

# 2008 A Year at CNRS

Financial report



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Note: unless otherwise mentioned all amounts are in millions of euros (€M).

## Foreword

In December 2005, the CNRS Board of Directors decided to have its financial statements certified beginning in 2008.

During the summer of 2008, the Minister of the Economy, Industry, and Employment appointed PricewaterhouseCooper and Ernst & Young to be CNRS statutory auditors.

As a result, 2008 marks the end of the “monopoly” of the Finance Office and the main Accounting Office over financial reporting and accounting. Now these entities must transition to working with the statutory auditors and applying accounting standards.

This is not strictly speaking a major upheaval: the main Accounting Office has worked closely with CNRS service offices over the past four years to improve the accounts. Assets were verified, major risks identified, and relating entries to the appropriate fiscal year became the rule, notably by recognizing progress in contracts.

Nevertheless, in 2008 CNRS took a very important step to improve the quality of its financial statements by having them certified by third parties.

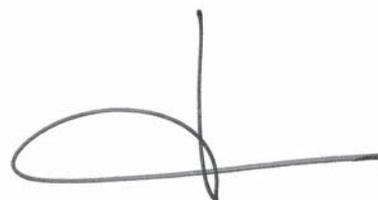
From now on, when French or European organizations which finance research request reliable data reflecting total costs, CNRS will be able to comply. More extensive and reliable financial information will also help the organization better perform certain vital tasks: accurately define needs for investments and laboratory equipment, take risks into account, track expenses. This will improve management of public funding.

The statutory auditors’ certification will also enable CNRS, as a government operator, to comply with transparency and performance guidelines set forth in the French organic law concerning finance laws (LOLF), and to anticipate inevitable changes such as legislators’ requirements concerning accounting within universities.

Certification is a long and sensitive process, and the outcome is uncertain. This is the first period verified by statutory auditors, and furthermore the financial statements are consolidated: they concern accounts of CNRS as well as of the entities under its exclusive control—CNRS Edition, FIST SA, INIST Diffusion and Soleil. Therefore the statutory auditors will not issue their audit opinion on the 2008 financial statements before the June 2009 Board of Directors meeting.

Despite progress made by CNRS, the statutory auditors are expected to express certain reservations: aligning a large public organization’s accounts with its accounting standards is a lengthy process. For instance, the French government—whose accounts have been certified since 2006—still receives a number of significant reservations from the Cour des comptes.

Let us hope that the statutory auditors will appreciate the four years CNRS has spent improving its accounting procedures, and that next year the introduction to the financial statements will explain how in 2009 we managed to eliminate the auditors’ reservations on the 2008 accounts.



**Bernard Adans**  
Paymaster General  
CNRS Chief Accounting Officer

# 1 The regulatory framework

CNRS is a Public Scientific and Technological Institution (EPST) with an organization and operation defined by the constitutive decree of November 24, 1982. The most recent amendment (see decree no. 2007-195 of February 12, 2007) increases the powers of the President, who can now propose a nominee for Director General to the supervisory authorities.

Each year a decree from the Budget Department of the Ministry of the Budget, Public Accounts, and Public Service sets forth a number of budgetary and accounting rules applicable to the various categories of public entities (see in particular decrees no. 4BCJS-05-3152 of August 1, 2005, no. 4BCJS-06-2856 of July 31, 2006, no. 2MPAP-07-2183 of July 31, 2007, and no. 2MPAP-08-1823 of August 11, 2008).

## THE BUDGETARY FRAMEWORK

## 1.1

### 1.1.1 THE BUDGET

Since January 1, 2007, CNRS—in accordance with the interministerial decree of December 26, 2005—has followed the budgetary, financial and accounting scheme defined in decree no. 2002-252 of February 22, 2002. This decree stipulates that the organization's expenditures (see the interministerial decree of December 5, 2006) must be presented in table format, with rows showing a breakdown by recipient into three cost centers, and columns showing a breakdown into three major categories: personnel expenditures, expenditures for operations and investments financed by the “subsidy for public service expenditures” (SCSP), and scheduled investing activities.

The first cost center, representing the largest amounts, covers “activities carried out directly by research units.” These are presented both:

- by “group of disciplines”: 13 lines representing all the fields of knowledge (including a line for interdisciplinary activities) and one line for “scientific operations performed outside CNRS” to reflect

personnel and resources located outside CNRS units

- by “interregional group”

Note however that only the breakdown by group of disciplines is used for budget arbitration; the geographic distribution is provided for information only.

