

# EMSO ERIC NOTES TO THE FINANCIAL STATEMENTS

AS AT 31.12.2017

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## 1. Foreword

On September 29<sup>th</sup> 2016 was signed the European Commission decision that established EMSO ERIC. Further information about the Entity are included in the Management Report, that are also relevant for this document.

## 2. Accounting criteria

The present annual Financial Statements have been compiled in conformity with the international accounting standards IPSAS (International Public Sector Accounting Standards) issued by the International Public Sector Accounting Standard Board (IPSASB) and in view of being adopted by the European Commission within the meaning of Council Directive No 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States.

The decision to voluntarily adopt an accounting system that can be connected to international principles is consistent with the process of harmonization started some time ago within the EU Commission, not yet completed. For this purpose, it is relevant to recall the “Report from the Commission to the Council and the European Parliament towards implementing harmonised public sector accounting standards in Member States. The suitability of IPSAS for the Member States”, published on March 2013.

The IPSAS, in general, can function as a basis for harmonised accrual-bases accounting standard passing through their transformation into EPSAS (European Public Sector Accounting Standards). The EU above mentioned Directive states that “by 14 December 2018 the Commission shall public a review of the sustainability of the Directive (see art.16).

EMSO-ERIC is set up as an international organization with scopes of general interests typical of an Entity referable to the Public Sector. Therefore, EMSO-ERIC should be able to relate to its Members in different countries in a common language. This should be adopted in all matters and at all levels and thus also in the model of presentation of economic-financial topics, which support the annual accounts and budgets.

The use of the International Accounting Standards referable to Public Sector, taking into account the specific character and scopes of EMSO-ERIC, adequately conformed to the legal characteristics of the Entity and to its functions and scope, can allow the development of well-defined best practices, whose impact on the financial aspects is measurable and effective. The use of international accounting standards, in fact, allows information on the financial statements to be presented in a common way for users/stakeholders of different nationalities.

In this way we can ensure that:

- the information is relevant, reliable, comparable and understandable;
- the terminology used is common, appropriate and explanatory among members and for similar international organizations outside Europe;

- the financial statements are auditable by International Standard of Audit by auditors from different nations;
- a host country change - and thus any site change - is not relevant for the comparability of information and models, books, records of the accounting system;
- the accounting system is able to present the in-kind contribution model, to provide analytical accounting for projects and separate accounting for economic activities.

The aim of the annual financial statements is to provide information on the assets and liabilities, the profit or loss and changes in the financial structure of the Consortium, useful to a wide range of users. The financial statements are prepared within a general purpose framework.

The financial statements have been compiled in accordance with the principles of clarity and transparency and provide a correct and exhaustive framework of information on ownership relations, as well as economic and financial relations implemented by the Consortium in carrying out its activities.

It has been compiled taking into account International Accounting Standards for Public Sector entities, integrated in order to be consistent with the legal and effective structure and scopes of EMSO.

The Consortium in compliance with IPSAS n.1 has chosen to present the layout of the balance sheet distinguishing between current and non-current items and the layout of the profit and loss account classifying expenses by their nature.

- In its drawing-up, the following principles have been observed:
  - ✓ The items have been evaluated prudently, taking into account the perspective of the continuity of the activities, as well as the economic function of assets or liabilities;
  - ✓ Only incomes and expenditures related to the financial year have been accounted, independently of the day of encashment or payment;
  - ✓ The risks and losses related to the financial year have been accounted, on an accrual basis, even if known after the end of the financial year.

These notes have been compiled in order to clarify, complete and analyse the information contained in the assets and liabilities balance sheet and in the profit and loss account, in addition to providing information on the applied evaluation criteria, on the movements that have taken place and the changes in various assets and liabilities.

The notes are an integral part of the financial statements and provide descriptive and schematic information with particular reference to the ownership aspects, as well as economic and financial aspects of the overall management.

The financial statements comprise the following parts:

- Balance sheet, assets and liabilities statement;
- Profit and loss account;
- Cash Flow Statement;
- Explanatory notes;
- Management report.

The Cash Flow Statement has been introduced in this Financial Statements as at 31/12/2017 following the provisions of IPSAS 1 and compared with the data of Balance Sheet as at 31/12/2016.

### 3. Evaluation criteria

The financial statements have been compiled in accordance with the principles of clarity and transparency and provide a correct and exhaustive framework of information on ownership relations, as well as economic and financial relations implemented by the Consortium in carrying out its activities. They have been compiled taking into account International Public Sector Accounting Standards (IPSAS), according and conforming to the legal characteristics of a not for profit international institution and the specific scope of EMSO.

