / RECOMMENDATION</b>	<b>ACTION TAKEN</b>	<b>STATUS</b>
<p><b>(1) 2014 STO Audit Report</b> <b>IBA-AR(2015)36, paragraph 1.1</b> <b>Improvements needed to management accounting by project</b></p> <p><b>Recommendation</b></p> <p>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.</p>	<p>The Board found that, in 2016, the CMRE initiated a process to begin allocating costs to its different projects. While this process is not yet mature, nor linked to the financial accounting system, it can begin to help the CMRE to identify issues as they move to a more mature model that would eventually become integrated into a financial accounting system.</p>	<p>Observation <b>Outstanding.</b></p>
<p><b>(2) 2014 STO Audit Report</b> <b>IBA-AR(2015)36, paragraph 1.2</b> <b>Improvements needed in matching of expenses to related revenue</b></p> <p><b>Recommendations</b></p> <p>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.</p> <p>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.</p>	<p>The Board found that expenses and related revenue are now aligned.</p> <p>The Board found that revenue of the year are now booked based on deliverables achieved during the year.</p>	<p>Observation <b>Settled.</b></p> <p>Observation <b>Settled.</b></p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p><b>(3) 2014 STO Audit Report</b>  <b>IBA-AR(2015)36, paragraph 2</b>  <b>CMRE – Fixed Assets Not Sufficiently Labelled</b></p> <p><b>Recommendation</b></p> <p>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.</p>	<p>The Board understands that an inventory stock take is ongoing in 2016, but is not completed as of the time of our audit. The choice for labelling still needs to be taken.</p>	<p>Observation <b>Outstanding.</b></p>

Financial Statements of the

**NATO SCIENCE AND TECHNOLOGY ORGANIZATION**

31 December 2015



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## Executive Summary and Statement of Internal Control

### 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
- c. Supporting decision-making in NATO Nations and NATO.

The STO is composed of the Science and Technology Board (STB); three Executive Bodies; and 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 NATO Chief Scientist through his roles as Chair of the STB and Senior scientific advisor to NATO leadership.

The three executive bodies of the STO are:

- a. The Office of the Chief Scientist (OCS), located within NATO Headquarters, Brussels, which 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, which 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, which organizes and conducts scientific research and technology development and which 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 NATO 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>, and NATO Financial Regulations.

The STB shall approve the consolidated annual financial statements taking into account the audit report of the International Board of Auditors for NATO (IBAN) and the comments of the STB Finance

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

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

and Audit Sub-Group (FASG).

These consolidated Financial Statements (FS) for the STO cover the period from 1 January 2015 to 31 December 2015. As recommended by the IBAN, adjustments have been made to the prior year comparative balances, in accordance with IPSAS 3.

These FY 2015 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 STO 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. 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 NATO Chief Scientist, Chairman of the Science and Technology Board (STB), the Director of the Centre for Maritime Research and Experimentation (CMRE) and the Director of the Collaborative Support Office (CSO), as Heads of the three Executive Bodies of the STO, collectively exercise overall responsibility for the safeguarding of assets, and for maintaining a sound system of Risk Management and Internal Control, in accordance with Section III of the NATO Financial Regulations (NFRs). In addition, the STO Financial Controller is, under NFR Article 11, (FRP XI) responsible for the management of financial risk and the maintenance of financial risk management standards.

The system of Risk Management and Internal Control is designed to manage and reduce - rather than entirely eliminate - the risks to STO operational aims and objectives, and the risks to compliance with NFRs and corporate governance principles. It therefore provides a reasonable, but not absolute, assurance of effectiveness.

The system of Risk Management and Internal Control is based on an on-going process designed to identify the principal risks to the achievement STO policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 December 2015 and up to the date of these Financial Statements.

The system of internal control includes the following risk reduction elements:

- a. Senior Managers and Finance Officials regularly scrutinise operational and financial activities;
- b. The STB and the Budget Committee periodically scrutinise in-year financial execution, the STB and its FASG making this a recurrent agenda point;
- c. Policies, rules, and procedures governing financial management activities are documented;
- d. Suitably qualified staff are employed throughout the financial system, to help 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;
- e. Usage of the common accounting system, FinS, having 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;
- f. Internal Audit Service providers are commissioned on an occasional basis by the STO Financial Controller and the STB; and
- g. Recommendations and observations arising from IBAN audits are acted upon promptly.

In addition, we are advised and assisted in discharging our responsibilities by the STB Finance and Audit Sub-Group (FASG). Meeting twice a year, the key roles of the FASG are to assess the activities of the STO Executive Bodies, and provide advice and recommendations to the STB in support of Financial Management, Financial Planning and Execution, and Audit.

As Chairman of the STB, and Financial Controller, we also have collective responsibility for reviewing the effectiveness of the system of internal control. Our review is informed by the work of STO Senior Managers, External Audits, and internal quality reviews.

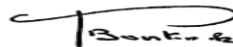
The advice and recommendations of the FASG, and the results of internal reviews during 2015, are being used by the Executive Bodies. The IBAN External Audit of the 2014 Financial Statements - undertaken in 2015 - resulted in an unqualified opinion. IBAN observations on the recognition of revenue have been taken into account for these Financial Statements.

Overall, we are satisfied that the Risk Management and Internal Control systems in operation across the STO during the year were adequate and effective.

The revised NATO Financial regulations, as endorsed by the Nations (C-M(2015)0025), became effective part way through the year in May 2015. Moreover, in February 2016, revised Financial Rules and Procedures (FRPs) were approved by the Budget Committee (BC-D(2015)0260-REV1). These revised NFRs and FRPs provide for a new framework of Internal Control and Risk Management. As such, 2015 was a transitional year, and in 2016, the STO will implement enhanced Risk Management and Internal Control procedures, in full compliance with the new framework.



