



Provisional Accounts 2019

Mr Klaus-Heiner Lehne
President of the European Court of Auditors
12, rue Alcide de Gasperi
L-1615 LUXEMBOURG

To the attention of the President of the Court of Auditors

Subject: Provisional annual accounts for the financial year 2019 for the CPVO

Date: 25th February 2020

Dear Mr. Klaus-Heiner Lehne,

This representation letter is provided in connection with your audit of the provisional accounts of the Community Plant Variety Office hereafter the CPVO consisting of the "financial statements"¹ and the "reports on the implementation of the budget" for the financial year ended 31 December 2019 for the purpose of expressing an opinion as to whether these present fairly, in all material respects, the financial position of the CPVO as of 31 December 2019 and of the results of its operations, its cash flows, and the changes in net assets for the year then ended.

In accordance with the Financial Regulation of the CPVO, the "financial statements" for the financial year 2019 are prepared on the basis of accounting rules adopted by the European Commission which adapt accruals based accounting principles to the specific environment of the European Union², while the "reports on the implementation of the budget" continue to be primarily based on movements of cash.

In line with Article 49 of the Financial Regulation of the CPVO, the accounting systems laid down by the Accounting Officer and where appropriate systems laid down by the Authorising Officer and his delegates to supply and justify accounting information have been validated.

All the information necessary for the production of the provisional accounts of the CPVO which give a true and fair view of the assets and liabilities and of the budgetary implementation has been obtained from the Authorising Officer and his delegates.

We confirm, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves, the following representations:

¹ The "financial statements" comprise the balance sheet, the statement of financial performance, the cash flow statement, the statement of changes in net assets and the notes to the financial statements.

² The accounting rules adopted are based on International Public Sector Accounting Standards (IPSAS) issued by the International Federation of Accountants or, in their absence, International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board.

Provisional Accounts

1. The "Provisional annual accounts of the CPVO" for the financial year ended 31 December 2019 referred to above are presented in accordance with its Financial Regulation, the accounting rules and methods established by the European Commission on the basis of internationally accepted accounting standards for the public sector.
2. No issues having a sufficiently material impact requiring a reservation have been brought to our attention.
3. Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.
4. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the accounting rules.
5. All events subsequent to the date of the financial statements and for which the accounting rules require adjustment or disclosure have been adjusted or disclosed.
6. There are no uncorrected misstatements that are material, both individually and in the aggregate, to the financial statements as a whole.
7. There are no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements. The carrying value of receivables and recoverables which are potentially irrecoverable has been corrected, where necessary.
8. The CPVO has satisfactory title to all assets and there are no liens or encumbrances on the assets.
9. All liabilities, both actual and contingent, have been recorded or disclosed, as appropriate, and all guarantees that have been given to third parties have been disclosed in the notes to the financial statements.
10. All claims against the CPVO are reflected in the financial statements as a provision or, where relevant, as a contingent liability.
11. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts. There are no lines of credit arrangements.

Information Provided

With regard to the information provided and the representations 12-17 below, I highlight that I have provided you with such information for the CPVO.

12. We have provided you with:
 - Access to all information of which I am aware that is relevant to the preparation of the accounts such as records, documentation and other matters;
 - Additional information that you have requested for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
13. All transactions have been recorded in the accounting records and are reflected in the accounts.



14. We have disclosed to you the results of my assessment of the risk that the accounts may be materially misstated as a result of fraud.

15. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the agency's accounts that I have been informed of by management, current or previous employees or other relevant services, including the European Anti-Fraud Office (OLAF).

16. We have disclosed to you the identity of the agency's related parties and all the related party relationships and transactions of which we are aware, in accordance with the EU accounting rule 15.

17. We have disclosed to you all instances of non-compliance and of suspected non-compliance with laws and regulations that we are aware of and whose effects should be considered when preparing the accounts.

18. Apart from the above, we confirm that:

- the accounts disclose adequately the provisional nature of those operations which are subject to future clearance of accounts or closure procedures;
- for all "probable" but not yet definitive receivables an adequate disclosure, including when possible an estimate of the amounts involved, is given in the notes to the accounts;
- the accounts include all the recovery orders issued by the Authorising Officers concerning the operations giving rise to reimbursement;
- Authorising Officers have not informed me of delays or other problems in the establishment of recovery orders.



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25/02/2020

Anne-Marie Fernandez

The Accounting Officer of the Community Plant Variety Office



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25/02/2020

Martin Ekvad

The President of Community Plant Variety Office



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THE CPVO



1. The CPVO

A system for the protection of plant variety rights has been established by Community legislation. The system allows intellectual property rights, valid throughout the Community, to be granted for plant varieties.

The Community Plant Variety Office (CPVO) implements and applies this scheme. The CPVO has been operating since 27 April 1995. On 6 December 1996, the Intergovernmental Conference of representatives of the Member States (IGC) decided that the seat of the CPVO would be in Angers (France). The CPVO, which is a decentralised Community agency, has its own legal status. It is self-financing, mainly on the basis of the various fees paid.

2. Mission of the CPVO

The CPVO was established by Council Regulation (EC) No 2100/94 of 27 July 1994 on Community plant variety rights (OJ L 227 of 01.09.94 p.1). It was established with a view to creating a system of industrial property rights for plants, with uniform effect in the territory of the European Union.

The mission statement below, which is broadly in line with the one defined for the period 2010-2015, provides a clear *raison d'être* for the CPVO. It is on this solid basis, that the Strategic Vision is developed and the objectives and actions over the period 2017-2021 are derived.

The mission is to deliver and promote an efficient Intellectual Property Rights system that supports the creation of new plant varieties for the benefit of Society.

The mission of the CPVO provides an incentive to create new varieties. By protecting new varieties return of investments to the breeder is ensured and opens the door for re-investments in the creation of new plant varieties. This will lead to higher and more sustainable agricultural outputs and job creation as outlined above in the introduction. This mission has many implications for how the CPVO works and develops over time. Achieving this means we will implement high quality, robust and defensible decisions which maintain the confidence of breeders and society as a whole. This in turn requires recruiting and developing staff with access to cutting-edge IT tools, maintaining excellent relations with all our stakeholders while taking our responsibility as a worldwide player in Intellectual Property Rights for plants.

3. Structure of the CPVO and the actors involved

- **The Administrative Council:** The CPVO is supervised by its Administrative Council, comprising a representative of each Member State and a representative of the European Commission, and their alternates. The Administrative Council advises the CPVO, formulates its general guidelines, provides opinions, constitutes the budgetary authority of the CPVO, examines and controls both its activities and those of its President.
- **CPVO management:** the management of the CPVO is ensured by its President, nominated by the Council of the European Union. The President takes all the necessary measures in order to produce the budget of the CPVO and to ensure its correct implementation in the framework of the powers conferred on him under the Community Regulations. He is assisted by a Vice-President who ensures his replacement in case of impediment. The President has delegated some of his duties to the Vice-President.
- **Internal organisation of the CPVO:** The CPVO is organised internally into three units : Technical, Administration and Legal units. There is also a service responsible for the quality auditing of examination offices. This service is under the administrative responsibility of the President while being independent with regard to its audit operations.
- **The Board of Appeal:** a Board of Appeal has been established which is responsible for deciding on appeals made against certain kinds of decisions taken by the CPVO. The Board is made up of a Chairman and alternate, and members chosen by the Chairman from a list (drawn up on the basis of a strict regulatory procedure) depending on the cases under consideration. The members of the Board of Appeal are independent.