The second cost center covers “joint actions” in research, i.e. very large infrastructures, scientific and technical information, scientific events and their evaluation, communication, technology transfer, international exchanges, etc.

The third cost center covers “support functions”, i.e. any activity not specific to research (administrative services, non-scientific data processing, real estate, social action).

Finally, the budget includes a line for items “outside cost centers”. It covers all charges to expenses which cannot be allocated by recipient when the budget is voted, as well as a reserve for any increase in compensation.

Revenue is divided into four categories:

- “subsidy for public service expenditures” (a global subsidy paid by the government to finance the organization's ongoing activities, for both operations and investments)
- “finalized contracts and support for research activities” (research contracts, government or private subsidies received, etc.)
- “revenue from technology transfers for research and service activities” (royalties for patents and licenses, ancillary resources to research activities: tests, expert reports, training, etc.)
- “other subsidies and income” (room rental, interest or exceptional income, etc.)

Finally, the budget includes an item for calculated revenue and expenditures (depreciation allowances, provisions, reversals of investment subsidies, etc.). Note however that this line is not included in the budgetary balance.

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## 1.1.2 THE VOTE ON THE BUDGET

The Board of Directors must vote on a balanced budget. The total of all four revenue categories must be greater than or equal to the total expenditures in the

“cost center” and “outside cost center” sections. This balance may be achieved by either increasing or decreasing the working capital, if appropriate. The CNRS budget

voted by the Board of Directors is submitted for approval to the ministries responsible for research and the budget.

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## 1.1.3 BUDGET EXECUTION

Funding is allocated in three separate budgets: “capped personnel employment expenditures”, “other expenditures by recipient in the first cost center” and “other expenditures included in the second and third cost centers”.

The Director General is responsible for fund transfers within a given budget. On the other hand, the Board of Directors’

approval is required for transfers from one budget to another, except for personnel funds in the first budget. An “asymmetric” fungibility principle is applied to funds (fund transfers are authorized only from this budget to the other two budgets).

Actual budget expenditures and revenues are reconciled at the end of the year to obtain the budget outcome. It is the dif-

ference between total revenue in all four categories described above, and total expenditures included in cost centers 1, 2, and 3.

# 1.2

## ACCOUNTING STANDARDS

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### 1.2.1 APPLICABLE DOCUMENTS

Organization of CNRS accounting is defined in decree no. 62-1587 of December 29, 1962, as amended, concerning “general public accounting regulations”, ruling no. 99-03 of April 29, 1999 by the Comité de la réglementation comptable (CRC) and covering the chart of accounts, and instruction M9-1 “financial and accounting regulations of national administrative public organizations” by the Public Accounting Department (including instruction no. 06-007-M9 of January 23, 2006 concerning

assets, liabilities, depreciation of assets and depreciation allowances).

CNRS is classified in the government’s public operator category. Thus in order to understand certain operations, it is also important to refer to the provisions of the organic law no. 2001-692 of August 1, 2001 concerning financial law, and to the compendium of the government’s accounting standards.

Finally, as CNRS controls a number of corporate entities (public limited companies or public interest groups), it is subject to the measures stipulated in articles 135 and 136 of the Law on financial security of August 1, 2003. Therefore if certain criteria are met, CNRS may be required to present consolidated financial statements and to appoint two statutory auditors and two deputies.

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### 1.2.2 CNRS FINANCIAL ACCOUNTING

CNRS financial accounting is based on the principle of recognizing income and expenses. Revenues and expenditures are recognized for the period during which they occur, irrespective of their cashable or payment date.

CNRS financial accounting is managed, subject to the specific requirements as set forth in instruction M9-1, pursuant to the rules stipulated by the Chart of accounts and applicable CRC rules.

### 1.3.1 MAIN STEPS IN THE BUDGET AND ACCOUNTING PROCESS

Once the Board of Directors approves the budget (i.e. the original budget voted December 6, 2007, DM1 voted March 27, 2008, and DM2 voted October 30, 2008), the budget is executed and implemented by the Director General. The Director General works with the research departments and the service offices at headquarters to allocate funds to the various beneficiary organizations (research units, entities responsible for large equipment, the central payroll office, etc.) and to inform them of the funding they will receive.