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



Peter Bontinck,  
Financial Controller  
Science and Technology Organization

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

as at 31 December 2015

(in EUR)

		<b>2015</b>	<b>2014*</b>	<b>2014</b>
	Notes			
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	1	11,215,363	13,334,405	13,334,405
Receivables	2	5,880,575	2,580,229	2,669,500
Prepayments	3	595,126	459,727	459,727
		<u>17,691,064</u>	<u>16,374,361</u>	<u>16,463,632</u>
<b>Non-current assets</b>				
Property, plant & equipment	4	1,278,645	675,042	675,042
		<u>1,278,645</u>	<u>675,042</u>	<u>675,042</u>
<b>Total assets</b>		<u>18,969,709</u>	<u>17,049,403</u>	<u>17,138,674</u>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Payables	5	2,224,002	1,863,902	1,863,902
Deferred revenue	6	364,456	368,387	5,531,643
Advances	7	2,591,456	2,041,495	269,367
Credit facilities	8	1,100,000		
Provisions	9	200,490		
Other current liabilities	10	156,047	150,374	
		<u>6,636,451</u>	<u>4,424,158</u>	<u>7,664,911</u>
<b>Non-current liabilities</b>				
Provisions	11		842,658	842,658
Deferred revenue	12	185,745		675,042
		<u>185,745</u>	<u>842,658</u>	<u>1,517,699</u>
<b>Total liabilities</b>		<u>6,822,196</u>	<u>5,266,816</u>	<u>9,182,610</u>
Surplus/Deficit	13	364,926	2,864,323	829,675
Retained earnings	14	11,782,587	8,918,264	7,126,388
<b>Total net assets</b>		<u>12,147,513</u>	<u>11,782,587</u>	<u>7,956,063</u>
<b>Total net assets and liabilities</b>		<u>18,969,709</u>	<u>17,049,403</u>	<u>17,138,674</u>

\*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

for the year ended 31 December 2015  
(in EUR)

		<u>2015</u>	<u>2014*</u>	<u>2014</u>
	Notes			
<b>Revenue</b>	15			
Revenue		34,651,097	35,367,083	33,332,436
Financial revenue		99,017	55,399	55,399
<b>Total revenue</b>		<u>34,750,114</u>	<u>35,422,482</u>	<u>33,387,835</u>
<b>Expenses</b>	16			
Personnel		20,224,721	19,977,528	19,977,528
Contractual supplies and services		13,640,083	12,257,618	12,257,618
Depreciation and amortization		470,114	278,439	278,439
Finance costs		50,270	44,575	44,575
<b>Total expenses</b>		<u>34,385,188</u>	<u>32,558,159</u>	<u>32,558,159</u>
<b>Surplus/(Deficit) for the period</b>	17	<u>364,926</u>	<u>2,864,323</u>	<u>829,675</u>

\*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

(in EUR)

	2015	2014*	2014
<b>Cash flow from operating activities</b>			
Surplus/(Deficit)	364,926	2,864,323	829,675
<b>Non-cash movements</b>			
Depreciation/ Amortisation	470,114	278,439	278,439
Increase/(decrease) in payables	360,101	618,200	618,200
Increase/ (decrease) in other current liabilities	551,701	(2,416,464)	824,289
Increase/ (decrease) in provisions	(456,422)	(225,855)	449,186
Decrease/ (Increase) in other-current assets	(135,399)	(51,737)	(159,448)
Decrease/ (Increase) in receivables	(3,300,346)	(70,177)	(51,737)
<b>Net cash flow from operating activities</b>	<u>(2,145,325)</u>	<u>996,728</u>	<u>2,788,604</u>
<b>Cash flow from investing activities</b>			
Purchase of property plant and equipment / Intangible assets	(1,073,717)	(844,198)	(844,198)
<b>Net cash flow from investing activities</b>	<u>(1,073,717)</u>	<u>(844,198)</u>	<u>(844,198)</u>
<b>Cash flow from financing activities</b>	1,100,000	(309,329)	(2,101,206)
<b>Net cash flow from financing activities</b>	<u>1,100,000</u>	<u>(309,329)</u>	<u>(2,101,206)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<u>(2,119,042)</u>	<u>(156,800)</u>	<u>(156,800)</u>
<b>Cash and cash equivalent at the beginning of the period</b>	<u>13,334,405</u>	<u>13,491,204</u>	<u>13,491,204</u>
<b>Cash and cash equivalent at the end of the period</b>	<u>11,215,363</u>	<u>13,334,405</u>	<u>13,334,404</u>

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

## Statement 4 – STO Consolidated Statement of Change in Net Assets

for the year ended 31 December 2015  
(in EUR)

	CMRE commitments / legal obligations	CMRE Depreciation Reserve (NBV of CMRE assets)	Reserve for CMRE vessel modifications	STB CMRE Net Equity Fund	General CMRE Reserve	Total
<b>Balance at the end of the period 2013</b>		109,282		3,500,000	3,626,388	7,235,670
Changes in accounting policy		(109,282)				(109,282)
<b>Restated balance</b>				3,500,000	3,626,388	7,126,388
Net gains/(losses) recognised directly in net assets/equity						
Exchange difference on translating foreign operations						
Gain on property revaluation						
Surplus/(deficit) for the period					829,675	829,675
<b>Change in net assets/equity for the year ended 2014</b>					829,675	829,675
<b>Balance at the end of the period 2014</b>				3,500,000	4,456,063	7,956,063
Changes in accounting policy	3,151,482	675,042				3,826,524
<b>Restated balance</b>	3,151,482	675,042		3,500,000	4,456,063	11,782,587
Net gains/(losses) recognised directly in net assets/equity						
Exchange difference on translating foreign operations						
Gain on property revaluation						
Surplus/(deficit) for the period	(2,343,948)	417,858	4,853,000		(2,561,984)	364,926
<b>Change in net assets/equity for the year ended 2015</b>	(2,343,948)	417,858	4,853,000		(2,561,984)	364,926
<b>Balance at the end of the period 2015</b>	807,534	1,092,900	4,853,000	3,500,000	1,894,079	12,147,513

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

## NOTES TO THE STO CONSOLIDATED FINANCIAL STATEMENTS

### A. ACCOUNTING POLICIES

#### Basis for Preparation

The STO financial statements have been prepared in accordance with the NATO Accounting Framework. The North Atlantic Council (NAC) adopted IPSAS in 2002 and implemented an adaptation to IPSAS in 2013 to better suit the specific requirements of the Alliance. The NATO Accounting Framework is applicable for financial reporting periods since 1 January 2013.

The NATO Financial Regulations (NFRs) were amended by the Nations in May 2015 (C-M(2015)0025), and the associated Financial Rules and Procedures (FRPs) were approved by the Budget Committee in February 2016 (BC-D(2015)0260-REV1).

The financial statements have been prepared on a going-concern basis.

The financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair value at the end of each reporting period. The principal accounting policies are set out below. They have been applied consistently to all periods presented. The accounting principles recognised 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.

In accordance with Article 2.1 of the NFRs, the financial year of the STO is 1 January to 31 December.

The STO includes the Centre for Maritime Research and Experimentation (CMRE), the Collaboration Support Office (CSO) and the Office of the Chief Scientist (OCS).

#### Accounting estimates and judgments

In accordance with IPSAS and 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 judgements 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, revenue 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.