The decisions of the Board of Appeal can be appealed against at the Court of Justice of the European Union in Luxembourg.
- **Other institutions:** Various Community institutions such as the Council of the European Union, the Court of Auditors (control of income and expenditure accounts), the European Parliament and the European Commission interact directly or indirectly with the activities of the CPVO.



4. Overview Budget Implementation 2019

4.1 Introduction

In accordance with the financial regulations of the Community Plant Variety Office, the present report provides an overview and analysis of the execution of the budget of the CPVO in 2019 as well as an indication of the key events and developments which impact on the financial situation of the Office.

The reports shall be subject to audit by the European Court of Auditors, after which the final accounts shall be drawn up.

4.2 Overview

The Community Plant Variety Office received more than 3500 applications in 2019, as much as in 2018. In 2019, almost 3200 new titles were granted. Taking into account the surrenders of older titles, the total number titles in force rose more than 28200.

4.3 Budgetary Accounts

The budgetary accounts, which are more or less a reflection of the cash receipts and expenditure for the year, are sensitive to the timing of receipts and payments. Receipts of EUR 17.72 million and expenses of EUR 16.38 million meant a budget outturn of EUR 1.34 million positive (EUR 1.2 million positive in 2018). Non-budgetary income of EUR 71 thousand lead to a net outturn of EUR 1.4 million positive.

The outturn slightly increased compared to 2018. The free reserve slightly decreased in line with a significant increase in the total of the open commitments for operational expenses (increase of 1.4 million in 2019) and despite a significant increase of the treasury of EUR 1.2 million compared to 2018.

4.4 Financial Accounts

The financial accounts show an economic result of EUR 495 thousand positive. This figure takes into account *inter alia* invoices not yet received at year-end.

4.5 Budgetary Outturn

The budgetary outturn is the difference between the budgetary receipts and budgetary payments.

The net outturn for the year was approximately EUR 1.4 million positive, a slight increase compared to the previous year showing a net out-turn of EUR 1.3 million.

Table 1 Budgetary outturn 2019

		2019	2018	% variation 2019
Income	Fees revenue	17 671 918,00	17 499 839,00	0,98%
	Other revenue	52 792,24	133 915,89	-60,58%
	Total	17 724 710,24	17 633 754,89	0,52%
Expenditure	Title 1 Staff expenditure	-7 519 234,82	-7 062 334,39	6,47%
	Title 2 Administrative expenditure	-1 288 466,29	-1 304 132,68	-1,20%
	Title 3 Operational expenditure	-7 568 108,24	-8 062 122,89	-6,13%
	Total	-16 375 809,35	-16 428 589,96	-0,32%
Grand Total		1 348 900,89	1 205 164,93	11,93%
Non budgetary income		70 832,21	97 038,38	-27,01%
Net outturn for the year		1 419 733,10	1 302 203,31	9,03%

The budget outturn for 2019 increased thanks to the rise of the level of the annual fee in 2017 and to the cumulative increase of the titles granted during the year. The increase in staff expenditure was offset by a similar decrease in operational expenditure leaving total expenditure almost unchanged compared to 2018.

5. Revenue

Table 2 Revenue breakdown

	2019	2018	% variation 2019
Fees	17 671 918,00	17 499 839,00	0,98%
Administrative operations	23 992,37	98 994,89	-75,76%
Interest	28 799,87	34 921,00	-17,53%
Grand Total	17 724 710,24	17 633 754,89	0,52%

Table 3 Breakdown of fee income

	2019	2018	% variation 2019
Annual fees	9 699 770,00	9 120 600,00	6,35%
Application fees	1 599 250,00	1 632 350,00	-2,03%
Examination fees	5 706 110,00	6 061 000,00	-5,86%
Other fees	666 788,00	685 889,00	-2,78%
Grand Total	17 671 918,00	17 499 839,00	0,98%

The total fees received in 2019 amounted to EUR 17.67 million, an increase of 0.98 % in comparison with the previous year. The increase is mainly due to the rise in the number of annual fees paid with a higher number of titles in force.

6. Expenditure

Execution of expenses is made using budgetary appropriations for commitments and appropriations for payments.

For staff costs and administrative expenditure (Title 1 and Title 2) the commitment and payment budgets are equal. This means that the amounts committed in a given year equal the amounts paid in that year (or carried forward to be paid early in the following year as C8 Credits).

For operational expenses (Title 3 – mainly examinations), commitments can be made in one year but payment can be spread out over a number of future years (depending on the species being examined). For this reason, the commitment budget is different from the payment budget for operational expenditure.

Table 4 Budgetary execution 2019

	Final appropriation	Executed	Paid %	Cancelled appropriations	Cancelled %
Title 1 Staff expenditure	7 785 000,00	7 519 234,82	96,6%	265 765,18	3,4%
Title 2 Admin. expenditure	1 780 500,00	1 288 466,29	72,4%	492 033,71	27,6%
Title 3 Operational expenditure	8 909 500,00	7 568 108,24	84,9%	1 341 391,76	15,1%
Grand Total	18 475 000,00	16 375 809,35	88,6%	2 099 190,65	11,4%

Overall, as can be seen, expenditure for the year was EUR 16.38 million (compared with EUR 16.43 million in 2018) with a very high execution rate for the budget (88.6%).

Table 5 Budgetary execution – comparison 2018 – 2019

	Budget execution 2019	Budget execution 2018	% Change
Title 1 Staff expenditure	7 519 234,82	7 062 334,39	6,5%
Title 2 Admin. expenditure	1 288 466,29	1 304 132,68	-1,2%
Title 3 Operational expenditure	7 568 108,24	8 062 122,89	-6,1%
Grand Total	16 375 809,35	16 428 589,96	-0,3%

As already mentioned above, overall expenditure is almost unchanged year-on-year.

Table 6 Budgetary execution 2019 – Title 1: Staff expenditure

Budget article	Description.	Final appropriation	Executed	Paid %	Paid in the year	Carried forward to 2019 (C8)	Cancelled appropriations	Cancelled %
E1100	Staff	7 243 000,00	7 052 270,89	97,4%	6 998 404,11	53 866,78	190 729,11	2,6%
E1200	Training	116 000,00	112 908,48	97,3%	50 393,48	62 515,00	3 091,52	2,7%
E1300	Travel	280 000,00	225 531,82	80,5%	193 853,62	31 678,20	54 468,18	19,5%
E1400	Interim staff	101 000,00	97 388,46	96,4%	83 117,51	14 270,95	3 611,54	3,6%
E1500	Assistance	35 000,00	27 176,08	77,6%	21 784,86	5 391,22	7 823,92	22,4%
E1700	Representation	10 000,00	3 959,09	39,6%	3 308,70	650,39	6 040,91	60,4%
Grand Total		7 785 000,00	7 519 234,82	96,6%	7 350 862,28	168 372,54	265 765,18	3,4%

The overall budget execution for staff related expenditure was high at 96.6%, with slight underspending on travel, due to increased use of video-conferencing.

