European Aviation Safety Agency

ANNEX 2: Explanatory Note on 2010 Annual Accounts

1. Legal background

1.1 Annual accounts

1.1.1 The 2010 annual accounts have been established in accordance with articles 76 to 83 of the Agency's Financial Regulation (last version amended by the Management Board on 9 June 2009).

1.1.2 As stipulated in article 76, the annual accounts comprise the financial statements and the report on implementation of the budget.

1.1.3 The financial statements (accrual basis) show the charges and income for the financial year, regardless of the date of payment or collection and are composed of:

- *Economic Outturn of the Agency (EOA)*: is the financial performance of the Agency for the period (2010 fiscal year).
- *Balance Sheet*: shows the financial position of the Agency at 31st December 2010 and provides detailed information about the Agency's assets and liabilities.
- *Cash Flows table*: shows the Agency's inflows and outflows of cash.
- *Statement of Changes in Net Assets/Liabilities*: shows the movement of what the Agency has accumulated as net worth since its inception.
- *Notes to the Financial Statements*: provide further details and explanations of the various items in the financial statements.

1.1.4 The report on implementation of the budget is composed of the budget outturn account, which sets out all budget operations for the year in terms of revenue and expenditure (modified cash basis).

1.1.5 The budget accounts give a detailed picture of implementation of the annual budget. They are based on a modified form of cash accounting (appropriations carried over from 2010 to 2011 are included). The budget outturn for the year is calculated on the basis of amounts actually disbursed and collected (including appropriations carried over).

1.2 Procedure for establishing the annual accounts

1.2.1 In accordance with Article 82 of the EASA Financial Regulation as amended by the Management Board decision 06-2009 of 09 June 2009, the

Accounting Officer has sent the provisional accounts of the Agency for 2010 to the Commission's Accounting Officer, DG Move and the European Court of Auditors on the 28th of February 2011.

1.2.2 In accordance with Article 83 (1) of the EASA Financial Regulation, the Court of Auditors makes its observations on the provisional accounts by 15 June 2011 at the latest (see also paragraph 1.3).

1.2.3 In accordance with Article 61 of the General Financial Regulation amended by Council Regulation (EC, Euratom) N° 1995/2006 of 13 December 2006, the Accounting Officer, before the adoption of the accounts by the Agency signs them off, thereby certifying that he has a reasonable assurance that the accounts present a true and fair view of the financial situation of the Agency.

1.2.4 In accordance with Article 83 (2) of the EASA Financial Regulation, on receiving the Court of Auditors' observations on the provisional accounts, the Executive Director, under his own responsibility, draws up the final accounts of the Agency and sends them to the Management Board, which gives an opinion on these accounts.

1.2.5 The Executive Director sends the final accounts, together with the opinion of the Management Board, to the Commission's Accounting Officer and to the European Court of Auditors, the European Parliament and the Council by 1st July 2011.

1.2.6 The final accounts of the Agency, consolidated with those of the Commission, shall be published in the Official Journal of the European Union by 15 November 2011.

1.2.7 The Executive Director will send the Court of Auditors and the European Commission a reply to the observations made in its annual report by 30 September 2011.

1.3 Audit of the annual accounts by the European Court of Auditors

1.3.1 The European Court of Auditors (ECA) visited the Agency one week in October 2010 (from 25 to 29 October) and one week in March 2011 (from 21 to 25 March 2011). On the basis of these visits and subject to confirmation in the audit report, no reservation on the Agency's annual accounts for 2010 is expected.

1.3.2 The European Court of Auditors sent its preliminary findings to the Agency on the 29 April 2011. The final report of the European Court of Auditors is expected to be received in June.

1.3.3 Based on events that occurred since the establishment of the provisional accounts and on the preliminary findings of the ECA, no adjustment will be made on the provisional annual accounts. As a consequence the annual accounts annexed to this note can be considered as the final annual accounts.