## Financial Reporting Framework

The Financial Statements 2015 have been produced in accordance with the NATO Accounting Framework. This Accounting Framework is based on International Public Sector Accounting Standards (IPSAS), as adapted by NATO under CM(2013)0039. NATO Financial Regulations were amended by the Nations in May 2015 (C-M(2015)0025), and the associated Financial Rules and Procedures (FRPs) were approved by the Budget Committee in February 2016 (BC-D(2015)0260-REV1). The Financial Statements are presented in the improved common layout applying the RPPB Notice AC/335-N(205)0088 dated 11 December 2015.

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).

No accounting standard has been adopted earlier than the application date as stated in the IPSAS standards.

Five new IPSAS pronouncements were issued in 2015 covering: IPSAS 34 Separate Financial Statements; IPSAS 35 - Consolidated Financial Statements; IPSAS 36 - Investments in Associates and Joint Ventures; IPSAS 37 - Joint Arrangements; and IPSAS 38 - Disclosure of Interests in Other Entities.

The standards are effective for annual financial statements covering periods beginning on or after 1 January 2017. They have not been applied by the STO in preparing the Financial Statements for 2015. The new standards are not expected to have a material impact on the presentation of the STO Financial Statements.

## Changes in Accounting Policy

There are changes in accounting policy for the CMRE segment for FY 2015.

The reserve for depreciation is now accounted for under Net Assets as Net Book Value (NBV), rather than long-term liabilities. Depreciation expense and the revenue associated with the acquisition of assets in the Statement of Financial Performance are part of the result of the period.

The reserve for commitment carried forward is now accounted for under Net Equity, rather than short term liabilities – Unearned revenues. This amount is part of the result of the period.

## Foreign Currency Transactions

These financial statements are presented in Euros, which is the STO's functional and reporting currency. Foreign currency transactions are translated into Euro at the NATO exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at



year-end are translated into Euro using the NATO exchange rates applicable at 31 December 2015. Resulting realized and unrealized gains and losses 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.

The STO received services in-kind in the form of military personnel provided by the NATO nations. Such personnel are assigned to specific, military positions on the personnel establishments of the executive bodies and / or provided as voluntary contributions. In addition, military personnel crew the research vessels ALLIANCE and LEONARDO.

### 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 credit facilities 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 2015 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 Net Equity Fund (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.

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument.

## Assets

### *a. Cash and Cash Equivalents*

Cash and cash equivalents include cash on hand, petty cash, current bank accounts, deposits held with banks, other short-term investments (with a maturity of three months or less).

### *b. Short-term investments*

These are short-term investments (with a maturity of more than three and less than twelve months).

### *c. Receivables*

Receivables are stated at net realizable value, after provision for doubtful and uncollectible debts. It can also include amounts due by other NATO entities and nations.

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

### *d. 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.

*e. Prepayments*

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

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

Property, plant and equipment with the exception of land are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost of the assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of financial performance.

PP&E categories are listed in the table below:

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

In accordance with the NATO Accounting Framework, PP&E acquired prior to 1 January 2013 have been fully expensed and the STO's policy has followed not grouping assets.

*g. Leases*

Leases are classified as finance leases whenever the terms of the lease transfers substantially all the risks and rewards of ownership to the lessee.

All other leases are classified as operating leases.

Rental payable under lease contract are recognised as an expense in the statement of financial performance on a straight line basis over the lease term.

#### *h. Intangible Assets*

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful lives, and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An intangible asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss, arising on the disposal or retirement of an intangible asset, is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in the statement of financial performance.

Category	Threshold	Depreciation life	Method
Computer software (commercial off the shelf)	€50,000	4 years	Straight line
Computer software (bespoke)	€50,000	10 years	Straight line
Computer database	€50,000	4 years	Straight line
Integrated system	€50,000	4 years	Straight line

#### *i. Impairment of tangible and intangible assets*

At the end of each accounting period, the entity reviews the carrying amounts of its tangible and intangible to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated, being the greater of the asset's fair value less costs to sell and value in use. Impairment losses, if any, are recognised in the statement of financial performance.

#### *j. Prepayments*

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

### Liabilities

#### *a. Payables*

Payables (including amounts due to other NATO entities) are amounts due to third parties for goods and services received that remain unpaid as of the reporting date. They are recognised at

their fair value. This includes estimates of accrued obligations for goods and services received at year-end but not yet invoiced.

***b. Deferred Revenue***

For CSO and OCS, deferred revenue represents contributions from Nations that have been called for current or prior year budgets but for which corresponding charges will be incurred after the reporting period.

For CSO and OCS, revenue is recognized incrementally and equally with the depreciation expenses. The reserve for depreciation is the counterpart of the PP&E and Intangible Assets Net Book Value.

For CMRE, deferred revenue represents revenue from customers for current or prior year activities for which goods have not been delivered / services have not been rendered at year-end.

***c. Advances***

For CSO and OCS, advances are income or contributions from member nations or third parties called or received related to future year budgets.

For CMRE, advances from customers are either cash received as working capital or result from advance billings to customers where the rate of expenditure has fallen behind the agreed payment milestones.

***d. Provision***

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.

***e. Employee benefits***

The STO employees participate in one of the three NATO pensions funds: the Provident Fund, the Coordinated Pension Scheme or the Defined Contribution Pension Scheme (DCPS) and the Retirees Medical Claims Fund (RMCF).

DCPS and Provident Fund: The STO contributes a specified percentage of payroll costs to the DCPS and Provident Fund for future benefits. In addition to the employer's contribution, a portion of the employees' salaries is deducted and contributed to the DCPS or Provident Fund. These contributions are recognised as an expense during the year the services are rendered and represent the total pension obligation of the STO.

Coordinated Pension Scheme: 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.

The Retirees' Medical Claims Fund (RMCF): this fund is a reserve to ensure that sufficient resources available for the years to come to enable NATO to meet its obligations under Art. 51.2 of the Civilian Personnel Regulations (CPRs).

The assets and liabilities NATO's pension funds and the RMCF are accounted for centrally at NATO Headquarters and therefore are not recognised in these financial statements.

## Net Assets

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

NATO entities perform their activities on a no-profit / no loss basis globally over the reporting period. However, this does not prohibit the realisation of operating surplus or deficit in the financial reporting period.

## Revenue and Expense Recognition

### *a. Revenue*

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

For common funded bodies (CSO and OCS), revenue is recognised in the year when these appropriated funds are used for their intended purpose as envisioned for STO's programmes. Unused contributions and other revenue that relate to future periods are deferred accordingly.

For CMRE, revenue is recognised as goods and services are delivered to customers.

Interest income is accrued on a time-basis, by reference to the principal outstanding and at the effective interest rate applicable.

Bank interests earned and accrued as of 31 December 2015, exchange rate revenue due to transactions in foreign currency and realised exchange rate revenue in accordance with the entity Policy IPSAS 4 – Effect of the foreign exchange rate are recognised as financial revenue.