Table 7 Budgetary execution – Title 1: Staff expenditure – comparison 2018 – 2019

Budget article	Description.	Budget execution 2019	Budget execution 2018	% Change
E1100	Staff	7 052 270,89	6 653 443,25	6,0%
E1200	Training	112 908,48	71 122,06	58,8%
E1300	Travel	225 531,82	257 390,57	-12,4%
E1400	Interim staff	97 388,46	52 208,18	86,5%
E1500	Assistance	27 176,08	23 574,65	15,3%
E1700	Representation	3 959,09	4 595,68	-13,9%
Grand Total		7 519 234,82	7 062 334,39	6,5%

The salary grid for the staff of the Office, being governed by the levels set by the Council of the European Union, is also subject to changes in line with inflation and career progression. The increase on staff costs also reflects the fact there was only one vacant post in the CPVO at year-end.

Table 8 Budgetary execution 2019 – Title 2: Administrative expenditure

Budget article	Description.	Final appropriation	Executed	Paid %	Paid in the year	Carried forward to 2019 (C8)	Cancelled appropriations	Cancelled %
E2000	Property	340 000,00	293 469,46	86,3%	246 464,15	47 005,31	46 530,54	13,7%
E2100	IT expenses	720 000,00	472 881,15	65,7%	386 771,87	86 109,28	247 118,85	34,3%
E2200	Other equipment	63 000,00	19 541,40	31,0%	14 826,76	4 714,64	43 458,60	69,0%
E2300	General admin.	58 500,00	16 971,43	29,0%	15 240,90	1 730,53	41 528,57	71,0%
E2400	Postage and telecom	85 000,00	69 835,21	82,2%	66 206,15	3 629,06	15 164,79	17,8%
E2500	Meetings and notices	324 000,00	251 923,28	77,8%	196 999,77	54 923,51	72 076,72	22,2%
E2600	Audit and evaluation	190 000,00	163 844,36	86,2%	103 874,36	59 970,00	26 155,64	13,8%
Grand Total		1 780 500,00	1 288 466,29	72,4%	1 030 383,96	258 082,33	492 033,71	27,6%

The execution of the administrative budget was much lower than expected, due mainly to a low execution of the budget for IT expenses due to delays in launching a framework contract for external support. This should reverse in 2020.

Table 9 Budgetary execution – Title 2: Administrative expenditure – comparison 2018 – 2019

Budget article	Description.	Budget execution 2019	Budget execution 2018	% Change
E2000	Property	293 469,46	261 525,57	12,2%
E2100	IT expenses	472 881,15	574 044,77	-17,6%
E2200	Other equipment	19 541,40	29 971,29	-34,8%
E2300	General admin.	16 971,43	37 414,78	-54,6%
E2400	Postage and telecom	69 835,21	77 394,89	-9,8%
E2500	Meetings and notices	251 923,28	219 450,38	14,8%
E2600	Audit and evaluation	163 844,36	104 331,00	57,0%
Grand Total		1 288 466,29	1 304 132,68	-1,2%

For Administrative expenses, there were slight decreases in most of the items. This is the result of constant efforts made to decrease the administrative expenditure: approximately -1% in 2019 (- 6% in 2018 and -30% in 2017).

Table 10 Budgetary execution 2019 – Title 3: Operational expenditure

Budget article	Description.	Final appropriation	Executed	Paid %	Cancelled appropriations	Cancelled %
E3000	Examination office fees	7 570 000,00	6 881 065,25	90,9%	688 934,75	9,1%
E3200	Examination reports	489 500,00	441 936,00	90,3%	47 564,00	9,7%
E3400	Publications	150 000,00	35 659,27	23,8%	114 340,73	76,2%
E3500	Studies	500 000,00	167 252,48	33,5%	332 747,52	66,5%
E3600	Special advisors	200 000,00	42 195,24	21,1%	157 804,76	78,9%
Grand Total		8 909 500,00	7 568 108,24	84,9%	1 341 391,76	15,1%

Table 11 Budgetary execution – Title 3: Operational expenditure – comparison 2018 – 2019

Budget article	Description.	Budget execution 2019	Budget execution 2018	% Change
E3000	Examination office fees	6 881 065,25	7 251 535,74	15,2%
E3200	Examination reports	441 936,00	409 040,00	19,9%
E3400	Publications	35 659,27	48 051,60	-32,9%
E3500	Studies	167 252,48	206 294,05	6,1%
E3600	Special advisors	42 195,24	147 201,50	46,6%
Grand Total		7 568 108,24	8 062 122,89	15,1%

Operational expenditure consists mainly of remuneration for Examination Offices. Payments for examinations in a given year reflect the commitments made in earlier years as the cost is typically spread out over time.

Table 12 Budgetary execution (commitment appropriation) 2019 – Title 3: Operational expenditure

Budget article	Description	Budget initial	Transfers	Budget final	Committed	% Committed
E3000	Examination office fees	8 700 000		8 700 000,00	8 690 992,50	99,9%
E3200	Examination reports	400 000	89 500,00	489 500,00	460 256,00	94,0%
E3400	Publications	150 000		150 000,00	49 537,00	33,0%
E3500	Studies	500 000		500 000,00	493 643,00	98,7%
E3600	Special advisors	200 000		200 000,00	114 022,19	57,0%
Total		9 950 000	89 500,00	10 039 500,00	9 808 450,69	97,7%

Table 13 Title 3 – Outstanding commitments

Budget Article	Outstanding beginning of the year	Committed	De-committed	Paid	Outstanding yearend
E3000	15 848 027,90	8 690 992,50	-852 544,75	-6 881 065,25	16 805 410,40
E3200	421 920,00	460 256,00	-2 000,00	-441 936,00	438 240,00
E3400	4 310,78	49 537,00	-2 348,33	-35 659,27	15 840,18
E3500	621 002,44	493 643,00	-66 297,17	-167 252,48	881 095,79
E3600	49 415,87	114 022,19	-2 858,17	-42 195,24	118 384,65
Grand Total	16 944 676,99	9 808 450,69	-926 048,42	-7 568 108,24	18 258 971,02

7. Budget amendments and transfers

No budget revision occurred in 2019.

Every year, transfers between budget items are performed when made necessary following a change in planning.

In 2019, transfers were made from the lines for staff expenditure, IT expenses, general administrative expenses, other equipment and meetings to cover the cost increase of interim staff, training, audit and examination reports.

The table below shows the transfers for the payment budget:

Table 14 Transfers on the commitment and payment budget 2019

Budget article	Description.	Initial payment budget	Payment budget transfers	Final appropriation
E1100	Staff	7 290 000	-47 000	7 243 000,00
E1400	Interim staff	80 000	21 000	101 000,00
E1200	Training	90 000	26 000	116 000,00
E2100	IT expenses	800 000	-80 000	720 000,00
E2300	General admin.	65 000	-6 500	58 500,00
E2200	Other equipment	70 000	-7 000	63 000,00
E2500	Meetings and notices	360 000	-36 000	324 000,00
E2600	Audit and evaluation	150 000	40 000	190 000,00
E3200	Examination reports	400 000	89 500	489 500,00
Grand Total		9 305 000	-	9 305 000,00

For Title 1 and Title 2, the Commitment budget is subject to the same transfers as the Payment budget as the credits are non-dissociated credits. The explanations of revisions and transfers are mentioned on the previous paragraph. Transfers were needed to reinforce budget lines linked to interim staff, training and audit expenses.

For Title 3, one transfer was made to reinforce the budget line examination reports for commitment and payment appropriations.