ANNEX 2

1. 2010 Financial statements: economic outturn

All figures are in € '000s	2010 EOA			2009 EOA			Evolution 2009-2010		
	F&C	SUBSIDY	TOTAL EASA	F&C	SUBSIDY	TOTAL EASA	F&C	SUBSIDY	TOTAL EASA
OPERATING REVENUES									
Fees and Charges	77.374	-	77.374	61.621	-	61.621	26%		26%
Contribution from EC entities	-	33.725	33.725	-	32.661	32.661		3%	3%
Recuperation of expenses	252	165	417	65	580	645	285%	-72%	-35%
Other	-	(399)	(399)	-	-	-			
Contribution from EFTA/3rd countries	-	962	962	-	1.729	1.729		-44%	-44%
Total operating revenues	**77.626**	**34.453**	**112.079**	**61.687**	**34.970**	**96.657**	**26%**	**-1%**	**16%**
			-			-			
OPERATING EXPENSES			-			-			
Staff expenses	(32.264)	(20.759)	(53.023)	(26.618)	(18.359)	(44.977)	21%	13%	18%
Buildings and related expenses	(5.091)	(3.097)	(8.187)	(4.478)	(3.229)	(7.707)	14%	-4%	6%
Other expenses	(4.347)	(2.741)	(7.088)	(3.764)	(3.137)	(6.901)	16%	-13%	3%
Depreciation and write offs	(2.949)	(720)	(3.670)	(364)	(1.281)	(1.645)	711%	-44%	123%
Outsourcing and contracting activities	(27.145)	(8.871)	(36.016)	(24.395)	(9.298)	(33.693)	11%	-5%	7%
						-			
Total operating expenses	**(71.796)**	**(36.188)**	**(107.984)**	**(59.618)**	**(35.304)**	**(94.922)**	**20%**	**3%**	**14%**
Surplus(Deficit) from operating activities	**5.830**	**(1.736)**	**4.094**	**2.068**	**(334)**	**1.735**	**182%**	**420%**	**136%**
NON-OPERATING REVENUES(EXPENSES)									
Interest received from third parties	413	-	413	630	-	630	-34%		-34%
Financial operations expenses	(18)	(5)	(23)	(10)	(7)	(17)	75%	-22%	37%
Interest paid to third parties	(46)	(27)	(73)	(42)	(28)	(70)	11%	-4%	5%
Surplus(Deficit) from non-operating activities	**349**	**(32)**	**317**	**578**	**(34)**	**544**	**-40%**	**-8%**	**-42%**
			-			-			
Surplus(Deficit) from ordinary activities	**6.179**	**(1.768)**	**4.411**	**2.646**	**(368)**	**2.278**	**133%**	**380%**	**94%**
Surplus(Deficit) from extraordinary activities	-	-	-	-	-	-			
Net surplus for the period	**6.179**	**(1.768)**	**4.411**	**2.646**	**(368)**	**2.278**	**133%**	**380%**	**94%**

Source of the figures: SAP

2.1 The financial statements are prepared based on an accrual basis in accordance with European Commission Accounting Rules which are based on the International Public Sector Accounting Standards. The main principle of accrual accounting is that the effect of transactions and other events are recognised when they occur and not when invoiced or cashed giving rise to various items on the balance sheet such as deferred and accrued revenue as well as payables and accrued liabilities.

2.2 In practical terms, this means that all payments for which the Agency has not performed the related work in the current fiscal year have been deferred and at the same time all costs which have not been invoiced to EASA or paid by the Agency by year-end but the related goods and services were delivered, have been recognised. Also, the portion of the cost related to the implementation of the ICT projects up to the go-live date was capitalised and consequently reported on the balance sheet under intangible assets and depreciated yearly.

A change in estimating revenue …

2.3 In its report on the 2009 annual accounts the European Court of Auditors asked the Agency to apply a method reflecting more accurately the amount of revenues allocated to a financial year.

2.4 As a consequence, in 2010 the method of estimating revenue was changed from a cost based method to a straight line method proposed in EC Accounting rule number 4.

2.5 The straight line method is based either on the validity period of the invoice until the next billing cycle (12 months), the time required to complete the necessary work on a case by case basis or on a 50/50 basis for all non-periodical fees.

2.6 It must be noted that this new method was reviewed by the European Court of Auditors during its visit in March 2011. The auditors agreed orally on it during the closing meeting.

Advantages of the new method:

2.7 It is fully compliant with the European Commission Accounting Rules (number 4) and addresses the European Court of Auditors’ observation.

2.8 It can be applied as a result of the information available from the ERP system (validity periods of the invoices).

2.9 By applying the new rule, less revenue is deferred (compared to the past) and revenue is recognised as we invoice instead of waiting for project completion which would cause a large revenue swing at the end of the project's life. Hence, the revenue is smoothed and aligned with the reality of our invoicing (billing cycles).