The Director General also acts as the main fiscal officer, distributing the funds required to pay for the organization's expenditures. Some of those expenditures (65%) are managed directly by the head office. The other funds are transferred to the regional representatives, who act as secondary fiscal officers. The record of revenues and expenditures issued by the fiscal officers makes up CNRS' administrative accounting.

The accounting data must match the data observed by the Chief Accounting Officer (ACP).

The Chief Accounting Officer's accounts are more detailed than those of the fiscal officer. The ACP both supervises budget execution and monitors all information concerning CNRS' financial situation and asset base.

The financial accounting provides the following, in compliance with the provisions of the chart of accounts:

- a balance sheet. Liabilities on the balance sheet list all the resources received by CNRS since its creation (invested capital, long-term debts, operating debts), while assets show how those resources were used (fixed assets, inventory, receivables, financial accounts).

Note that the budget only includes flows of operations appearing at the "top of the balance sheet" (in particular fixed assets in class 2 and invested capital in class 1). These are so-called "investment" operations. Operations concerning the "bot-

tom of the balance sheet" on the other hand (receivables and payables in classes 4 and 5) do not appear in the administrative accounting.

- an income statement listing expenses (class 6) and income (class 7). The balance or result of the P&L statement indicates whether the organization has become richer (in the event of a profit) or poorer (in the event of a loss) by the end of the year. Expenditures and income correspond to the operating expenses and revenue.
- an appendix with complementary information to the data appearing in the balance sheet and the income statement. This information helps the reader understand and interpret data provided in the summary documents.

The Chief Accounting Officer prepares the "financial account" which must be approved by the Board of Directors within four months of the balance sheet date. Once approved, the financial account and its appendix and notes are sent to the Cour des comptes.

### 1.3.2 ALLOCATING INCOME

In accordance with decree no. 62-1587 of December 29, 1962 and decree no. 82-993 of November 4, 1982 as amended, after deliberation the Board of Directors approves the financial account.

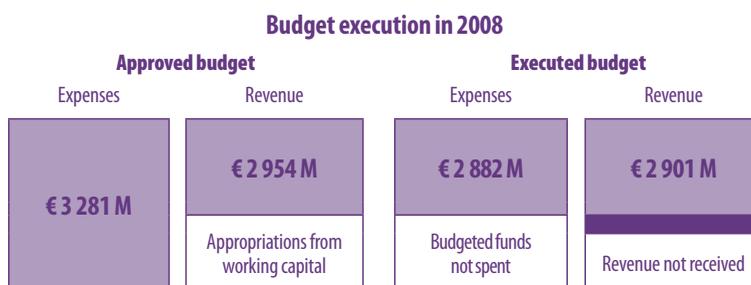
It then decides whether to allocate the income to reserves and/or to retained earnings.

Reserves represent a surplus allocated to the organization on a long-term basis until decided otherwise by the competent authorities. Retained earnings represent the amount (or the proportion) of income which the Board of Directors has not decided to allocate on a long-term basis, and is forwarded to the following period.

Deliberations concerning the financial account are submitted for approval to the ministries in charge of research and the budget. If they are not expressly approved, decisions become binding one month after reception by the ministries.

# 2 Budget execution in 2008

Existing appropriations for 2008 (original budget and subsequent modifications – DM1 and DM2) totaled €3,281 million with a projected deficit of €326 million covered by a drawdown on working capital. Despite reductions in revenue, total expenditures were lower than the budgeted amounts, resulting in a positive budget outcome of €21 million.



## 2.1 EXECUTION OF BUDGET REVENUE

### TOTAL INCOME RECEIVED IN 2008

Of the estimated €2,954 million in revenue, €2,901 million were in fact received (-€53 million), for an execution rate of 98%. This is attributable to reductions in the subsidy for public service expenditures (-€8 million) and particularly to CNRS-generated resources (-€45 million).

### THE SUBSIDY FOR PUBLIC SERVICE EXPENDITURES (SCSP)

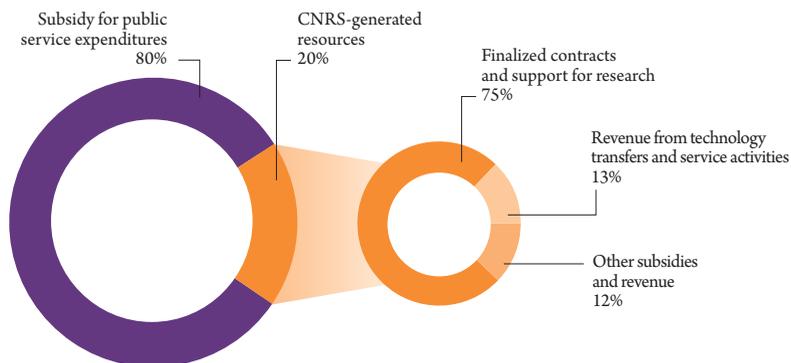
Of the €2,343 million initially planned, the Ministry of Research actually attributed only €2,331 million (notification of November 28, 2008 after DM2). This has created a problem with respect to the sincerity of the budget (lack of DM) and the recognition of income (simple cash management).