***b. Expenses***

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 transactions in foreign currency and realised exchange rate losses are recognised as finance costs.

**Surplus or Deficit for the Period**

For the CSO and OCS, common funded entities, revenue is recognised up to the amount of the matching expenses, in accordance with STO's accounting policies. Any resulting surplus is recorded as a current liability (see note 10). This amount represents a liability owed to the funding nations that is deducted from the contributions called in the subsequent year.

For the CMRE, the surplus or deficit of the period is recognized when services are rendered.

**Cash-flow statement**

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

**B. RESTATEMENT OF PRIOR YEAR FY 2014 COMPARATIVE BALANCE**

The prior year IBAN Audit (IBA-AR(2015)159) resulted in an unqualified audit opinion on the FY 2014 STO Financial Statements (STO-OCS(2015)0048). However, Observation 1.2 of the IBAN Audit Report recommended that STO improve the matching of revenue to expenses at the CMRE. Following the IBAN proposal, a revised accounting policy is applied to 2015 CMRE revenue (reference Note E 12). In addition, four adjustments have been made to the prior year comparative figures for 2014 CMRE Operating Revenue:

<b>CMRE FY 2014 Operating Revenue</b>	<b>Nature of Prior-Year Correction</b>
<b>27,080,919</b>	<b>Operating Revenue 2014 as per Audited 2014 Financial Statement</b>
(1,791,876)	less 2013 year-end CMRE Unearned Revenue (formerly classified as 2014 Revenue)
3,240,753	add 2014 Revenue (formerly classified as CMRE Unearned Revenue as 2014 year-end liability)
675,042	add 2014 Revenue (expensing of the former CMRE Depreciation Reserve as 2014 year-end liability)
(89,271)	less 2014 Revenue (correction of opening 2014 CMRE receivables)
<b>29,115,567</b>	<b>Operating Revenue 2014 (corrected) as per 2015 Financial Statements</b>

The adjustments arise from the change in accounting policy at the CMRE. Previously, a portion of revenue derived from delivery of CMRE services to customers would be classified as a liability under Unearned Revenue. This deferred revenue would be recognised in the subsequent year and matched to legal obligations carried forward. This approach has been in place since before the CMRE became customer funded, and followed the traditional NATO treatment of matching revenue to the execution of a budget.

The revised approach to revenue recognition now defines CMRE revenue as the entire value of goods and services delivered to customers during the year. This new accounting policy has been applied to 2015 CMRE revenue and the prior year comparative balances. The overall impact of this change is that some elements of revenue are now recognised earlier than previously accounted for

In accordance with IPSAS 3, the above adjustments have been applied retrospectively to the prior year (2014) comparative figures for Operating Revenue. The net result is to increase 2014 revenue in the Statement of Financial Performance by EUR 2,034,648.

In addition, on the restated 2014 Statement of Financial Position, the above adjustments result in an increase to closing Net Equity of EUR 3,826,524. This change is also recognised in the Statement of Changes to Net Equity.



**C. NOTES TO THE STATEMENT OF FINANCIAL POSITION****1. Cash and cash equivalents**

		(in euro)		
		2015	2014	Variance
Petty Cash		8,618	8,716	(97)
Bank accounts	EUR	10,658,408	11,225,530	(567,122)
	GBP	7,345	6,737	608
	USD	540,991	143,422	397,570
Short-term deposits			1,950,000	(1,950,000)
<b>Total</b>		<b>11,215,363</b>	<b>13,334,405</b>	<b>(2,119,042)</b>

Bank accounts are held in highly liquid non-interest and interest-bearing bank accounts.

Short-term deposits are partly held in interest-bearing current bank accounts in immediately available funds. Current bank accounts are held in EUR, GBP and USD. Balances have been converted to the reporting currency at the NATO exchange rates at 31 December 2015.

Due to the delay in payment of the CSO 2015 2<sup>nd</sup> call for contribution and advance call 2016, no short-term deposits were booked at year end 2015.

**2. Receivables**

		(in euro)		
		2015	2014*	Variance
Receivable from NATO		1,345,936	1,749,570	(403,634)
Receivable from Staff Members		37,221	7,916	29,304
Receivable from Third Parties		1,506	360	1,146
Receivable from Governments		3,836,664	441,023	3,395,641
Prepaid Expenses		126,956	56,243	70,713
Invoices to be established		526,737	318,818	207,919
Other Receivable		5,556	6,299	(743)
<b>Total</b>		<b>5,880,575</b>	<b>2,580,229</b>	<b>3,300,346</b>

***Receivable from NATO***

Significant receivables from NATO Entities at year-end 2015 include a CMRE Invoices to NATO HQ SACT for the 2015 Programme of Work (EUR 1,256,586).

***Receivable from Staff Members***

These are receivables from staff members, such as credit facilities, salaries to be reimbursed, prepaid allowances to staff members. Collections are assured through payroll withholding.

***Receivable from Governments***

These are the 2015 2<sup>nd</sup> Call for Contribution for CSO and the advance for 2016 (EUR 2,546,410), the Value Added Tax (VAT) paid by the CSO that is subject to reimbursements from the Host Nation (EUR 252,576) and CMRE invoices for services rendered in 2015 to customer Nations (EUR 1,107,168).

***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 prepayments, accruals and petty cash transactions.

***Invoices to be established***

This relates to services that have been provided to CMRE customers including European Community Consortia Projects (EUR 507,543), but for which the related invoices have not been issued at the end of the reporting period.

**3. Prepayments**

Prepayments are mainly in respect of advance payments provided to the Ship Management Company (EUR 491,474), for crew salaries, stores, insurance and spare parts.