2.10 It is straightforward and easier to calculate.

…that has a positive impact on the 2010 result

2.11 Overall the 2010 economic outturn for the year is +4.4M[1] significantly more than last year (+2.28M), +94%.

2.12 This outturn results from 3 main aspects:

- First, an increase in the revenues of +15.4M (+16%). This is mostly due to the increase in Fees and charges revenues, +15.9M (+26%). Subsidy revenues decreased by 0.5M (-1%). Even though the Subsidy from the European Union increased slightly by 3%, the Agency faced a significant decrease of the subsidy providing by EFTA/3rd countries, -44%.

- Secondly, control over expenses which increased overall by only 14%.

- Thirdly, depreciation increased by 123% as a result of investments made by the Agency (ERP) during the year 2009.

2.13 The variance between Fees and charges and Subsidy expenses is also due to the fact that several expenses are split on the basis of headcount. As the Agency continued to recruit in 2010, the percentage used for making the split changed. Nevertheless support costs have been allocated to these two main categories in accordance with the methodology defined by the Agency in 2007, validated by Deloitte consulting firm end of 2009 and revised by the Agency in 2010 based on the Deloitte conclusions.

…and needs a cautious interpretation

2.14 A more in depth analysis of the +15.9M Fees and charges revenues increase shows that it is due to a +7.6M increase in 2010 revenues and that +8.3M is a consequence of the change in the revenue recognition method.

[1] 4.4M = 4.4 Millions

2.15 If the change in the recognition revenue is not taken into account, the Agency would face a loss of -2.1M on the Fees and charges activities and a loss of -3.9M overall.

ANNEX 2

Report on the implementation of the 2010 budget

All figures are in € '000s			
2010 Budget Outturn			
	F&C	**Subsidy**	**Total**
Revenue-Cash	68.873	36.115	**104.988**
Used reve-Assigned from previous years	3.513		**3.513**
T1 Staff expenditure	34.599	21.604	**56.204**
T2 Administrative expenditure	8.730	5.189	**13.919**
T3 Operationnal expenditure	33.135	8.389	**41.524**
Total expense	**76.464**	**35.183**	**111.646**
Net	**(4.077)**	**932**	**(3.145)**
Appropriations carried over from 2009 to 2010 (C8) cancelled			
	F&C	**Subsidy**	**Total**
Revenue			
T1	(42)	(27)	**(69)**
T2	(133)	(73)	**(206)**
T3	(1.509)	(550)	**(2.060)**
Total expense	**(1.685)**	**(650)**	**(2.335)**
2010 Net			
	F&C	**Subsidy**	**Total**
Revenue-Cash	68.873	36.115	**104.988**
Used reve-Assigned from previous years	3.513		**3.513**
T1	34.557	21.578	56.134
T2	8.596	5.116	13.713
T3	31.625	7.839	39.464
Total expense	**74.779**	**34.533**	**109.311**
Net	**(2.392)**	**1.582**	**(811)**

Source of the figures: SAP

Cancelled C8 (carried-forward of unpaid and open budgetary commitments and appropriations from the previous year) appropriations in relation to the subsidy cannot be re-used are included within the calculation of the budget outturn which is paid back to the EC. Those relating to Fees and Charges are made available again and can be re-used.

3.1 The budget is implemented in accordance with the Agency's Financial regulation and the EU rules. It is based on modified cash accounting principles.

3.2 The Agency uses only non-differentiated appropriations, this means that the commitment appropriations are equal to the payment appropriations.

3.3 Overall the budget implementation rate is 99.51% for 2010 appropriations (C1). The total budget outturn is negative (-0.81M) but the situation differs for Fees and charges and Subsidy.

3.4 In accordance with the article 3 of the Commission regulation N°593/2007 on the fees and charges levied by the Agency, revenues from fees constitute assigned revenues (R0). This means that such revenues are carried over by the Agency as long as they have not been used. The positive budget result for the year is put into a reserve that can be used during the following years. The evolution of the reserve since 2007 is shown in the table below: the amount of the reserve decreased over the last two years from 29M at the end of 2008 to 21M at the end of 2010. The 2010 decrease is partly due to an excess of expenditure over income on F&C (-2.39M) and partly due to the transfer of € 3.51M to cover a working budget for NAA commitments.