### CNRS-GENERATED RESOURCES

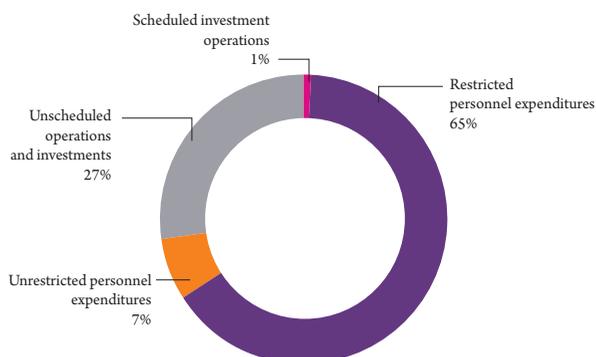
The budget had initially called for €616 million in CNRS-generated resources (€468 million in finalized contracts and support for research, €77 million in revenue from technology transfers and services rendered, and €71 million in subsidies and sundry income). Yet the execution of CNRS-generated resources (€570 million) showed a €46 million difference, attributable for the most part to research contracts. The realized rate for CNRS-generated resources equaled 93% in 2008.

### CNRS resources in 2008

### Breakdown of CNRS-generated resources in 2008



### Expenditures executed on government subsidies and CNRS-generated resources



### TOTAL EXPENDITURES RECOGNIZED IN 2008

The amount of executed budget expenditures for operations and investments totaled €2,882 million for an overall execution rate of 88%, quite similar to the 2007 rate (87%).

However, the total of budgeted funds not spent fell by 8%, dropping from €435 million in 2007 to nearly €400 million in 2008. Seventy-three percent of these funds (€291 million) concern cost center 1 "research activities carried out by research units". The balance is split between cost center 2 "joint actions" (€31 million) and cost center 3 "support functions" (€78 million).

Expenditures can be broken down by type:

- unscheduled current expenditures for operations and investments: €336 million, or 30% of existing appropriations
- scheduled operations and capital operations: €27 million (39%)
- personnel expenditures concerning CNRS-generated resources: €24 million (11%)
- personnel expenditures concerning SCSP: €13 million (1%)

### EXECUTION OF EXPENDITURES BY COST CENTER

#### Cost center 1: "research activities carried out by research units"

This cost center had an 89% execution rate. An analysis of the execution rate by group of scientific fields reveals that five of the fourteen groups had rates below 88%. Here follow the five groups, with the amount and rate of unused expenditures for each:

- interdisciplinary (100 million, 15%)
- sciences of the planet and universe (32 million, 17%)
- information and communication sciences and technologies (26 million, 17%)
- integrative biology and neurosciences (21 million, 13%)
- chemistry (17 million, 9%)

The €1,362 million in total funds made available to these five groups represents 50% of the €2,709 million dedicated to research activities carried out by research units.