8. Management of Carry-Over credits (C8)

Each year, for title 1 and title 2, commitments are made for invoices which have not been received at the year-end. These amounts are shown as budget execution for the year but carried over to the following year to be paid. As the invoice amounts are not always known at the year-end, the total amount carried over is an estimate. For budgetary reasons, it is necessary that there is a margin. When the amount carried over is too high, the resulting "lost credits" become non-budgetary income for the following year.

The table below shows a payment execution of 83% with EUR 357 307.75 paid in 2019 for amounts carried over from 2018. The unpaid amount of EUR 70 832.21, which had been considered as a budgetary expenditure in 2019, becomes a "non-budgetary income" in 2019 and appears in the budget outturn account as such in table 1.

Table 15 Execution of C8 credit – 2019

Title	Budget article	Description	Budget final	Payments	% Paid	Lost C8 credits
Title 1 Staff expenditure	E1100	Staff	42 973,17	33 061,22	77%	9 911,95
	E1200	Training	26 796,00	26 796,00	100%	0,00
	E1300	Travel	29 227,11	19 541,42	67%	9 685,69
	E1400	Interim staff	6 090,98	5 853,67	96%	237,31
	E1500	Assistance	7 994,45	5 605,37	70%	2 389,08
	E1700	Representation	500,00	394,42	79%	105,58
	Total		113 581,71	91 252,10	80%	22 329,61
Title 2 Admin. expenditure	E2000	Property	40 970,46	36 892,00	90%	4 078,46
	E2100	IT expenses	149 709,80	124 614,56	83%	25 095,24
	E2200	Other equipment	2 857,76	2 406,17	84%	451,59
	E2300	General admin.	3 381,44	2 735,91	81%	645,53
	E2400	Postage and telecom	6 733,45	2 393,99	36%	4 339,46
	E2500	Meetings and notices	56 243,81	43 758,73	78%	12 485,08
	E2600	Audit and evaluation	54 661,53	53 254,29	97%	1 407,24
	Total		314 558,25	266 055,65	85%	48 502,60
Grand Total			428 139,96	357 307,75	83%	70 832,21

9. Treasury reserve

Table 16 Calculation of the free reserve

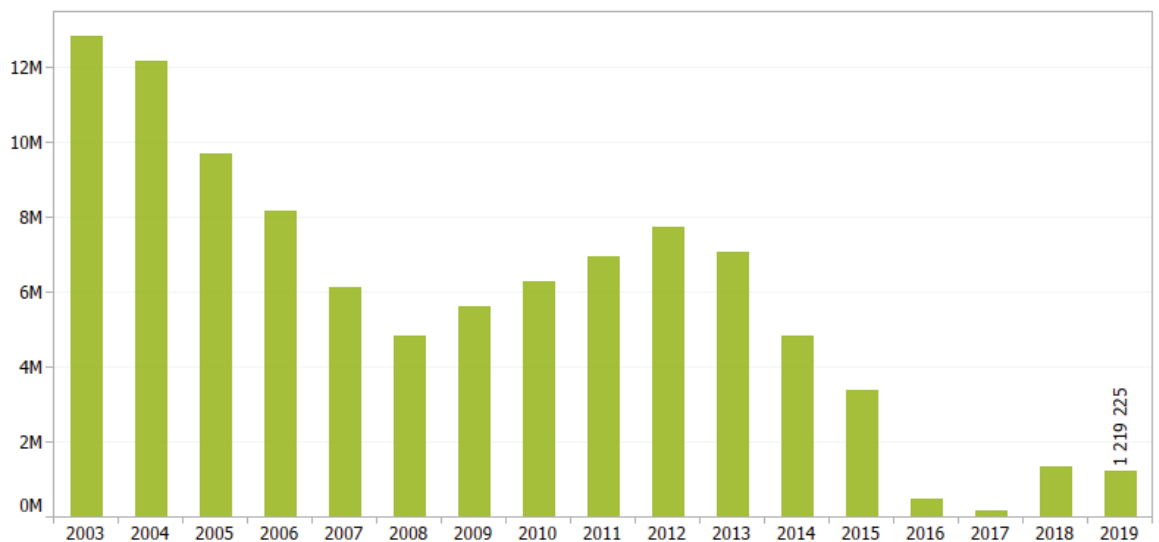
Description	2019
Treasury amount	19 904 651
Title 1: Amount carried over to next year	-168 373
Title 2: Amount carried over to next year	-258 082
Title 3: Amount carried over (diffrenciated credit)	-18 258 971
Grand Total	1 219 225

The so-called free reserve is the difference between total treasury held by the CPVO and the outstanding commitments opened.

The reserve of cash and cash equivalents of the CPVO at 31 December 2019 amounted to EUR 19.9 million (higher than the position at the same time in 2018: 18.7 million). However, the outstanding budgetary commitments made with third parties (mainly with examination offices) at the same period amounted to EUR 18.7 million (EUR 17.4 for 2018). The decrease of the free reserve, in line with the expectation of the CPVO, is due to the increase of the opened commitments for the title 3 (operational expenses).

The graph below shows the evolution of the free reserve since its highest point in 2003.

Table 17 Evolution of the free reserve



10. Budgetary Principles

The following principles are applied for the implementation of the budget of the CPVO.

- Principle of unity and budget accuracy: The budget is the instrument which, for each financial year, forecasts and authorises the revenue and expenditure considered necessary for the Office. No revenue shall be collected and no expenditure effected unless booked to a line in the budget. An appropriation must not be entered in the budget of the Office if it is not for an item of expenditure considered necessary. No expenditure may be committed or authorised in excess of the appropriations authorised by the budget of the Office.
- Principle of annuality: The appropriations entered are authorised for one financial year and must therefore be used during that year. Commitments shall be entered in the accounts on the basis of the legal commitments entered into up to 31 December. Payments shall be entered in the accounts for a financial year on the basis of the payments effected by the accounting officer by 31 December of that year at the latest.
- Principle of equilibrium: The Office's budget revenue and expenditure must be in balance.
- Principle of unit of account: The budget shall be drawn up and implemented in euro and the accounts shall be presented in euro. The rate of conversion between the euro and other currencies is taken from the monthly publication established by the European Commission (InforEuro).
- Principle of universality: Total revenue shall cover all expenditure. All revenue and expenditure shall be entered in full without any adjustment against each other.
- Principle of specification: The appropriations shall be earmarked for specific purposes by title and chapter; the chapters shall be further subdivided into articles and items.
- Principle of sound financial management: Budget appropriations shall be used in accordance with the principle of sound financial management, that is to say, in accordance with the principles of economy, efficiency and effectiveness.
- Principle of transparency: The budget shall be drawn up and implemented and the accounts presented in compliance with the principle of transparency.