All figures are in € '000s

		2007	2008	2009	2010
Amending Budget 2008	Income		14.865		
	Expenditure		-2.157		
1st Amending Budget 2009	Income			29.509	
	Expenditure			-510	
2nd Amending Budget 2009	Expenditure			-5.416	
1st Amending Budget 2010	Income				27.135
	Expenditure				-3.513
Net Result year		**14.865**	**16.801**	**3.552**	**-2.392**
Outturn/Reserve		**14.865**	**29.509**	**27.135**	**21.230**

3.5 As regards the Commission subsidy for regulatory activities, the budgetary outturn is +1.582M. This surplus is partly explained by the cancellation of the 2009 appropriations carried over to 2010 and finally not used (0.65M). The other reason is the higher increase in the cost of Fees and Charges activities (20% versus 2010) compared to the increase in subsidized activities (3% versus to 2010) which is driven by the higher number of headcounts for the period under the former, resulting in more overhead and support cost being allocated to these activities.

The positive budget outturn on the Subsidy part will be paid to the European Commission in 2011.

Annex: Presentation of the Annual Accounts 2010 to the FABS Committee held in Cologne on 24 May 2011.

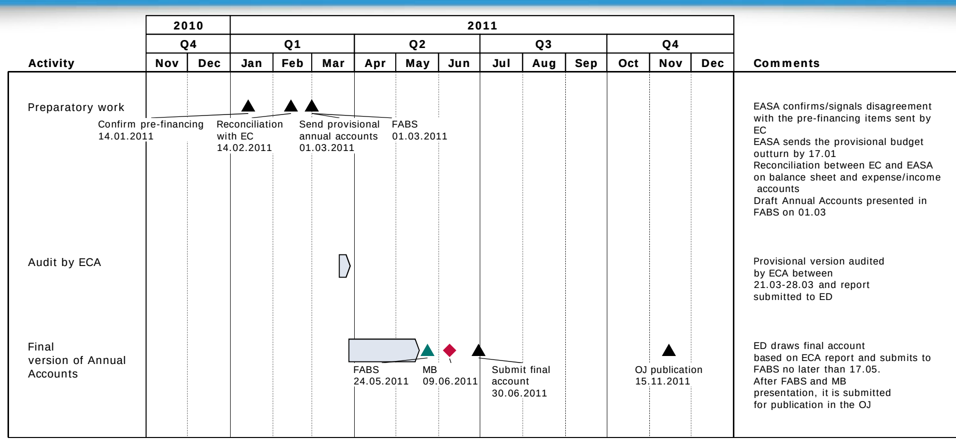
EUROPEAN AVIATION SAFETY AGENCY
AGENCE EUROPÉENNE DE LA SÉCURITÉ AÉRIENNE
EUROPÄISCHE AGENTUR FUR FLUGSICHERHEIT

Annual Accounts 2010

F.2 – Finance Department
Finance & Business Services Directorate
FABS Committee
Cologne - 24 May 2011

Your safety is our mission.

Annual Accounts 2010



Annual Accounts 2010 are composed of:

- financial statements 2010 (accrual accounting)
- reports on the implementation of the budget (budget accounting)

Accrual Accounting

CoA validated change in revenue recognition method 2010

1. In its report on the 2009 annual accounts the European Court of Auditors asked the Agency to apply a method reflecting more accurately the amount of revenues allocated to a financial year.
2. According the European Commission accounting rule N°4, 3 methods can be applied:
   a) rate of completion based on the percentage of project implementation;
   b) rate of completion based on a straight-line basis over the specified time frame (prorata temporis);
   c) cost occurred basis. This was the method applied so far by the Agency.
3. The Agency applied the method described in paragraph 2. b) and the CoA has validated this change.

Advantages of the new method:

- It is fully compliant with the European Commission Accounting Rules (number 4) and addresses European Court of Auditors' observation
- It can be applied as a result of the information available from the ERP system (validity periods of the invoices).
- By applying the new rule, less revenue is deferred (compared to the past) and revenue is recognised as we invoice instead of waiting for project completion which would cause a large swing (profit realisation) at the end of the project's life. Hence, the revenue is smoothed and aligned with the reality of our invoicing (billing cycles).
- It is straightforward and easier to calculate.