#### Cost center 2: "joint actions"

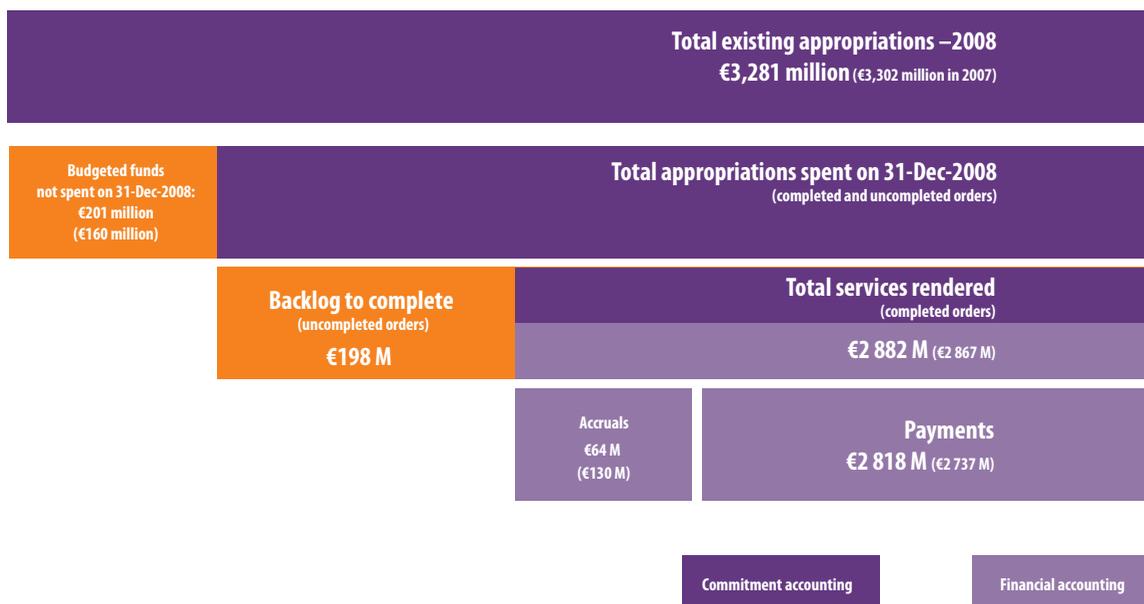
The execution rate for cost center 2 is practically identical to the overall rate (88%).

#### Cost center 3: "support functions"

The execution rate for cost center 3 is 74%.

## ANALYSIS OF USAGE OF APPROPRIATIONS DURING THE PERIOD

### Summary of expense execution



## 2.3

### RECONCILIATION OF ACCOUNTING OF THE FISCAL OFFICER AND THE CHIEF ACCOUNTING OFFICER

Results as determined by the fiscal officer (€20 million) are slightly lower than those calculated by the Chief Accounting Officer (accounting income of €106 million and a budget outcome of €21 million).

The €1 million difference comes firstly from the audit entries which, at the date the financial statements were prepared, had not been recognized in commitment accounting, and secondly from the impact of internal invoicing which had been offset in the income statement.

The table below shows how the 2008 budget outcome is calculated based on 2008 accounting income.

<b>Accounting income for 2008</b>	<b>106</b>
(+) Investment revenue	+47
(-) Capital expenditures	-241
(+/-) Order transactions*	+109
<b>Budget outcome</b>	<b>21</b>

\* Calculated revenue and expenditures

(in millions of euros)

# 3 Major changes in accounting principles and methods

The years 2006 and 2007 were marked by:

- major changes in regulations (impact of the LOLF, recognition of SCSP as operating revenue, NCBC, etc.)
- the creation of the National Research Agency (ANR)
- improvements in accounting reliability (tangible assets, patents, contract supervision, etc.)

Relatively few major changes occurred in 2008, except for pro rata VAT calculations.

On January 1, 2008, CNRS changed from partial deductibility of value-added tax, with a pro rata rate of 12%, to full deductibility. This change was made pursuant to decree no.2007-566 of April 16, 2007 concerning methods for deducting VAT.

This change in tax regime had a positive impact of €75 million on the income statement.

Furthermore, in 2008 CNRS standardized the method for correcting expense and revenue entries related to the balance sheet date. This may occasionally make it more difficult to understand certain changes in the income statement.

Prior to 2008, adjustments to expenses payable (or to accrued income) recognized on December 31 of year N were made on a regular basis throughout year N+1, each time a corresponding voucher was received. Adjustment entries credited (or debited) a revenue (or expense) account, resulting in a significant increase to some of these accounts.

The method for making correcting entries was standardized in 2008. Now a reversing entry is made on January 1 of year N+1 for transactions recognized as of December 31 of year N. With this method, revenue (or expense) accounts are no longer affected by adjustment transactions. Now all accounts reflect only actual inflows or outflows observed during the year.

This change in accounting practices mainly concerns transactions included in other operating revenue (see Note 1).

Whatever the methods used to make adjustments via the matching principle, expenses and revenue utilized during the year N+1 no longer affect the current year's income.

# 4 Key figures for the year

## 4.1 2008 RESULTS

CNRS had a surplus of €106 million in 2008 compared to €184 million in 2007 (a -€78 million drop).