#### 4. Property, Plant and Equipment

	(in euro)				
	<b>Mission Equipment</b>	<b>AIS Equipment</b>	<b>Installed Equipment</b>	<b>Working in progress</b>	<b>Total</b>
Gross Book Value (31 Dec 2014)	835,317			172,805	1,008,122
Deletions (31 Dec 2014)					
<b>Gross Book Value (1 Jan 2015)</b>	<b>835,317</b>			<b>172,805</b>	<b>1,008,122</b>
Accumulated Depreciation (31 Dec 2014)	(333,080)				(333,080)
Deletions (31 Dec 2013)					
<b>Accumulated Depreciation (1 Jan 2015)</b>	<b>(333,080)</b>				<b>(333,080)</b>
<b>Net Book Value (1 Jan 2015)</b>	<b>502,236</b>			<b>172,805</b>	<b>675,042</b>
Additions in 2015	188,294	285,433	403,997	195,994	1,073,717
Disposal in 2015					
Depreciation in 2015	(341,203)	(95,144)	(33,766)		(470,114)
<b>Net Book Value (31 Dec 2015)</b>	<b>349,327</b>	<b>190,288</b>	<b>370,231</b>	<b>368,799</b>	<b>1,278,645</b>
<b>Gross Book Value (31 Dec 2015)</b>	<b>1,023,610</b>	<b>285,433</b>	<b>403,997</b>	<b>368,799</b>	<b>2,081,839</b>
<b>Accumulated Depreciation (31 Dec 2015)</b>	<b>(674,283)</b>	<b>(95,144)</b>	<b>(33,766)</b>		<b>(803,194)</b>
<b>Net Book Value (31 Dec 2015)</b>	<b>349,327</b>	<b>190,288</b>	<b>370,231</b>	<b>368,799</b>	<b>1,278,645</b>

#### CMRE

##### Mission Equipment:

- Two Tailcones for the Autonomous Underwater Vehicles (AUVs)
- High pressure tolerant battery

##### AIS Equipment

- EMC Isilon NL400, scalable Network Attached Storage (NAS)
- EMC VNX 5200, High Performance, Hybrid Storage Server Farm

##### Installed Equipment

- HVAC system
- Dynamic positioning system for vessel CRV Leonardo

##### Work in progress

- Electricity sub-station
- Very Low Frequency Synthetic Aperture Sonar (VLFSAS) Receiver and Projector prototype

#### CSO

##### Installed Equipment

- Server facility

CMRE also has 132 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 sonar*
- *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*

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

#### **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 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.

#### **OCS Premises**

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

## 5. Payables

	(in euro)		
	2015	2014	Variance
Payables to Suppliers	608,485	562,669	45,816
Accruals	1,615,517	1,301,233	314,284
<b>Total</b>	<b>2,224,002</b>	<b>1,863,902</b>	<b>360,100</b>

### *Payables to Suppliers*

This includes invoices received from suppliers but not yet settled.

### *Accruals*

Accrued expenses are accounted for goods and services received from suppliers but for which invoices have not been received at 31 December 2015.

## 6. Deferred revenue

It consists of 2014 and 2015 contributions/revenues received for which corresponding expenses will be incurred after the reporting period (EUR 364,456 for CSO).

## 7. Advances

	2015	2014	Variance
From customers	951,303	269,367	681,936
Contributions	1,608,961	1,700,000	(91,039)
Other	31,192	72,128	(40,937)
<b>Total</b>	<b>2,591,456</b>	<b>2,041,495</b>	<b>549,960</b>

### *From Customers*

At year-end 2015, CMRE advances from customers amount to EUR 951,303. This includes amounts pre-financed by European Community Consortia for CMRE projects valued at EUR 101,170 and EUR 810,185 by ACT related to a 2015 POW project that has been delayed into 2016.

### *Contributions*

This balance represents 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).

At year-end 2015, the advances amount to EUR 1,608,961. This includes the advances for CSO EUR 1,400,000 and OCS EUR 208,961.

### ***Other***

This amount consists mainly of advances for future S&T activities, including EUR 15,690 VNC Funds, and EUR 13,000 invoiced to ACT for cost-shared events including ITEC 2015 and ITSEC 2016.

## **8. Credit facilities**

This represents a credit facility that CSO has received from the IMS to bridge the cash shortage resulting from the late payment of the 2<sup>nd</sup> call or contribution including the advance for 2016 from the Nations.

## **9. Current Provision**

This amount represents an indemnity for loss of employment for a NATO staff member. Such indemnities are payable in accordance with the NATO regulations on the indemnity for loss of job set out in the NATO Civilian Personnel Regulations.

## **10. Other current liabilities**

	(in euro)		
	<b>2015</b>	<b>2014</b>	<b>Variance</b>
Liabilities from Lapsed Budget Authorization	50,276	105,981	(55,705)
Liabilities from Operational Result	17,260	35,967	(18,707)
Liabilities from Financial Result	3,555	8,426	(4,871)
Liabilities from Budget decrease	84,955		84,955
<b>Total</b>	<b>156,047</b>	<b>150,374</b>	<b>5,672</b>

### ***Liabilities from Lapsed Budget Authorisations 2015***

The Liabilities from Lapsed Budget Authorisation 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 composed of lapse from the 2015 budget and lapse from the 2014 and 2013 budgets carried-forward to 2015.

### ***Liabilities from Operational Results***

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

They are mainly composed miscellaneous revenues and written-off accruals from previous years 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 2015, after offsetting the expenses. The surplus of financial revenue has been transferred to the liabilities from financial results for an amount of € 3,555.

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 € 48,747. This results mainly from gain on exchange rate.

### **11. Non-current Provision**

The provision related to the payment of the cruise leave has been fully settled during the course of 2015.

### **12. Deferred revenue**

This provision represents, for the common funded entities (CSO and OCS), the Net book value of PP&E as of 31 December 2015. The provision is decreased with the annual depreciation expense and increased with any new acquisition. For CMRE the NBV balance is located into the Net Equity.

### **13. Result for the period**

The 2015 result for the period is € 364,926.

### **14. Accumulated Surplus**

The STO Charter<sup>3</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.

Reserve	CMRE commitments / legal obligations	CMRE Depreciation Reserve (NBV of CMRE assets)	Reserve for CMRE vessel modifications	STB CMRE Net Equity Fund	General CMRE Reserve	Total
<b>Net Equity (restated) 31st December 2014</b>	<b>3,151,482</b>	<b>675,042</b>		<b>3,500,000</b>	<b>4,456,063</b>	<b>11,782,587</b>
Creation of Refurbishment reserve			4,853,000		(4,853,000)	
Net change in PPE		417,858			(417,858)	
Net Change in CCF	(2,343,948)				2,343,948	
Surplus for the year 2015					364,926	
<b>Net Equity 31st December 2015</b>	<b>807,534</b>	<b>1,092,900</b>	<b>4,853,000</b>	<b>3,500,000</b>	<b>1,894,079</b>	<b>12,147,513</b>

<sup>3</sup> STO Charter (C-M(2012)0046) articles 23.3 and 24.1

**Commitments**

The reserve for commitments represents the value of orders for goods and services placed in one fiscal year, but not received and invoiced until the following fiscal year(s).

**Net Book Value (NBV)**

The balance for the NBV represents the reserve for future depreciation.

**Vessels**

The reserve for Vessels represents the estimated cost of dry-docking and modifying the research vessel NRV Alliance in 2016. The reserve is used to accumulate resources in current periods to fund major vessel upkeep projects. NRV Alliance undergoes one major and one minor upkeep period in a five year period.