Net result overview

Total

Net result overview
(Total= Fees & Charges + Subsidy)

All figures are in € '000s

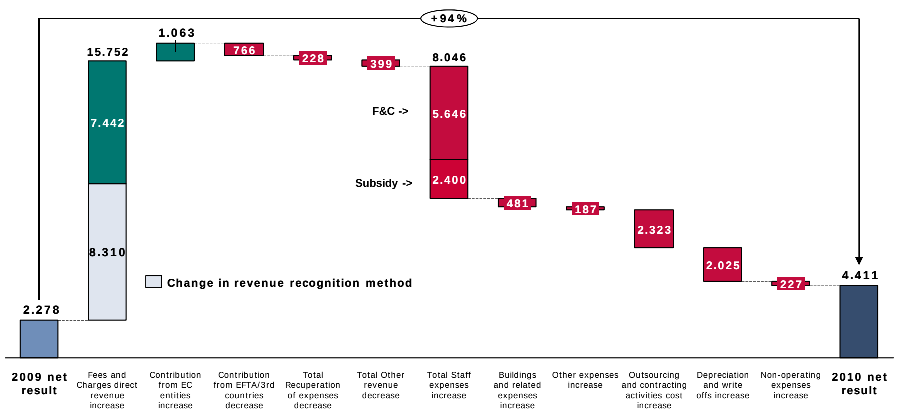
	2010 EOA		
	F&C	**SUBSIDY**	**TOTAL EASA**
OPERATING REVENUES			
Fees and Charges	77.374	-	77.374
Contribution from EC entities	-	33.725	33.725
Recuperation of expenses	252	165	417
Other	-	(399)	(399)
Contribution from EFTA/3rd countries	-	962	962
Total operating revenues	**77.626**	**34.453**	**112.079**
			-
OPERATING EXPENSES			-
Staff expenses	(32.264)	(20.759)	(53.023)
Buildings and related expenses	(5.091)	(3.097)	(8.187)
Other expenses	(4.347)	(2.741)	(7.088)
Depreciation and write offs	(2.949)	(720)	(3.670)
Outsourcing and contracting activities	(27.145)	(8.871)	(36.016)
Total operating expenses	**(71.796)**	**(36.188)**	**(107.984)**
Surplus(Deficit) from operating activities	**5.830**	**(1.736)**	**4.094**
NON-OPERATING REVENUES(EXPENSES)			
Interest received from third parties	413	-	413
Financial operations expenses	(18)	(5)	(23)
Interest paid to third parties	(46)	(27)	(73)
Surplus(Deficit) from non-operating activities	**349**	**(32)**	**317**
			-
Surplus(Deficit) from ordinary activities	**6.179**	**(1.768)**	**4.411**
Surplus(Deficit) from extraordinary activities	-	-	-
Net surplus for the period	**6.179**	**(1.768)**	**4.411**

Data source: Closing 2010 / SAP

- Net result 2010 is € 4,4m, driven by positive result F&C (€ 6,2m) and negative result Sub (-€ 1,8m)
- The positive result of F&C is influenced by the change in revenue recognition method (one-off impact of € 8,3m)
- From 2010 the accounts are reflecting the full impact of the depreciation of the investments.

Net result overview – versus 2009

All figures are in € '000s

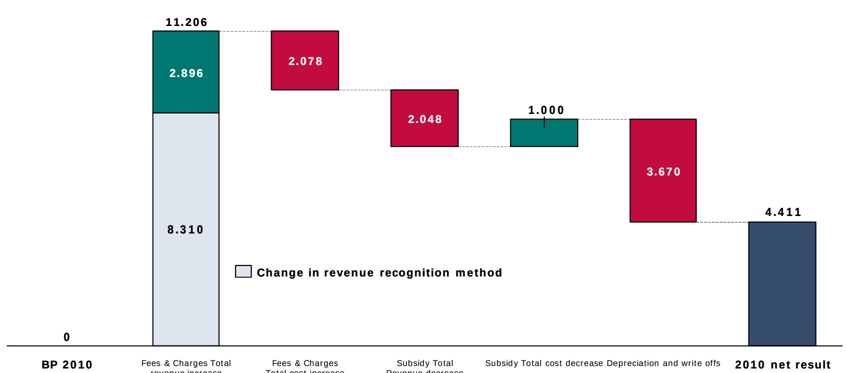


- The increase of the F&C revenues is associated to cost increase for staff and outsourcing.
- For Subsidy the reduction of EFTA/3rd countries contribution is not compensated by a reduction on the cost side

Data source: Closing 2010 / SAP

Net result overview – versus Business Plan 2010 (by Fund source)