11. Budgetary Accounts

11.1 Budget Outturn Account – Detailed

Table 18 Detailed budget outturn

		2019	2018	% variation 2019
Income	Fees revenue	17 671 918,00	17 499 839,00	0,98%
	Other revenue	52 792,24	133 915,89	-60,58%
	Total	17 724 710,24	17 633 754,89	0,52%
Expenditure	Title 1 Staff expenditure	-7 519 234,82	-7 062 334,39	6,47%
	Title 2 Administrative expenditure	-1 288 466,29	-1 304 132,68	-1,20%
	Title 3 Operational expenditure	-7 568 108,24	-8 062 122,89	-6,13%
	Total	-16 375 809,35	-16 428 589,96	-0,32%
Grand Total		1 348 900,89	1 205 164,93	11,93%
Non budgetary income		70 832,21	97 038,38	-27,01%
Net outturn for the year		1 419 733,10	1 302 203,31	9,03%

11.2 Budget income

Table 19 Budget income detailed

Budget Posts	Description	Budget after amendments and transfers	Income recorded and received in 2019	Variation with budget (%)
1000	Fees	17 627 500	17 671 918	0,25%
3000	Deficit reserve	750 000		
5000	Income from administrative operations	15 500	23 992	54,79%
9100	Other income (mainly financial income)	82 000	28 800	-64,88%
Total		18 475 000	17 724 710	-4,06%

11.3 Budget Outturn – detailed reports

Table 20 Commitment appropriation 2019

Title	Budget article	Description	Budget initial	Amendments	Transfers	Budget final
Title 1 Staff expenditure	E1100	Staff	7 290 000	-	-47 000	7 243 000
	E1200	Training	90 000	-	26 000	116 000
	E1300	Travel	280 000	-	-	280 000
	E1400	Interim staff	80 000	-	21 000	101 000
	E1500	Assistance	35 000	-	-	35 000
	E1700	Representation	10 000	-	-	10 000
Total			7 785 000	-	-	7 785 000
Title 2 Admin. expenditure	E2000	Property	340 000	-	-	340 000
	E2100	IT expenses	800 000	-	-80 000	720 000
	E2200	Other equipment	70 000	-	-7 000	63 000
	E2300	General admin.	65 000	-	-6 500	58 500
	E2400	Postage and telecom	85 000	-	-	85 000
	E2500	Meetings and notices	360 000	-	-36 000	324 000
	E2600	Audit and evaluation	150 000	-	40 000	190 000
Total			1 870 000	-	-89 500	1 780 500
Title 3 Operational expenditure	E3000	Examination office fees	8 700 000	-	-	8 700 000
	E3200	Examination reports	400 000	-	89 500	489 500
	E3400	Publications	150 000	-	-	150 000
	E3500	Studies	500 000	-	-	500 000
	E3600	Special advisors	200 000	-	-	200 000
Total			9 950 000	-	89 500	10 039 500
Grand Total			19 605 000	-	-	19 605 000

Table 21 Payment appropriation 2019

Title.	Budget article	Description.	Initial payment budget	Budget amendments	Payment budget transfers	Final appropriation	Executed	Paid %	Paid y
Title 1 Staff expenditure	E1100	Staff	7 290 000	-	-47 000	7 243 000	7 052 270,89	97,4%	6 99
	E1200	Training	90 000	-	26 000	116 000	112 908,48	97,3%	5
	E1300	Travel	280 000	-	-	280 000	225 531,82	80,5%	19
	E1400	Interim staff	80 000	-	21 000	101 000	97 388,46	96,4%	8
	E1500	Assistance	35 000	-	-	35 000	27 176,08	77,6%	2
	E1700	Representation	10 000	-	-	10 000	3 959,09	39,6%	
	Total		7 785 000	-	-	7 785 000	7 519 234,82	96,6%	7 350
Title 2 Admin. expenditure	E2000	Property	340 000	-	-	340 000	293 469,46	86,3%	24
	E2100	IT expenses	800 000	-	-80 000	720 000	472 881,15	65,7%	38
	E2200	Other equipment	70 000	-	-7 000	63 000	19 541,40	31,0%	1
	E2300	General admin.	65 000	-	-6 500	58 500	16 971,43	29,0%	1
	E2400	Postage and telecom	85 000	-	-	85 000	69 835,21	82,2%	6
	E2500	Meetings and notices	360 000	-	-36 000	324 000	251 923,28	77,8%	19
	E2600	Audit and evaluation	150 000	-	40 000	190 000	163 844,36	86,2%	10
	Total		1 870 000	-	-89 500	1 780 500	1 288 466,29	72,4%	1 030
Title 3 Operational expenditure	E3000	Examination office fees	7 570 000	-	-	7 570 000	6 881 065,25	90,9%	6 88
	E3200	Examination reports	400 000	-	89 500	489 500	441 936,00	90,3%	44
	E3400	Publications	150 000	-	-	150 000	35 659,27	23,8%	3
	E3500	Studies	500 000	-	-	500 000	167 252,48	33,5%	16
	E3600	Special advisors	200 000	-	-	200 000	42 195,24	21,1%	4
	Total		8 820 000	-	89 500	8 909 500	7 568 108,24	84,9%	7 568
Grand Total			18 475 000	-	-	18 475 000	16 375 809,35	88,6%	15 949

Table 22 Budget outturn of non-differentiated credits carried forward (C8)

Title	Budget article	Description	Budget final	Payments	% Paid	Lost C8 credits
Title 1 Staff expenditure	E1100	Staff	42 973,17	33 061,22	77%	9 911,95
	E1200	Training	26 796,00	26 796,00	100%	0,00
	E1300	Travel	29 227,11	19 541,42	67%	9 685,69
	E1400	Interim staff	6 090,98	5 853,67	96%	237,31
	E1500	Assistance	7 994,45	5 605,37	70%	2 389,08
	E1700	Representation	500,00	394,42	79%	105,58
	Total		113 581,71	91 252,10	80%	22 329,61
Title 2 Admin. expenditure	E2000	Property	40 970,46	36 892,00	90%	4 078,46
	E2100	IT expenses	149 709,80	124 614,56	83%	25 095,24
	E2200	Other equipment	2 857,76	2 406,17	84%	451,59
	E2300	General admin.	3 381,44	2 735,91	81%	645,53
	E2400	Postage and telecom	6 733,45	2 393,99	36%	4 339,46
	E2500	Meetings and notices	56 243,81	43 758,73	78%	12 485,08
	E2600	Audit and evaluation	54 661,53	53 254,29	97%	1 407,24
	Total		314 558,25	266 055,65	85%	48 502,60
Grand Total			428 139,96	357 307,75	83%	70 832,21

12. Financial Accounts:

12.1 Balance sheet

				2019	2018
Assets	Non-Current assets	Intangible Assets	1	-	160,72
		Tangible Assets	2	2 609 212,89	2 829 196,38
		Medium term investments	3	8 882 857,86	7 549 000,00
		Total		11 492 070,75	10 378 357,10
	Current assets	Short-term receivables	4	4 398 580,72	3 927 545,54
		Treasury	5	11 021 793,21	11 148 612,92
		Other receivable	6	103 022,56	86 561,46
		Total		15 523 396,49	15 162 719,92
	Total			27 015 467,24	25 541 077,02
Liabilities	Accumulated result	Reserve		8 858 582,76	8 763 350,92
		Profit / deficit		495 040,78	95 231,84
		Total		9 353 623,54	8 858 582,76
	Current liabilities	Accrued charges and deferred income	7	17 537 532,82	16 520 702,01
		Current payables	8	29 804,88	37 142,25
		Short-term provision	9	94 506,00	124 650,00
		Total		17 661 843,70	16 682 494,26
	Total			27 015 467,24	25 541 077,02