This drop mainly results from an increase in operating expenses (4%) due in particular to higher personnel expenditures, without a corresponding increase in operating revenue (1%) (see below: operating

result). A second reason for the decrease is the change in the accounting method used to recognize the subsidy for public service expenditures (see the 2006 financial statement, page 4, impact of SCSP). Since 2006, the subsidy has been recorded entirely as operating revenue. This recognition in the income statement will also gradually reduce the amount of rever-

sals of investment subsidies recognized as exceptional income (see below: extraordinary profit).

The table below shows variations in income since 2006, after offsetting the impact of the change in the method for recognizing SCSP.

	2006	2007*	2008*
Revenue	2880	2949	2959
Investment	-225	-217	-189
Reversal of investment subsidy		63	96
Restated revenue	2655	2795	2866
Expenses	2648	2777	2853
<b>Restated profit</b>	<b>7</b>	<b>18</b>	<b>13</b>

\* for 2007 and 2008: internal invoicing has been offset

(in millions of euros)

### INCOME STATEMENT

EXPENSES	2006	2007*	2008*	REVENUE	2006	2007*	2008*
Operating expenses	2593	2761	2846	Operating revenue	2676	2816	2843
Operating result	83	55	-3				
Operating result excluding calculated revenue and expenses	228	244	220				
Financial expenses	0	0	1	Interest income	2	6	7
Financial result	2	6	6				
Extraordinary expenses	56	4	6	Extraordinary revenue	202	128	109
Extraordinary profit	146	124	103				
<b>Total expenses</b>	<b>2649</b>	<b>2777</b>	<b>2853</b>	<b>Total revenue</b>	<b>2880</b>	<b>2949</b>	<b>2959</b>
<b>Profit</b>	<b>231</b>	<b>184</b>	<b>106</b>	<b>Loss</b>			
<b>Total</b>	<b>2880</b>	<b>2949</b>	<b>2959</b>	<b>Total</b>	<b>2880</b>	<b>2949</b>	<b>2959</b>

\* for 2007 and 2008: internal invoicing has been offset

(in millions of euros)

### OPERATING RESULT: -€3 MILLION (€55 MILLION IN 2007)

The €58 million decrease in operating result compared to 2007 is due to the increase in operating expenses (€85 million) without a corresponding increase in revenue (€27 million).

The most important change in operating expenditures concerns "personnel expenditures" with over €105 million (5%).

The increase in operating revenue recognized in 2008/2007 is €113 million less than in 2007/2006. This is due to two main changes:

- a considerably lower increase in operating subsidies: +€37 million (2008/2007) versus +€107 million (2007/2006)

- a significant drop (€65 million) in the "other revenue" item due notably to a reduction in industrial property royalties.

## FINANCIAL RESULT: €6 MILLION (€6 MILLION IN 2007)

This positive result, unchanged from 2007, is mainly due to returns on investments.

## EXTRAORDINARY PROFIT: €103 MILLION (€124 MILLION IN 2007)

The €21 million decrease is due to the combined effects of the lower level of reversals to investment subsidies (€100 million in 2008 versus €119 million in 2007), and the €2 million increase in extraordinary expenses.

## 4.1.1 REVENUE

### 4.1.1.1 The overall trend for revenue

Revenues in 2008 were stable on the whole compared to 2007. There was a notable increase in sales (+15%), while operating revenue fell.

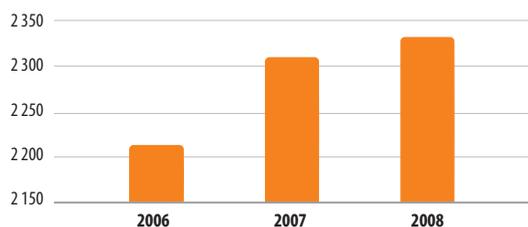
	2006	2007*	2008*	Variation 2006/2007		Variation 2007/2008	
				amount	%	amount	%
Subsidies from supervisory authorities	2 218	2 313	2 331	95	4%	18	1%
Other subsidies	70	82	101	12	17%	19	23%
Operating subsidies	2 288	2 395	2 432	107	5%	37	2%
Sales	277	298	342	21	8%	44	15%
Other revenue	111	118	53	7	6%	-65	-55%
Reversals of provisions	-	5	15	-	-	10	200%
Other operating revenue	111	123	68	12	11%	-55	-45%
Operating revenue	2 676	2 816	2 842	140	5%	26	1%
Interest income	2	5	7	3	150%	2	40%
Extraordinary revenue	8	4	4	-4	-50%	0	0%
Reversal of investment subsidies	194	124	105	-70	-36%	-19	-15%
Other revenue	202	133	116	-69	-34%	-17	-13%
<b>Total</b>	<b>2 880</b>	<b>2 949</b>	<b>2 958</b>	<b>69</b>	<b>2%</b>	<b>9</b>	<b>0%</b>