All figures are in € '000s



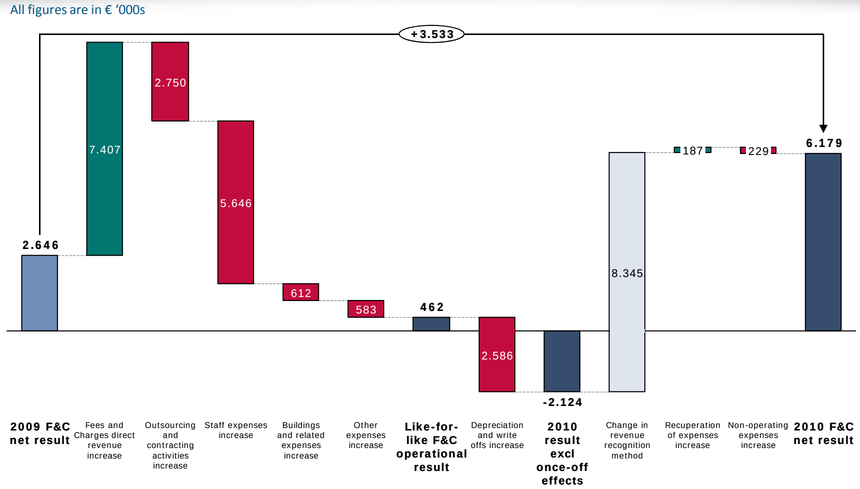
- Subsidy activities: compared to the Business Plan 2010 the decrease of the revenues (driven by lower EFTA/3rd countries contribution and one-off reimbursement of expenses in 2009) is partially offset by the savings made on the costs
- F&C activities: cost and revenues variations are compensating
- The impact of the depreciation is relevant because this item is not included in the budget

Data source: Closing 2010 / SAP

Fees & Charges

Net result overview – versus 2009
(Fees & Charges detailed)

All figures are in € '000s

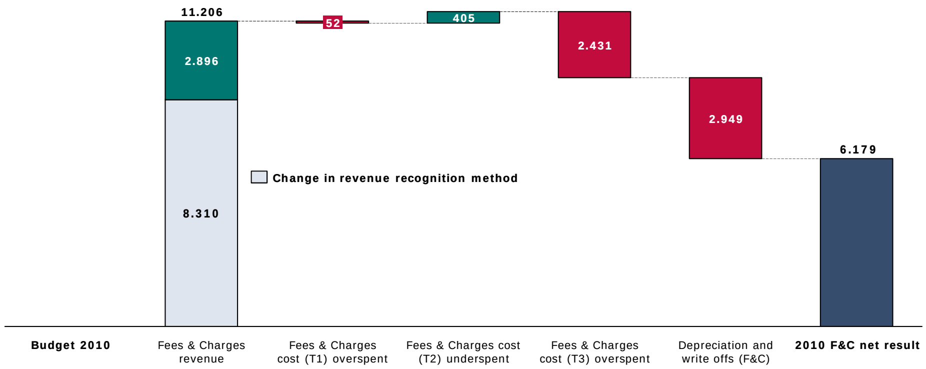


- Versus 2009, the like-for like operational result has decreased with € 2.2m, however, due to the one-off effect of the change in revenue recognition, the final net result is € 3.5m higher than last year

Data source: Closing 2010 / SAP

Net result overview – versus Business Plan 2010
(Fees & Charges)

All figures are in € '000s



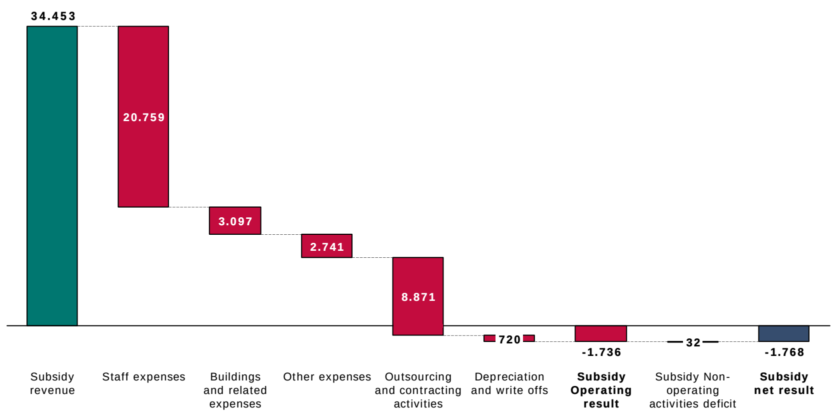
- the F&C 2010 Business Plan is overspent by € 2,1m on the operating cost side (driven by overspending on Title 3 expenses), compensated by the increase in like-for-like revenues of € 2,9m and the change in revenue recognition method