#### Balance sheet

The items in the balance sheet are classified into non-current/current.

#### Assets

“Non-current” assets are long-term investments where the full value will not be realized within the accounting year. Examples of noncurrent assets include intangible assets such as intellectual property, property, plant and equipment.

The assets have been classified as “current” assets when:

- They have been realized during the normal operating cycle of the institution;
- They are cash or equivalent complement not restricted in its use.

The assets realizable within the operating cycle have been classified as current, regardless of whether they have been actually realized within 12 months from the balance sheet date.

The non-current assets may include tangible assets (such as computers and other minor electronic tools), intangible assets (such a licenses and in general all assets not related to the operating cycle and realizable after 12 months from the balance sheet date).

## Liabilities

“Non current” liabilities are long-term financial obligations that are not due within the present accounting year.

Liabilities have been considered as “current” liabilities when:

- They are extinct in the course of the normal operating cycle of the institution;
- The extinction is due within 12 months from the balance sheet date.

Other liabilities, i.e., those not related to the operating cycle and all other non-commercial liabilities, are classified as current if their extinction is due within 12 months from the balance sheet date.

Otherwise they are recognized as non-current liabilities.

## Deferred incomes and accrual expenses

This item includes the amount of funds received for the year 2017 and not yet fully used, following the accrual basic principle, by 31.12.2017 for the purposes they were intended. They will therefore be used in coming years for the same purposes together with the residual funds of the previous financial year.

This item represents the carry-over for balances of subsequent years to that under review. In this regard, the Consortium is obliged to operate in future years in fulfilment of the mandate conferred by the General Assembly in compliance with the scope designated by Statutory monetary yearly contribution, in the figure and form as approved by the General Assembly held on 28-29 September 2016 .

## In-kind contributions

Contributions in kind have been acquired in the financial statements on the basis of the details contained in the document entitled "Methodology for Defining the Values Involved in the EMSO-ERIC Activities, and to Detail the In-kind Contributions", when available, under the conditions specified therein. It is foreseen the consolidation of the above mentioned “Methodology” and the control of the 2017 data to be referred to as INGV and CSIC 2017 in-kind contributions attributed to EMSO, between local auditors (entrusted by the Representing Entities/Partner Facility) and EMSO auditors.

## Profit and loss account

The drawing-up of the profit and loss account is regulated by the IPSAS, integrated and conformed to be consistent with the characteristics and scopes of EMSO.

## Incomes

Incomes are increases of the benefits connected to the administrative year.

## Costs/Expenses

Costs/expenses are decreases of the economic benefits of the administrative year. The analysis of costs has been explained in the overview of the profit and loss account using a classification based on their nature.

#### 4. In-kind contributions

The Financial Statement includes “In-kind” (non-monetary) contributions from the Members evaluated on the basis of the cost of the production factors related (exhausting their utilities during the ordinary cycle).

The Financial Statement doesn’t include “in-kind” contributions strictly related to cover investments (in tangible and intangible assets)

#### 5. General information

It is stated that 2017 represents the second financial year of EMSO.

#### 6. Assets

##### Non-current assets

Total non-current assets:

Balance as at 31/12/2016	Balance as at 31/12/2017	Difference
-	9.971	9.971

##### Intangible assets

Balance as at 31/12/2016	Balance as at 31/12/2017	Difference
-	2.145	2.145

##### Tangible assets

Balance as at 31/12/2016	Balance as at 31/12/2017	Difference
-	7.826	7.826

### Current assets

Total current assets:

Balance as at 31/12/2016	Balance as at 31/12/2017	Difference
126.963	1.707.891	1.580.928

### Long-term credits

Balance as at 31/12/2016	Balance as at 31/12/2017	Difference
-	5.150	5.150

The composition of the amount as at 31/12/2017 is as follows:

Description	After 12 months	Total
Deposit for real estate rent	5.100	5.100
Deposit for utilities	50	50
<b>Total</b>	<b>5.150</b>	<b>5.150</b>

“Deposit for real estate rent” refers to the caution deposit (security) paid for the General Director’s accommodation.

### Short-term credits

Total short-terms credits:

Balance as at 31/12/2016	Balance as at 31/12/2017	Difference
108.499	40.266	(68.233)

The composition of the amount as at 31/12/2017 is as follows:

Description	Within 12 months	Total
Credits for Members' statutory contribution in cash	40.000	40.000
Other current credits and receivables	266	266
<b>Total</b>	<b>40.266</b>	<b>40.266</b>

This item "Credits for Members' statutory contribution in cash" represents the credit by Members in order to fulfill to their obligation to grant monetary contribution to EMSO as detailed in Annex 3 and Annex 4 of the Statute and in compliance with General Assembly first resolution.