**Net Equity Fund (NEF)**

As provided for in Article 23 of the STO Charter, the STB has established 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.

**D. NOTES TO STATEMENT OF FINANCIAL PERFORMANCE****15. Revenue****Operating Revenues**

	(in euro)		
	2015	2014	Variance
Revenues from Contributions	5,955,158	6,244,821	(289,662)
Revenues from Services	28,686,959	29,115,566	(428,607)
Revenues from Reimbursable and Delegated Budget	8,980	6,696	2,283
Financial Revenues	99,017	55,399	43,618
<b>Total</b>	<b>34,750,114</b>	<b>35,422,482</b>	<b>(672,368)</b>

**Revenue from Contributions**

For the CSO and OCS, contributions when called are booked as an advance under deferred revenue and subsequently recognized as revenue when earned. Revenue is recognized up to the amount of the matching expenses.

**Revenue from Services**

Following an observation from the IBAN, accounting policies for CMRE revenue recognition have been revised in these Financial Statements.



The revenue indicated for the CMRE is now the value of work completed and delivered during the year, under the customer funded business model.

Previously, a portion of revenue derived from the delivery of CMRE services to customers was classified as a liability under Unearned Revenue. This deferred revenue would be recognised in the subsequent years as it was matched to expenditures from legal obligations carried forward. This approach has been in place since before the CMRE became customer funded. The approach followed the traditional NATO treatment of matching revenue to the execution of a budget.

The revised approach to revenue recognition now defines CMRE revenue as the entire value of goods and services delivered to customers during the year. This new accounting policy applies to 2015 CMRE revenue and the prior year comparative balances (refer Note B: Restatement of Prior year Balances).

### ***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.

## **16. Expenses**

Category	(in euro)		
	2015	2014	Variance
Personnel	20,224,721	19,977,528	247,193
Supplies and Services	13,202,015	11,866,663	1,335,352
Capital and Investments	438,068	390,955	47,113
Depreciation	470,114	278,439	191,675
Financial Costs	50,270	44,574	5,696
<b>Total</b>	<b>34,385,188</b>	<b>32,558,159</b>	<b>1,827,029</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 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.

### **17. Surplus or Deficit for the Period**

The STO's result for 2015 showed a surplus of € 364,926. 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 14.

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.

## E. 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 POSITIONas at 31 December 2015  
(in EUR)

		<u>2015</u>	<u>2014</u>
	Notes		
<b>Assets</b>			
<b><i>Current assets</i></b>			
Cash and cash equivalents	1	215,603	2,056,695
Receivables	2	2,819,371	139,965
Prepayments	3	34,098	48,741
		<u>3,069,072</u>	<u>2,245,401</u>
<b><i>Non-current assets</i></b>			
Property, plant & equipment	4	185,745	
		<u>185,745</u>	
<b>Total assets</b>		<u>3,254,817</u>	<u>2,245,401</u>
<b>Liabilities</b>			
<b><i>Current liabilities</i></b>			
Payables	5	106,518	215,862
Deferred revenue	6	364,456	337,907
Advances	7	1,431,192	1,572,128
Credit facilities	8	1,100,000	
Provisions	9		
Other current liabilities	10	66,906	119,504
		<u>3,069,072</u>	<u>2,245,401</u>
<b><i>Non-current liabilities</i></b>			
Provisions	11		
Deferred revenue	12	185,745	
		<u>185,745</u>	
<b>Total liabilities</b>		<u>3,254,817</u>	<u>2,245,401</u>
Surplus/Deficit	13		
Retained earnings	14		
<b>Total net assets</b>			
<b>Total net assets and liabilities</b>		<u>3,254,817</u>	<u>2,245,401</u>

**COLLABORATION SUPPORT OFFICE**  
**STATEMENT OF FINANCIAL PERFORMANCE**

for the year ended 31 December 2015

(in EUR)

		<u>2015</u>	<u>2014</u>
	Notes		
<b>Revenue</b>	15		
Revenue		5,199,635	5,460,835
Financial revenue		11,388	5,812
<b>Total revenue</b>		<u>5,211,023</u>	<u>5,466,646</u>
<b>Expenses</b>	16		
Personnel		4,082,142	4,147,879
Contractual supplies and services		1,104,225	1,312,956
Depreciation and amortization		13,268	
Finance costs		11,388	5,812
<b>Total expenses</b>		<u>5,211,023</u>	<u>5,466,646</u>
<b>Surplus/(Deficit) for the period</b>	17	<u></u>	<u></u>

**CENTER FOR MARITIME RESEARCH & EXPERIMENTATION**  
**STATEMENT OF FINANCIAL POSITION**

as at 31 December 2015

(in EUR)

		<u>2015</u>	<u>2014*</u>	<u>2014</u>
	Notes			
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	1	10,728,534	11,072,408	11,072,408
Receivables	2	3,060,155	2,430,251	2,519,522
Prepayments	3	533,232	392,539	392,539
		<u>14,321,921</u>	<u>13,895,198</u>	<u>13,984,469</u>
<b>Non-current assets</b>				
Property, plant & equipment	4	1,092,900	675,042	675,042
		<u>1,092,900</u>	<u>675,042</u>	<u>675,042</u>
<b>Total assets</b>		<u>15,414,821</u>	<u>14,570,240</u>	<u>14,659,511</u>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Payables	5	2,115,515	1,645,628	1,645,628
Deferred revenue	6		30,000	3,270,753
Advances	7	951,303	269,367	269,367
Provisions	9	200,490		
		<u>3,267,308</u>	<u>1,944,995</u>	<u>5,185,748</u>
<b>Non-current liabilities</b>				
Provisions	11		842,658	842,658
Other non-current liabilities	12			675,042
			<u>842,658</u>	<u>1,517,700</u>
<b>Total liabilities</b>		<u>3,267,308</u>	<u>2,787,653</u>	<u>6,703,448</u>
Surplus/Deficit	13	364,926	2,864,323	829,675
Retained earnings	14	11,782,587	8,918,264	7,126,388
<b>Total net assets</b>		<u>12,147,513</u>	<u>11,782,587</u>	<u>7,956,063</u>
<b>Total net assets and liabilities</b>		<u>15,414,821</u>	<u>14,570,240</u>	<u>14,659,511</u>

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

**CENTER FOR MARITIME RESEARCH & EXPERIMENTATION**  
**STATEMENT OF FINANCIAL PERFORMANCE**

for the year ended 31 December 2015

(in EUR)