Data source: Closing 2010 / SAP

Subsidy

Net result overview 2010
(Subsidy)

All figures are in € '000s

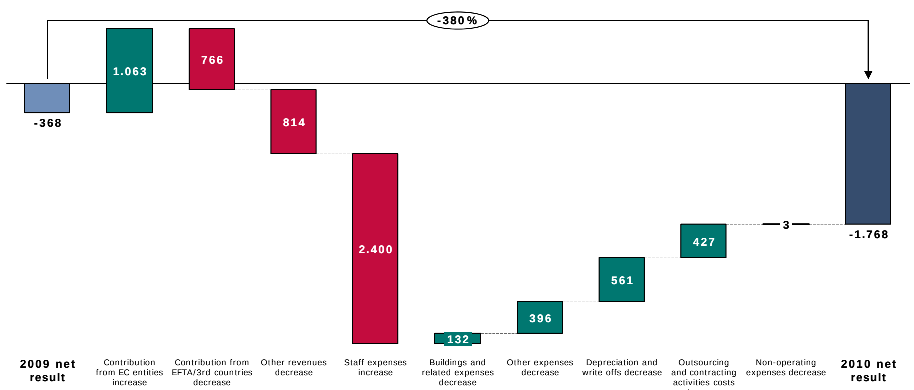


- Subsidy Accrual result shows a net result of - € 1,8m

Data source: Closing 2010 / SAP

Net result overview – versus 2009
(Subsidy)

All figures are in € '000s

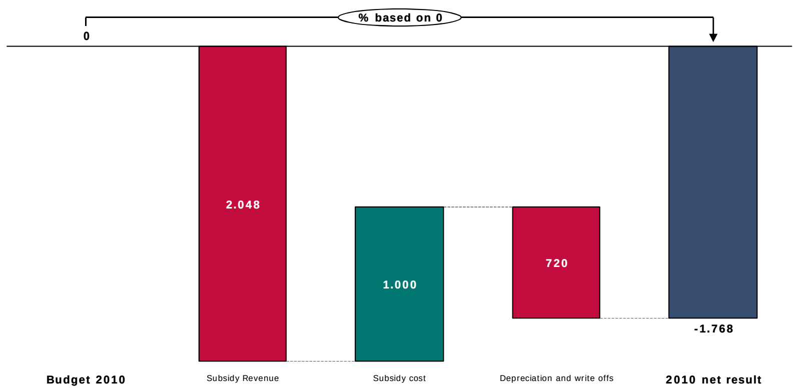


- Versus 2009, the net result is € 1,4m lower, influenced by the variation in EFTA/3rd countries contribution and the other revenue decreases and increase in staff costs, despite reducing all other costs

Data source: Closing 2010 / SAP

Net result overview – versus Business Plan 2010 (Subsidy)

All figures are in € '000s



- Despite savings of € 1m versus Budget, the lower revenues and the depreciation generate a negative result

Data source: Closing 2010 / SAP

Budget Accounting

Budget Outturn 2010 (1)
Overview

All figures in € '000s

		Certification	Regulatory	Total
Revenue-Cash		68.873	36.115	104.988
T4 Income			515	
C4 Income			61	
Total Income		**68.873**	**36.691**	**105.564**
Used reve-Assigned from previous years		3.513	0	3.513
	T1	*34.599*	*21.604*	*56.204*
	T2	*8.730*	*5.189*	*13.919*
	T3	*33.135*	*8.389*	*41.524*
	T4		*515*	
	C4		*61*	
Total expense		**76.464**	**35.759**	**112.222**
Net		**-4.077**	**931**	**-3.145**
2010 C8 (cancelled)				
Revenue				
	T1	-42	-27	-69
	T2	-133	-73	-206
	T3	-1.509	-550	-2.060
Total expense		**-1.685**	**-650**	**-2.335**
2010 Net				
Total Income		**68.873**	**36.691**	**105.564**
Used reve-Assigned from previous years		**3.513**	**0**	**3.513**
	T1	*34.557*	*21.578*	*56.134*
	T2	*8.596*	*5.116*	*13.713*
	T3	*31.625*	*7.839*	*39.464*
	T4		*515*	
	C4		*61*	
Total expense		**74.779**	**35.109**	**109.887**
Net		**-2.392**	**1.581**	**-811**
Exchange rate impact			**-16**	
Budget Outturn			**1.565**	