In fact, the General Assembly held on 28-29 September 2016 fixed the contribution by Members for 2017, in a part of the entire contribution, in order to cover costs of the second financial year until 31.12.2017. The contribution related to the entire year is equal to € 360.000 (of which euro 220.000 from the Italian Hosting Country and euro 140.000 from the other Members).

#### Cash and cash equivalents

The balance represents cash at the bank (ordinary and additional dedicated account) and in hand and thus the existing cash at the end of the financial year. The balance represents the liquid assets and the existing cash at the end of the year. Cash is held at the Bank CréditAgricole CARIPARMA. In addition to the ordinary account, a dedicated account was opened, at the same bank, for Emso-Link European Commission project of which EMSO is coordinator.

Description	Balance as at 31/12/2016	Balance as of 31/12/2017	Difference
Bank deposits	16.992	1.660.989	1.643.971
Cash	-	51	51
<b>Total</b>	<b>16.992</b>	<b>1.661.040</b>	

#### Accrued income and prepayments

Balance as at 31/12/2016	Balance as at 31/12/2017	Difference
1.472	1.435	(37)

In general the item measures expenses calculated on accrual basis irrespectively from cash or documentary. This amount mainly represents prepaid expenses related to costs for services and other minor expenses.

## 7. Equity and liabilities

### EQUITY

#### **Capital and other permanent contributions from Members**

No values are entered for in this item.

#### **Reserves**

No values are entered for in this item (with the exception of rounding).

#### **Accumulated surplus**

No values are entered for in this item.

### Non-current liabilities

Total non-current liabilities:

Balance as at 31/12/2016	Balance as at 31/12/2017	Difference
-	-	-

#### **Long-term financial debts and loans**

No values are entered for in this item.

#### **Other long-term debts and liabilities**

No values are entered for in this item.

#### **Employee's severance indemnity**

No values are entered for in this item. At 31/12/2017 the Consortium has not employees in force.

### Current liabilities

Total current liabilities:

Balance as at 31/12/2016	Balance as at 31/12/2017	Difference
126.963	1.717.862	1.590.899

Detailed as follows.

**Short-term financial debts**

Balance as at 31/12/2016	Balance as at 31/12/2017	Difference
(1)	947.256	947.257

This item includes the contribution quotas due to the Partners for their participation to EMSO-LINK Project.

**Advance payments for project externally funded**

Balance as at 31/12/2016	Balance as at 31/12/2017	Difference
	363.984	363.984

This item includes the residual prepayment received from EU for participation to EMSO-LINK Project.

**Other short-term debts and liabilities**

Balance as at 31/12/2016	Balance as at 31/12/2017	Difference
21.423	66.710	45.287

Detailed as follows:

Description	31/12/2016	31/12/2017	Difference
Account payables	21.020	63.081	42.061
Withholding taxes for self-employed workers	-	1.017	1.017
Tax payables	372	310	-62
Other payables	31	2.302	2.271
<b>TOTAL</b>	<b>21.423</b>	<b>66.710</b>	

Debts are valued at their nominal value and the expiration of the same is as follows

- "Account payables" includes liabilities for purchases of services;
- "Tax payables" includes liabilities for taxes and, for the year 2017, represents IRAP (regional tax);

- "Other payables" includes remaining debts of different nature.

### Accrued expenses and deferred income

These items are related to incomes and costs referring to the period calculated on an accrual basis.

Balance as at 31/12/2016	Balance as at 31/12/2017	Difference
105.541	339.912	234.371

The item is related to deferred income, as detailed as follows.

Description	Amount
Deferred income to carry-over 2016	104.124
Deferred income to carry-over 2017	235.789
Rounding	-1
<b>TOTAL</b>	<b>339.912</b>

The annual monetary contribution by Members was fixed in the amount equal to 360.000; the resources deferred to 2018 as carry over are € 235.789.

## 8. Income statement, Profit and loss account

### Revenues

#### **Contributions for operating expenses**

Contributions items identify:

- the portion of the cash contribution for the financial year allocated by the Members for the Consortium's starting activities to cover the ordinary operating expenses (€ 124.211);
- the 2017 cash contribution from EU for the participation to EMSO-LINK Project (€ 99.226);
- the 2017 *una tantum* cash contribution from R.E. INGV (€ 35.334);
- the 2017 in kind contribution for staff cost made available by R.E. INGV (€ 94.127);
- the 2017 in kind contribution for services available at the by R.E. INGV (€ 122.750).
- the 2017 in kind contribution from CSIC (Spain) for secondment of the General Director (€ 21.306).