12.2 Statement of financial performance

Table 23 Statement of financial performance

		2019	2018
Income	Income from fees	17 318 007,75	16 938 125,96
	Income from administrative operations	17 007,10	105 994,89
	Total	17 335 014,85	17 044 120,85
Expenditure	Operational expenses	(7 929 237,77)	(8 424 493,94)
	Salaries and social taxes	(7 233 295,23)	(6 818 284,88)
	Overheads	(1 458 064,29)	(1 498 953,98)
	Depreciation	(269 939,21)	(270 110,18)
	Total	(16 890 536,50)	(17 011 842,98)
Result		444 478,35	32 277,87
Financial revenue	Interest income	52 415,13	66 533,88
	Total	52 415,13	66 533,88
Financial expenditure	Bank charges & exchange differences	(1 852,70)	(3 579,91)
	Total	(1 852,70)	(3 579,91)
Result		50 562,43	62 953,97
Economic outturn for the year		495 040,78	95 231,84

12.3 Cash-flow (Indirect method)

Table 24 Cash flow

	2019	2018
Cash Flows from ordinary activities		
Surplus/(deficit) from ordinary activities	495 040,78	95 231,84
<i>Operating activities</i>		
<i>Adjustments</i>		
Amortization (intangible fixed assets) +	160,72	1 704,32
Depreciation (tangible fixed assets) +	269 778,49	268 405,86
Impairment (tangible fixed assets) +		
Increase/(decrease) in Provisions for risks and liabilities	-30 144,00	-31 950,00
(Increase)/decrease in Long term Receivables	-1 333 857,86	207 500,00
(Increase)/decrease in Short term Receivables	-487 496,28	46 681,07
Increase/(decrease) in Other Long term liabilities		
Increase/(decrease) in Accounts payable	1 009 493,44	1 023 158,61
Net cash flow from operating activities	-77 024,71	1 610 731,70
<i>Cash Flows from investing activities</i>		
Increase of tangible and intangible fixed assets (-)	-49 795,00	-11 990,00
Proceeds from tangible and intangible fixed assets (+)		
Loss on decommissioning of assets (+)		7 925,47
Net cash flow from investing activities	-49 795,00	-4 064,53
Net Increase/(decrease) in cash and equivalent	-126 819,71	1 606 667,17
Cash and cash equivalents at the beginning of the period	11 148 612,92	9 541 945,75
Cash and cash equivalents at the end of the period	11 021 793,21	11 148 612,92
Net Increase/(decrease) in cash and equivalent	-126 819,71	1 606 667,17
Difference	0,00	0,00

12.4 Reconciliation between the economic result and the budgetary result

Table 25 Reconciliation table

	sign +/-	Amount
Economic result (+ for surplus and - for deficit)	+/-	495 040,78
Adjustments for Accrual Cut-off (reversal 31.12.N-1)	-	-15 348 356,54
Adjustments for Accrual Cut-off (cut- off 31.12.N)	+	16 550 410,44
Depreciation of intangible and tangible assets	+	269 939,21
Value reduction	+	
Recovery Orders issued in the year in class 7 and not yet cashed	-	-3 874 470,00
Payments made from carry over of payment appropriations	+	357 307,75
Prefinancing received in previous year and cleared in the year	-	
Asset acquisitions (less unpaid amounts)	-	-49 795,00
Budgetary recovery orders issued before the financial year and cashe	+	3 375 180,00
Payment appropriations carried over to the next year	-	-426 454,87
Cancellation of unused carried over payment appropriations from previous year	+	70 832,21
total (1)		1 419 633,98
Budgetary result (+ for surplus) (2)		1 419 733,10
Including amount of exchange rate differences - (+ for gain and - for loss) - (3)		-99,12
Delta not explained (1) - (2) - (3)		0,00

12.5 Notes to the financial accounts

Note 1 Intangible fixed assets

		Internally generated Computer Software	Computer Software	Other Intangible assets	Intangible assets under construction	Total
Gross carrying amounts 01.01.2019	+		634 612,95			634 612,95
Additions	+					0,00
Disposals	-					
Transfer between headings	+/-					
Other changes	+/-					
Gross carrying amounts 31.12.2019		0,00	634 612,95	0,00	0,00	634 612,95
Accumulated amortization and impairment 01.01.2019	-		-634 452,23			-634 452,23
Amortization	-		-160,72			-160,72
Disposals	+					
Write-back of impairment	+					
Transfer between headings	+/-					
Accumulated amortization and impairment 31.12.2019		0,00	-634 612,95	0,00	0,00	-634 612,95
Net carrying amounts 31.12.2019		0,00	0,00	0,00	0,00	0,00

Note 2 Tangible Fixed Assets

		Land	Buildings	Plant and Equipment	Computer hardware	Tangible assets under construction	Total
Gross carrying amounts 01.01.2019	+	292 220,00	5 744 928,26	357 034,35	369 615,82	0,00	6 763 798,43
Additions	+				49 795,00		49 795,00
Disposals	-			-22 598,41	-17 288,65		-39 887,06
Impairment	+/-						0,00
Other changes (1)	+/-						0,00
Gross carrying amounts 31.12.2019		292 220,00	5 744 928,26	334 435,94	402 122,17	0,00	6 773 706,37
Accumulated amortization and impairment 01.01.2019	-		-3 261 396,81	-331 027,82	-342 177,42		-3 934 602,05
Depreciation	-		-237 691,47	-6 243,54	-25 843,48		-269 778,49
Write-back of depreciation	+			22 598,41	17 288,65		39 887,06
Disposals	+						0,00
Transfer between headings	+/-						
Accumulated amortization and impairment 31.12.2019		0,00	-3 499 088,28	-314 672,95	-350 732,25	0,00	-4 164 493,48
Net carrying amounts 31.12.2019		292 220,00	2 245 839,98	19 762,99	51 389,92	0,00	2 609 212,89

Note 3 Medium term investments

	2019	2018
Medium term investments	8 882 857,86	7 549 000,00
Grand Total	8 882 857,86	7 549 000,00

In 2019, the amount of medium term investments increased in line with the increase of the treasury but it was also a choice to invest for longer periods to get a better return on investment. The amount of EUR 8 882 857.86 is divided in different investments and different banks as it can be seen on the table below:

	2019	2018
C.E. - financial investment	2 949 000,00	2 949 000,00
CRCA - financial investment	4 000 000,00	4 000 000,00
HSBC - financial investment	600 000,00	600 000,00
LCL - financial investment	1 333 857,86	
Grand Total	8 882 857,86	7 549 000,00

Note 4 Short-term receivables

	2019	2018
Customers	3 965 770,69	3 539 153,87
VAT	342 035,89	279 906,98
Deferred charges	90 774,14	108 484,69
Total	4 398 580,72	3 927 545,54

Note 5 Treasury

	2019	2018
Short-term investments	2 500 000,00	5 195 361,31
Current accounts	8 473 634,54	5 902 651,91
Imprest account	48 158,67	50 599,70
Total	11 021 793,21	11 148 612,92

Breakdown of short-term investments

	2019	2018
BNP	2 500 000,00	3 050 000,00
HSBC	-	812 500,00
LCL	-	1 332 861,31
Total	2 500 000,00	5 195 361,31

Note 6 Other receivables

	2019	2018
Interest to be received	92 083,33	68 468,07
Sundry receivables (staff)	7 731,56	13 129,22
Sundry receivables (suppliers)	3 207,67	4 964,17
Total	103 022,56	86 561,46

Interest rates are still very low but there is an increase in 2019 based on the provision for interests which are being generated over the years but that will be cashed in the future (*in fine*). It is important to mention that the CPVO does not accept negative interests.