\* for 2007 and 2008: internal invoicing has been offset

(in millions of euros)

### 4.1.1.2 Subsidy for public service expenditures (SCSP)

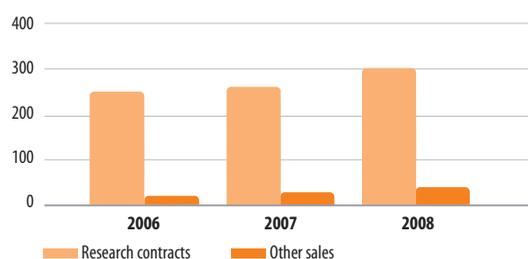
#### Change in subsidy for public service expenditures



In 2008 the global subsidy for public service expenditures (€2,331 million) increased by 1% compared to 2007 (€2,313 million). As in previous years, it represents 78% of all CNRS revenue.

### 4.1.1.3 Business income

#### Sales 2006-2008

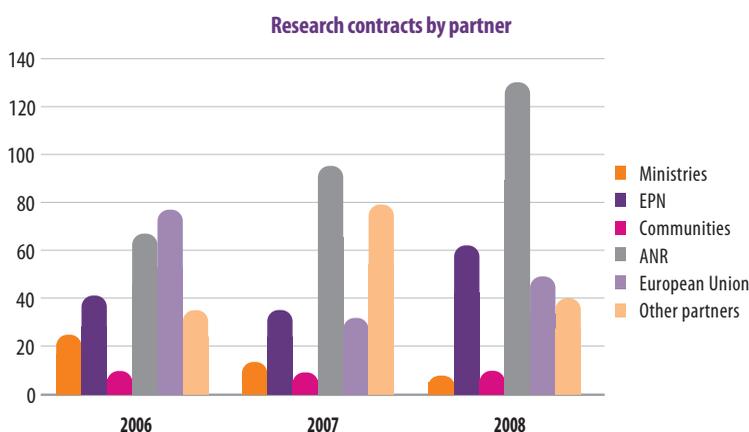


Business income for 2008 was boosted by an increase in both revenue from research contracts (+14%) and in other revenue related to research activities (+20%).

## RESEARCH CONTRACTS

Recognized revenue from research contracts (or similar) totaled €301 million in 2008 versus €264 million in 2007. This 14% increase is mainly due to the 2008 launch of projects financed by the National Research Agency (ANR) for 2007 as well as by the European contracts set up as part of the 7th Framework Program for Technological Research and Development (FP7).

In 2008, the main sources of funding were ANR (43% of revenue derived from research contracts), French public entities (21%) and the European Union (17%).



### Research contracts financed by the ANR

Revenue from contracts financed by the ANR totaled €130 million in 2008, up 38% over 2007 (€94 million). This increase is mainly due to projects managed by USAR, an ANR organization which supports CNRS (€81 million in 2008 versus €47 million in 2007, a gain of 72%). Projects

managed by other support organizations increased to a lesser extent (+4%).

This revenue corresponds to progress made on projects concerning ANR programs dating from 2005 to 2007. Programs for the year 2008 do not begin until 2009,

as the corresponding funds from the ANR are paid in December 2008.

Sales related to ANR-financed contracts are analyzed in Note 1 on operating revenue as well as in Note 11 on cash and cash equivalents.

### Research contracts financed by European funds

Execution of European contracts on December 31, 2008 totaled €50 million, versus €33 million on December 31, 2007.

This significant improvement is attributable to the implementation of contracts from FP7 and the European Research Council

(ERC) which both started in 2008. On December 31, 2008, 174 FP7 contracts were identified.

## OTHER REVENUE RELATED TO RESEARCH ACTIVITY

Other revenue related to research activity (excluding research contracts) has also increased with the recognition of

accrued income as USAR administrative costs financed by ANR, and thanks to the personnel made available (through agree-

ments with Synchrotron SOLEIL and Public Interest Groups and consortiums (GIP-GIE)).