Balance as at 31/12/2016	Balance as at 31/12/2017	Difference
99.603	496.954	397.351

## Costs

### **Operating costs**

Total operating costs:

Balance as at 31/12/2016	Balance as at 31/12/2017	Difference
99.603	494.430	394.827

Detailed as follows.

### Costs for raw materials, supplies, consumables and goods

Balance as at 31/12/2016	Balance as at 31/12/2017	Difference
-	1.214	1.214

This item includes: costs incurred for the supply of consumables and tangibles of small amount.

### Service costs

Balance as at 31/12/2016	Balance as at 31/12/2017	Difference
21.875	377.643	355.768

It has been decided to detail the item services, to facilitate fair presentation of the budget determined by the operating characteristics of the Consortium.

Description	31.12.2016	31.12.2017	Difference
General Director - lump sum		15.000	15.000
General Director - accomodation		4.417	4.417
General Director - travel cost		2.272	2.272
Transition Manager	17.666	70.664	52.998
Project Coordinator		37.646	37.646
Project Management		5.000	5.000
Support to project manager		14.300	14.300
Innovation and external relations office		29.167	29.167
Executive Assistant		3.504	3.504
Data Manager Consultant		6.250	6.250
Support to strategic plan		3.079	3.079
Translations		1.238	1.238
Graphic drawings and texts		260	260
Real estate brokerage costs		1.700	1.700
Telephone and communication utilities		665	665
publicity, procurement	2.032	5.575	3.543
Auditor fees		5.000	5.000
Fiscal and administrative consultancy and accounting services	1.664	12.792	11.128
Legal consultancy		6.760	6.760
travel costs for employees, collaborators, and social organs	434	27.849	27.415
Licenses		903	903
Postage		25	25
Bank charges	74	827	753
others	5		- 5
<b>Total</b>	<b>21.875</b>	<b>254.893</b>	

### Costs for services available in kind

Description	31.12.2016	31.12.2017	Difference
Back office activity		92.140	92.140
Aom IT delegate and Secretary		1.941	1.941
Headquarters facilities		28.669	28.669
<b>Total</b>	<b>-</b>	<b>122.750</b>	

In kind resources by hosting country (R.E. INGV).

### Staff costs

Balance as at 31/12/2016	Balance as at 31/12/2017	Difference
77.728	115.433	37.705

At 31/12/2017 EMSO has not personnel in force; the cost of Euro 94.127 represents the staff contributed in kind by the Hosting Country (R.E. INGV).

### Staff disposable in kind by hosting country

Balance as at 31/12/2016	Balance as at 31/12/2017	Difference
77.728	94.127	16.399

### Staff disposable in kind by members

Balance as at 31/12/2016	Balance as at 31/12/2017	Difference
-	21.306	21.306

The cost of Euro 21.306 represents the estimated in kind contribution from CSIC (Spain) for the secondment of the General Director.

### Other operating costs

Balance as at 31/12/2016	Balance as at 31/12/2017	Difference
-	140	140

Other operating costs consist of costs for stationery and stamps.

### Amortization/Depreciation of intangible and tangible assets

Description	Initial cost	Amortization/ Depreciation	Residual value
<b>Intangible Assets</b>			
Software	3.218	1.073	2.145
<b>Tangible Assets</b>			
Office equipment	6.860	847	6.013
Mobile phones	2.309	496	1.813
<b>Total</b>	<b>12.387</b>	<b>2.416</b>	<b>9.971</b>

Depreciation in charge refers both to tangible and intangible assets.

### Financial income and expenses

Description	31.12.2016	31.12.2017	Difference
Bank interest income		227	227
Exchange rate losses		-41	- 41
Exchange rate income		16	16
<b>Total</b>	<b>-</b>	<b>202</b>	

Financial income refers to bank interest income; financial expenses refers to exchange rate differences.

### Taxation

current tax	31/12/2016	31/12/2017	Difference
IRAP	-	310	310
<b>Total</b>	<b>-</b>	<b>310</b>	

The current taxation on personnel (collaborators or freelance) is equal euro 310.

It is stated that the Consortium, in the context of purchases realized and within the limits following the Statute, may use VAT exemptions granted on the basis of Article 143(1)(g) and Article 151(1)(b) of Council Directive 2006/112/EC, and in accordance with Articles 50 and 51 of Implementing Regulation (EU) No. 282/2011 of the Council.

Rome, 29th March 2018

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