Title 1 – mainly linked to Staff expenditure

Title 2 – mainly linked to building and ICT expenditure

Title 3 – mainly linked to operational expenditure

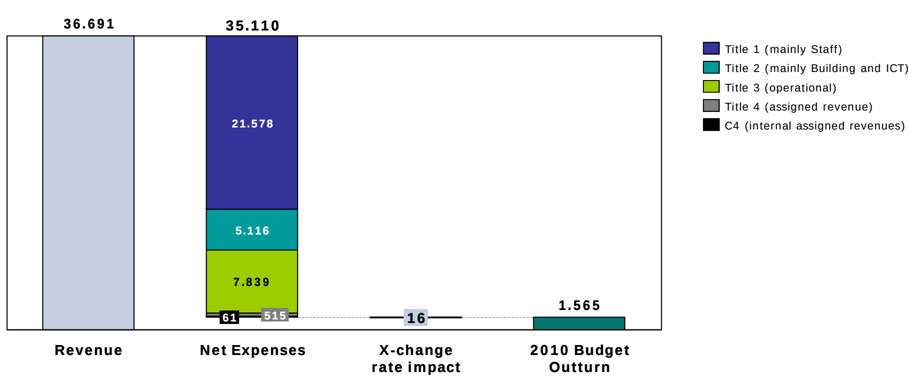
Title 4 –specific assigned revenue operations

C4 budget – internal assigned revenues

Data source: Closing 2010 / SAP

Budget Outturn 2010 (2)
Subsidy analysis

All figures are in € '000s

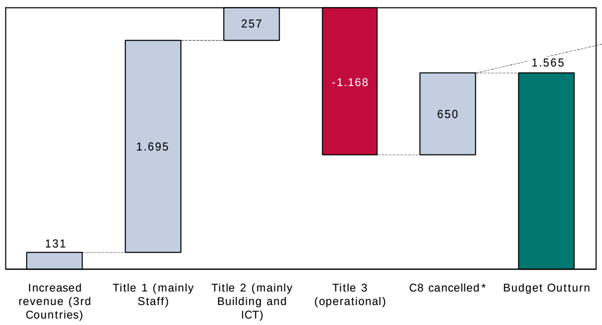


- Provisional Budget Outturn 2010 is € 1.565k
- The net expenses include the C8 cancellation of € 650k
- Revenues include EU Subsidy, 3rd Countries contribution, other admin revenues, Title 4 income and C4 income

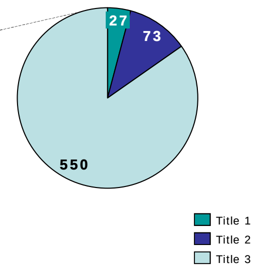
Data source: Closing 2010 / SAP

Budget Outturn 2010 (3)
Subsidy - Actual versus Business Plan 2010-2014

All figures are in € '000s



Cancelled C8 breakdown



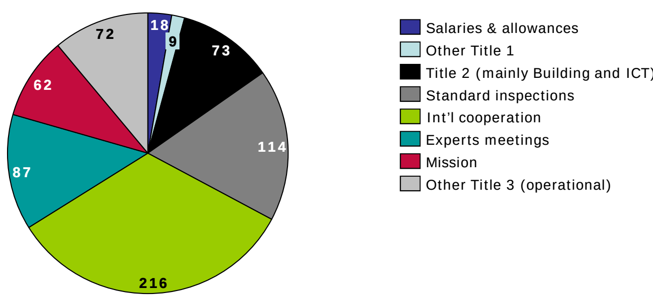
- Increased revenues are linked with € 140k received for 3rd Countries contribution more than in the 2nd amending budget
- Less Title 1 and Title 2 expenses when compared with the BP 2010-2014
  - linked with the phasing recruitment of Subsidy-financed staff which has led to a change in the allocation keys applied
  - For 2011, recruiting is being monitored monthly by fund source in order to mitigate the above risk
- More Title 3 expenses due to transfer of unused resources from Title 1 & 2

* C8 amounts carried forward from the previous year referring to Subsidy Fund Source

Data source: Closing 2010 / SAP

Budget Outturn 2010 (4)
Subsidy - Cancelled C8 - detail

All figures are in € '000s



- The total amount of Cancelled C8 for Subsidy is € 650k (i.e. 42% of the outturn)
- The main drivers were Title 3 expenses, with International Cooperation (€ 216k), Standardisation Inspections (€ 114k) and Expert Meetings (€ 87k) representing 65% of the total cancelled amount.

Data source: Closing 2010 / SAP