		<u>2015</u>	<u>2014*</u>	<u>2014</u>
	Notes			
<b>Revenue</b>	15			
Revenue		28,686,959	29,115,567	27,080,919
Financial revenue		87,194	48,189	48,189
<b>Total revenue</b>		<u>28,774,153</u>	<u>29,163,756</u>	<u>27,129,108</u>
<b>Expenses</b>	16			
Personnel		15,431,874	15,107,079	15,107,079
Contractual supplies and services		12,482,060	10,876,550	10,876,550
Depreciation and amortization		456,846	278,439	278,439
Finance costs		38,447	37,365	37,365
<b>Total expenses</b>		<u>28,409,227</u>	<u>26,299,433</u>	<u>26,299,433</u>
<b>Surplus/(Deficit) for the period</b>	17	<u>364,926</u>	<u>2,864,324</u>	<u>829,675</u>

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

**OFFICE OF THE CHIEF SCIENTIST  
STATEMENT OF FINANCIAL POSITION**

as at 31 December 2015

(in EUR)

		<u>2015</u>	<u>2014</u>
	Notes		
<b>Assets</b>			
<b><i>Current assets</i></b>			
Cash and cash equivalents	1	271,226	205,302
Receivables	2	1,048	10,013
Prepayments	3	27,796	18,448
		<u>300,070</u>	<u>233,762</u>
<b><i>Non-current assets</i></b>			
Property, plant & equipment	4		
<b>Total assets</b>		<u>300,070</u>	<u>233,762</u>
<b>Liabilities</b>			
<b><i>Current liabilities</i></b>			
Payables	5	1,969	2,412
Deferred revenue	6		480
Advances	7	208,961	200,000
Credit facilities	8		
Provisions	9		
Other current liabilities	10	89,140	30,870
		<u>300,070</u>	<u>233,762</u>
<b><i>Non-current liabilities</i></b>			
Provisions	11		
Other non-current liabilities			
<b>Total liabilities</b>		<u>300,070</u>	<u>233,762</u>
Surplus/Deficit	13		
Retained earnings	14		
<b>Total net assets</b>			
<b>Total net assets and liabilities</b>		<u>300,070</u>	<u>233,762</u>



**OFFICE OF THE CHIEF SCIENTIST**  
**STATEMENT OF FINANCIAL PERFORMANCE**

for the year ended 31 December 2015

(in EUR)

		<u>2015</u>	<u>2014</u>
	Notes		
<b>Revenue</b>	15		
Revenue		764,503	790,682
Financial revenue		436	1,398
<b>Total revenue</b>		<u>764,939</u>	<u>792,080</u>
<b>Expenses</b>	16		
Personnel		710,705	722,570
Contractual supplies and services		53,798	68,112
Depreciation and amortization			
Finance costs		436	1,398
<b>Total expenses</b>		<u>764,939</u>	<u>792,080</u>
<b>Surplus/(Deficit) for the period</b>	17		

## F. RELATED PARTIES DISCLOSURE

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 key management personnel and S&T Board Members are remunerated in accordance with the applicable NATO or National pay scales.

Key management personnel include the following officials:

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 Chief Operating Officer &amp; Deputy Director</li> </ul>
Collaborative Support Office	<ul style="list-style-type: none"> <li>CSO Director</li> <li>CSO Deputy Director</li> </ul>

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

### 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 credit facilities.

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.

	2015	2014
Basic salaries	546,921	542,809
Allowances	99,346	99,439
Post-employment benefits	65,630	65,137
Employer's contribution to Insurance	78,099	75,228
<b>Total</b>	<b>789,996</b>	<b>782,613</b>

## 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.

Compensation is exempt from income tax in accordance with NATO Treaties. STO is not responsible for retirement benefits.

### STO Workforce

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

Personnel Establishment	PE - Authorized			PE - Filled		
	Mil	Civ	Total	Mil	Civ	Total
CSO	14	35	49	11	31	42
OCS	4	5	9	3	5	8
CMRE	9	-	9	7		7
<b>International Manpower Ceiling</b>	<b>27</b>	<b>40</b>	<b>67</b>	<b>21</b>	<b>36</b>	<b>57</b>
CMRE - Customer Funded positions	N/A				151	151
<b>Total Establishment Strength</b>	<b>27</b>	<b>40</b>	<b>67</b>	<b>21</b>	<b>187</b>	<b>208</b>

The size of the CMRE civilian workforce is set annually by the governance board based on the anticipated workload. The figure above reflects the number of filled positions on 31 December 2015.

### Employee Benefits

The costs are for staff members hired under the NATO Civilian Personnel Regulations. The figures represent the costs of personnel including basic salary, allowances, insurance and pension plan contributions

### Representation Allowance

Three STO officials received Representation Allowances totalling EURO 9,364. This allowance is paid to those senior officials whose positions entail responsibilities for establishing and maintaining relationships of value for their organisation. <sup>4</sup>

<sup>4</sup> PO(2014)0154 dated 27 March 2013

<b>Representation Allowance</b>	<b>2015</b>
	(in euro)
CMRE	543
CSO	7,134
OCS	1,687
<b>Total</b>	<b>9,364</b>

The representation allowance was used to settle transactions to cover social events and for rental supplement (CSO).

### 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 and used until 30 April.

The STO has taken measures to ensure all leave is taken by 30 April of the following year. 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 2015 is shown below:

<b>Untaken leave balance</b>	<b>2015</b>
	(in days)
OCS	16
CSO	279
CMRE	1,933
<b>Total</b>	<b>2,228</b>

## H. WRITE OFF

In accordance with the NATO Financial Regulations (NFRs Art. 17.1, and 17.4), a global statement of amounts written-off and donations shall be reported in the annual financial statements.

For the STO no items have been written-off during the financial year 2015.

## I. 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 2015.

The CMRE - and its predecessor organisations - acquired full operational control and beneficial ownership of the NATO vessel NRV Alliance in 1988, and the NATO vessel CRV Leonardo in 2002. Following a North Atlantic Council decision on 21 December 2015, custody of both vessels (on behalf of NATO) was transferred from the Supreme Allied Commander Transformation, to the STO Centre for Maritime Research and Experimentation (CMRE) with effect from 1 January 2016.

Notwithstanding the change in custody, both vessels have been under the full operational control of the CMRE since their introduction into service. The acquisition date of both vessels remains unchanged by the transfer of custody. In accordance with the NATO Accounting Framework, the STO "may consider Plant, Property and Equipment (PP&E) acquired prior to 2013 as fully expensed". Therefore, as per the accounting treatment in prior years, these assets are not capitalised as PP&E on the face of the Statement of Financial Position. The transfer of custody on behalf of NATO is a non-adjusting event taking place after the reporting date.

## **J. MORALE & WELFARE ACTIVITY**

Morale and Welfare Activities (MWA) such as sport, community service, retail and concessionary activities are conducted by CMRE. The OCS participates in the services and activities of NATO Headquarters. The CSO has no such MW activities.