Note 7 Accrued charges and differed income

	2019	2018
Deferred income	11 940 535,34	11 089 315,09
Invoices to be received	5 379 384,71	5 058 569,91
Suspense account	66 508,69	48 638,84
Accrued holidays	151 104,08	167 554,17
Charge accounts	-	156 624,00
Total	17 537 532,82	16 520 702,01

The increase of deferred income related to fees is essentially due to the increase of the number of annual fees linked to the constant increase of the titles granted.

Note 8 Current payables

	2019	2018
Sundry credit accounts	6 706,00	6 497,75
Suppliers	23 098,88	30 644,50
Total	29 804,88	37 142,25

Note 9 Short-term provision

	2019	2018
Provision for doubtful debts	94 506,00	124 650,00
Grand Total	94 506,00	124 650,00

Table 26 Statement of changes in net assets

	2019	2018
Reserve	8 858 582,76	8 763 350,92
Profit / deficit	495 040,78	95 231,84
Cumulated reserve	9 353 623,54	8 858 582,76

12.6 Other Disclosures

Off Balance Sheet Commitments

At the year-end there was a total of EUR 18 258 971 of commitments opened on title 3 (operational expenditure) and a further EUR 426 455 for titles 1 and 2 carried to 2020 as C8 credits. Out of this total, EUR 5 379 385 relate to work carried out in or before 2019 but not yet invoiced for which there is a provision in the financial accounts. The balance of EUR **13 306 041** relates to commitments made which relate to work to be undertaken in the future. These commitments are existing financial commitments for which the submission date is foreseen within the coming years. There is no real liability for the Office yet, as the applicants could still cancel the examination before the submission date of material, resulting in the initial commitment being de-committed. Therefore, they are taken as off-balance sheet commitments.

Contingent liabilities

There is a pending Court case for which the CPVO could be liable for the legal expenses. The cost to be paid could reach up to a maximum of EUR 15 000.

Contingent assets

The appeal on points of law against a decision taken by the General Court in a case in which the CPVO acts as defendant was rejected recently by the EU Court of Justice. The CPVO would thus be entitled to recover necessary expenses (lawyer's fees, travel expenses). The maximum amount recoverable amounts to EUR 15 679.35.

In a case in which the CPVO acts as a claimant, the General Court dismissed the applicant's action. Efforts to obtain recovery of costs have failed. An application for the fixing of costs to be paid by the appellant will be filed with the General Court of the European Union.

Related parties

As at 31 December 2019, no related parties were identified. The key management personnel of the Office is shown below:

Grade	N° of staff
AD15	1
AD12	1
Total	2

Post balance sheet events

There are no relevant post balance sheet events to be reported.

12.7 Statement of financial risk - Financial Instruments

Financial instruments comprise cash, current receivables and recoverables, current payables, amounts due to and from consolidated entities. Financial instruments give rise to liquidity, credit, interest rate and foreign currency risks, information about which and how they are managed is set out below. Prepayments, accrued income, accruals and deferred income are not included.

LIQUIDITY RISK

Liquidity risk arises from the ongoing financial obligations, including settlement of payables.

Bank accounts opened in the name of the CPVO may not be overdrawn. Treasury and payment operations are highly automated and rely on modern information systems. Specific procedures are applied to guarantee system security and to ensure segregation of duties in line with the Financial Regulations, the internal control standards, and audit principles. The CPVO budget principles ensure that overall cash resources for a given year are always sufficient for the execution of all payments.

Details of contractual maturities for assets and liabilities form an important source of information for the management of liquidity risk.

The carrying amounts of financial instruments are as follows:

Financial assets: Medium term investments

The Offices has medium term investments with the financial institutions mentioned below with maturities in the coming 5 years.

Long term receivables	1-2 years	2-3 years	4-5 years	total
Medium term investment Caisse d'Eparg	755 000	2 194 000		2 949 000
Medium term investment Crédit Agricole	4 000 000			4 000 000
Medium term investment LCL			1 333 858	1 333 858
Medium term investment HSBC	600 000			600 000
total	5 355 000	2 194 000	1 333 858	8 882 858

Financial assets: Cash and cash equivalent

	2019	2018
Short-term investments	2 500 000,00	5 195 361,31
Current accounts	8 473 634,54	5 902 651,91
Imprest account	48 158,67	50 599,70
Total	11 021 793,21	11 148 612,92

Financial assets: Maturity term of receivables

Short term receivables	< 1 year	1-2 years	> 2 years	total
Customers	3 965 770,69			3 965 770,69
VAT	342 035,89			342 035,89
Deferred charges	87 643,97	2 149,25	980,92	90 774,14
total	4 395 450,55	2 149,25	980,92	4 398 580,72

The table below concerns more particularly receivables from our customers for EUR 3 965 771, medium term investment for EUR 8 882 858, EUR 90 774 for deferred charges already paid in 2019; income from 2019 to be received (interests from investments) in the future for EUR 92 083 and finally EUR 10 939 for advanced payment to suppliers and amounts to be recovered from the staff.

Counterparties without external credit rating	Receivables with Member States	All receivables with third parties including accruals & deferrals	Short-term deposits	Bank accounts	Total
Debtors who never defaulted		13 042 425,25			13 042 425,25
Debtors who defaulted in the past					
Total	0,00	13 042 425,25	0,00	0,00	13 042 425,25

For customers of the CPVO, the provision for potential loss is defined below.

Customers	2019	2018
Amount due by customers	3 965 770,69	3 539 087,87
Provision at the start of the year	-124 650,00	-156 600,00
Additional provision (-)	-43 376,00	-31 270,00
Reduction of the provision (+)		
Write-offs	73 520,00	63 220,00
Accumulated impairment (-)	-94 506,00	-124 650,00
Net amount at the end of the year	3 871 264,69	3 414 437,87

The trend of the provision for customers linked to the fees invoiced is downward since a few years. In 2019, the provision for these clients amounted to EUR 43 376. The CPVO proceeded to the annual write-off for unpaid fees for EUR 30 200 but in addition to that, an exceptional write-off reaching EUR 44 870 was carried out based on new revision of procedures : unpaid annual fees for titles which were cancelled or surrendered are not any longer considered as due.

Break down of the provision for customers	2019	2018
Receivables from 2011		
Receivables from 2012		14 700,00
Receivables from 2013	4 820,00	24 320,00
Receivables from 2014	8 560,00	22 060,00
Receivables from 2015	9 240,00	23 740,00
Receivables from 2016	8 320,00	16 570,00
Receivables from 2017	49 080,00	23 260,00
Receivables from 2018	14 486,00	
Net amount at the end of the year	94 506,00	124 650,00

Financial liabilities: Maturity of liabilities

The following table takes into account the treasury received from clients and the amounts due to suppliers. The significant decrease of payables compare to 2018 (EUR 156 624) is related to the removal of charge accounts (deposit account for clients).

	< 1 year	1 - 5 years	> 5 years	Total
Payables with third parties	89 607,57			89 607,57
Payables with consolidated entities				
Total	89 607,57	0,00	0,00	89 607,57

CREDIT RISK

Credit risk is the risk of loss due to a debtor's non-payment or other failure to meet a contractual obligation. The default events include a delay in repayments.

Treasury resources are kept with commercial banks. The CPVO recovers fees from clients and ensures appropriate cash management in order to maintain a minimum cash balance on bank accounts. This is with a view to limit its risk exposure. The overall treasury balances fluctuated between approximately EUR 18 Million and EUR 20 Million.

In addition, specific guidelines are applied for the selection of commercial banks in order to further minimise counterparty risk to which the CPVO is exposed. Commercial banks are selected by call for tenders.