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.

**ANNEX-TO THE NOTES TO THE FINANCIAL STATEMENTS****Budget execution statement.**

The basis used for the budget and actual numbers in the budget execution statement is the commitment basis and is therefore different to the accrual basis used to prepare these financial statements. The budget presents the cash requirements for planned payments in the areas (chapters) of personnel, operation and maintenance, investment and reinforcement staff.

Reconciliation of actual budget amounts per the budget execution statement to actual expenses per the statement of financial performance

**CSO**

(in euro)

<b>Expenses</b>	<b>Actuals</b>
Personnel	4,082,142
Supplies and Services	1,224,609
Capital and Investments	78,629
<b>Total Expenses as per Budget Execution</b>	<b>5,385,380</b>

Property Plant and Equipment capitalized (Recognition from Capital and Investments)	(199,013)
Depreciation	13,268
Financial Costs	11,388
<b>Total Expenses as per Financial Performance</b>	<b>5,211,023</b>

**OCS**

(in euro)

<b>Expenses</b>	<b>Actuals</b>
Personnel	710,705
Supplies and Services	53,798
Capital and Investments	
<b>Total Expenses as per Budget Execution</b>	<b>764,503</b>

Property Plant and Equipment capitalized (Recognition from Capital and Investments)	
Depreciation	
Financial Costs	436
<b>Total Expenses as per Financial Performance</b>	<b>764,939</b>

**Statement of transfers**

In accordance with the NATO Financial Regulations (NFRs Art. 26), all the changes between the initial and the final budget, which were due to reallocations, were either authorized by the BC or by the Financial Controller in accordance with the NFRs for inter and intra-budget transfers. All transfers of approved appropriation shall be recorded in the financial statements.

OCS Budget Transfers

EURO	Initial Budget	Transfers	Final Budget
<b>BUDGET 907 (OCS)2015</b>			
Chapter 1	749,563	(38,858)	710,705
Chapter 2	99,895	(46,097)	53,798
Chapter 3			
<b>TOTAL</b>	<b>849,458</b>	<b>(84,955)</b>	<b>764,503</b>

CSO Budget Transfers

EURO	Initial Budget	Transfers	Final Budget
<b>BUDGET 908 (CSO) 2015</b>			
Chapter 71	4,209,961	(158,626)	4,051,335
Chapter 72	1,191,880	187,280	1,379,160
Chapter 73	50,904	(28,654)	22,250
<b>TOTAL</b>	<b>5,452,745</b>		<b>5,452,745</b>



**Budget Execution****Office of Chief Scientist  
STATEMENT OF BUDGET EXECUTION AS AT 31 DECEMBER 2015**

	Initial Budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments	Expenses	Total Spent	Carry Forward	Lapsed
EURO												
<b>BUDGET 907 (OCS)2015</b>												
Chapter 1	749,563		749,563		749,563	(38,858)	710,705		710,705	710,705		
Chapter 2	99,895		99,895		99,895	(46,097)	53,798		53,798	53,798		
Chapter 3												
<b>TOTAL</b>	<b>849,458</b>		<b>849,458</b>		<b>849,458</b>	<b>(84,955)</b>	<b>764,503</b>		<b>764,503</b>	<b>764,503</b>		
EURO												
<b>BUDGET 907 (OCS)2014</b>												
Chapter 1	480		480		480		480					480
Chapter 2												
Chapter 3												
<b>TOTAL</b>	<b>480</b>		<b>480</b>		<b>480</b>		<b>480</b>					<b>480</b>

**Collaboration Support Office**  
**STATEMENT OF BUDGET EXECUTION AS OF 31 DECEMBER 2015**

EURO	Initial Budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments	Expenses	Total Spent	Carry-Forward	Lapsed
<b>BUDGET 908 (CSO) 2015</b>												
Chapter 71	4,209,961		4,209,961		4,209,961	(158,626)	4,051,335	27,907	4,023,428	4,051,335	27,907	
Chapter 72	1,191,880		1,191,880		1,191,880	187,280	1,379,160	328,610	1,050,549	1,379,160	328,610	
Chapter 73	50,904		50,904		50,904	(28,654)	22,250		22,250	22,250		
<b>TOTAL</b>	<b>5,452,745</b>		<b>5,452,745</b>		<b>5,452,745</b>		<b>5,452,745</b>	<b>356,518</b>	<b>5,096,227</b>	<b>5,452,745</b>	<b>356,518</b>	
<b>BUDGET 908 (CSO) 2014</b>												
Chapter 71	68,045						68,045		53,633	53,633		14,412
Chapter 72	183,239						183,239	7,938	164,483	172,421	7,938	10,817
Chapter 73	58,154						58,154		56,379	56,379		1,775
<b>TOTAL</b>	<b>309,438</b>						<b>309,438</b>	<b>7,938</b>	<b>274,495</b>	<b>282,433</b>	<b>7,938</b>	<b>27,005</b>
<b>BUDGET 908 (CSO) 2013</b>												
Chapter 71	8,391						8,391		5,081	5,081		3,309
Chapter 72	20,078						20,078		597	597		19,481
<b>TOTAL</b>	<b>28,469</b>						<b>28,469</b>		<b>5,678</b>	<b>5,678</b>		<b>22,790</b>
<b>TOTAL BUDGET 908 (CSO)</b>	<b>5,790,653</b>						<b>5,790,653</b>	<b>364,456</b>	<b>5,376,400.75</b>	<b>5,740,857</b>	<b>364,456</b>	<b>49,795</b>
<b>BUDGET 504 (PfP) 2015</b>												
Chapter 71												
Chapter 72	10,000			3,000	13,000	(3,318)	9,682	702	8,980	9,682	702	
<b>TOTAL</b>	<b>10,000</b>					<b>(3,318)</b>	<b>9,682</b>	<b>702</b>	<b>8,979.52</b>	<b>9,682</b>	<b>702</b>	
<b>BUDGET 508 (MD) 2015</b>												
Chapter 2	5,000					(5,000)						
<b>TOTAL</b>	<b>5,000</b>					<b>(5,000)</b>						
<b>TOTAL ZNC (Reimbursable) 2015</b>	<b>15,000</b>					<b>(8,318)</b>	<b>9,682</b>	<b>702</b>	<b>8,980</b>	<b>9,682</b>	<b>702</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 Deferred Revenue.

Commitments	(in euro)		
	2015	2014	Variance
Entity			
CSO	364,456	337,907	26,549
OCS		480	(480)
<b>Total</b>	<b>364,456</b>	<b>338,387</b>	<b>26,069</b>