The minimum short-term and credit rating required for admission to the tendering procedures is "A-1" (S&P), "P-1" (Moody's) or "F13 (Fitch Rating).

Credit quality of financial assets

CPVO financial assets and their related risk are outlined in the table below.

For Member State receivables, this refers to VAT to be recovered.

The maturity of medium terms investments can be seen under the item of "liquidity risk".

Counterparties with external credit rating	Receivables with Member States	Short-term deposits	Bank accounts and cash	Total	% of the total
Prime and high grade	265 410,19	5 195 361,31	5 953 251,61	11 414 023,11	99,33%
Upper medium grade	76 563,92			76 563,92	0,67%
Lower medium grade	61,78			61,78	0,00%
Non-investment grade				0,00	0,00%
Total	342 035,89	5 195 361,31	5 953 251,61	11 490 648,81	100,00%

MARKET RISK

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk, and other price risk.

Currency exposure

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates

The CPVO has no exposure to non-EURO currencies. All balances are in EURO and should be paid in EURO.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The CPVO does not borrow any funds. As a result it is not exposed to interest rate risk. It does, however, earn interests on investments. As mentioned on under the item "credit risk", to limit the risk, investments are made with banks having a minimum rating of "A-1" (S&P), "P-1" (Moody's) or "F13 (Fitch Rating). Investments are based on fixed rated pre-determined at the beginning of the investing period.

The CPVO does not accept negative interests.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk).

The CPVO is not concerned by this risk.

12.8 Summary of main accounting principles

In accordance with the Financial Regulation (EC, Euratom) n°1605/2002 of the Council of 25 June 2002, amended by Council Regulation (EC, Euratom) n° 1995/2006 of 13 December 2006 and (EC) n° 1525/2007 of 17 December 2007, the CPVO's financial statements¹ for the financial year 2019 are prepared on the basis of the EC Accounting Rules which adapt the International Public Sector Accounting Standards (and in some cases the International Financial Reporting Standards) to the specific environment of the Communities², while the "Reports on implementation of the budget" continue to be primarily based on movements of cash.

The accounts are prepared for the financial year running from 1 January 2019 to 31 December 2019.

Accounting Principles

The objective of the financial statements is to provide information about the financial position, performance and cash flows of an entity that is useful to a wide range of users. For the CPVO, the objectives are more specifically to provide information useful for decision-making, and to demonstrate the accountability of the entity for the resources entrusted to it.

In accordance with Article 98 and Article 99 of the Financial Regulation, the CPVO applies the following accounting principles in drawing up the financial statements:

- going concern basis
- Prudence
- consistent accounting methods
- comparability of information
- materiality
- no netting
- reality over appearance
- accrual-based accounting

¹ The Financial Statements comprise the balance sheet, the statement of financial performance, the cash flow table, the statement of changes in net assets and explanatory notes.

² The accounting rules adopted are inspired by International Public Sector Accounting Standards (IPSAS) issued by the International Federation of Accountants or, in their absence, the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board.

Balance Sheet

Assets

- Assets are recorded as such based on a threshold of EUR 5000 (against a threshold of EUR 420 before 2017).

Intangible Fixed Assets

- Acquired computer software licenses are stated at cost less accumulated amortisation and impairment losses. The assets are amortised on a straight-line basis over their estimated useful lives, being 4 years.
- Should the software be developed internally, it is recorded at its directly attributable costs of development, the threshold being EUR 2 000 000. However, in accordance with international accounting standards, this can only be done if these costs can be measured reliably.

Property, plant and equipment

- All property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.
- Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Agency and its cost can be measured reliably. Repairs and maintenance are charged in the statement of financial performance during the financial period in which they are incurred.
- Land is not depreciated as they are deemed to have an infinite life. Assets under construction are not depreciated as these assets are not yet available for use. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Depreciation rates:

Type of asset	Straight line depreciation rate
Buildings	4%
Furniture	12.5%
Vehicles	12.5%
Computer hardware	33%

Gains and losses on disposals are determined by comparing proceeds less selling expenses with the carrying amount of the disposed asset. These are included in the statement of financial performance.

Medium term financial assets:

- The office invests part of its cash reserve in a government bond portfolio. This portfolio, divided into units which are quoted on a daily basis, are "Available-for-Sale" and as such the valuation in the fair value is taken directly to the equity of the balance sheet in accordance with the European Commission's Accounting Rule 11. Recognition of a gain or a loss will happen at the moment of the sale (partial or total) of the portfolio. The assets are valued on a weighted average basis.
- For held-to-maturity assets (negotiated deposits with an expiry date of greater or less than one year), interest is recorded on an accrual basis.

Impairment of non-financial assets:

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

Receivables:

Receivables are carried at original amount less write-down for impairment. A write-down for impairment of receivables is established when there is objective evidence that the CPVO will not be able to collect all amounts due according to the original terms of receivables. The amount of the write-down is the difference between the asset's carrying amount and the recoverable amount, being the present value of expected future cash flows, discounted at the market rate of interest for similar borrowers. The amount of the write-down is recognized in the statement of financial performance.

Cash and cash equivalents:

Cash and cash equivalents are defined as short-term assets. They include cash at hand, deposits held at call with banks, other short-term highly liquid investments.

Pension obligations:

The pension obligations for the CPVO are managed by and recognized as a liability in the accounts of the European Communities which operates defined benefit pension plans. A defined benefit plan is a pension plan that generally defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

Provisions:

Provisions are recognized when the CPVO has a present legal or constructive obligation as a result of past events (it is more likely than not) that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Payables:

Payables arising from the purchase of goods and services are recognized at invoice reception for the original amount and corresponding expenses are entered in the accounts when the supplies or services are delivered and accepted by the CPVO.

Accrued and deferred income and charges:

- A critical element in accrual accounting is the exercise of ensuring that transactions are recorded in the accounting year to which they relate. This exercise is referred to as the cut-off exercise.
- The CPVO applies the accounting rules of the EC in this regard. According to the European Communities accounting rules, transactions and events are recognized in the financial statements in the period to which they relate. At the end of the accounting period, accrued expenses are recognized based on an estimated amount of the transfer obligation of the period. The calculation of the accrued expenses is done in accordance with detailed operational and practical guidelines issued by the Commission which aim at ensuring that the financial statements reflect a true and fair view.

Revenue is also accounted for in the period to which it relates.

In addition, at year-end, if an invoice is issued but the services have not yet been rendered, the revenue will be deferred and recognized in the subsequent accounting period.

Statement of financial performance

Revenue:

- Revenue from fees and other miscellaneous revenue are entered in the accounts once the corresponding service is considered rendered to the client and when it is considered to be certain.
- In the case of the application fee, revenue is recorded when the filing date has been assigned. In the case of the CPVO, this means the moment when the Agency issues an invoice or recovery order.

Interest income and expense:

Interest income and expense are recognized in the statement of financial performance over the relevant period.

Expenditure:

- Exchange expenses arising from the purchase of goods and services are recognized when the supplies are delivered and accepted by the CPVO. They are valued at original invoice cost.
- Provisions for expenditure are made if the following conditions are satisfied:
 - (a) a current obligation exists as a result of a past event;
 - (b) resources representing economic benefits will probably have to be used to extinguish the obligation;
 - (c) the amount of the obligation can be reliably estimated.

The members of the Administrative Council are invited to take note of this document

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