### 4.1.1.4 Other revenue

There was a decrease in other operating revenue, in particular due to the constant

reduction of revenue from patent technology transfer. This trend, already noticeable

in 2007, resulted in a further -16% drop in 2008 compared to the previous year.

## 4.1.2 EXPENSES

### 4.1.2.1 The overall trend for expenses

	2006	2007 <sup>(1)</sup>	2008	Variation 2006/2007		Variation 2007/2008	
				Amount	%	Amount	%
Purchase of goods	151	150	151	-1	-1%	1	1%
Purchase of external services	255	255	255	0	0%	0	0%
Other current operating expenses	17	4	7	-13	-76%	3	75%
Usage of appropriations during the period	423	409	413	-14	-3%	4	1%
Taxes and related payments	2	2	2	0	0%	0	0%
Personnel costs	1 820	1 968	2 073	148	8%	105	5%
Specific expenses	125	121	135	-4	-3%	14	12%
Amortization expense	145	182	196	37	26%	14	8%
Estimated expenses and depreciation	0	7	27	7	18	257	40%
Provisions	145	189	223	44	30%	34	18%
Financial expenses	0	0	1	0		1	
Extraordinary expenses	56	4	6	-52	-93%	2	50%
<b>Total</b>	<b>2 571</b>	<b>2 693</b>	<b>2 853</b>	<b>122</b>	<b>5%</b>	<b>160</b>	<b>6%</b>

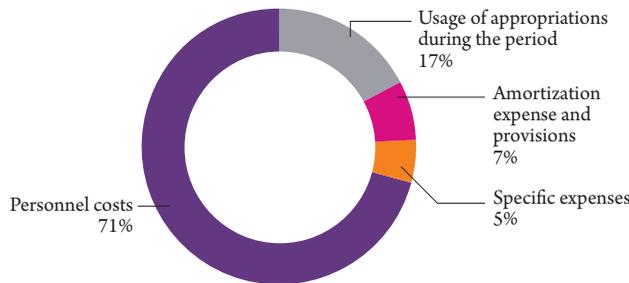
(1) VAT is offset

(in millions of euros)

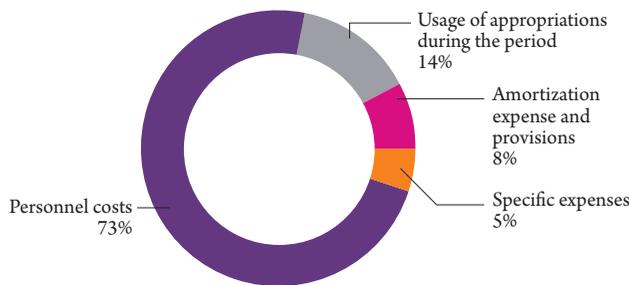
Operating expenditures have increased regularly since 2006: +5% between 2006/2007 and +6% between 2007/2008.

The structure of operating expenditures remained stable.

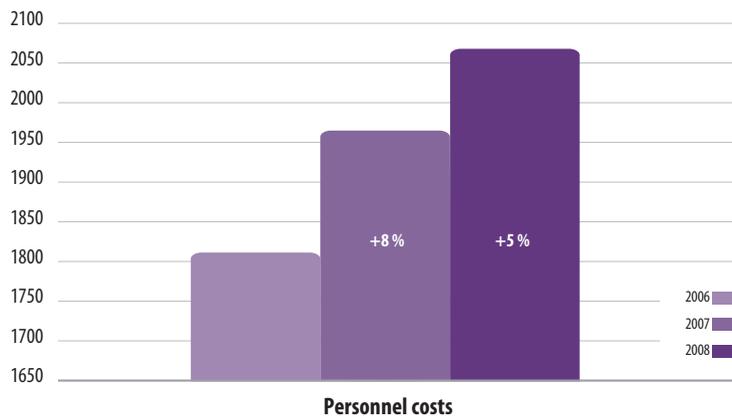
#### Breakdown of 2007 expenditures



#### Breakdown of 2008 expenditures



#### 4.1.2.2 Personnel expenditures



Personnel expenditures (73% of total CNRS expenses) have increased sharply over the past three years (+€148 million between 2006 and 2007, and +€105 million between 2007 and 2008). This trend is mainly due to the increase in payroll taxes, and more specifically to the contribution to civil pensions, which rose from €356 million in 2007 to €451 million in 2008<sup>1</sup>.

Compensation for permanent employees (74% of the total workforce) was also relatively stable. This was not the case for compensation of non-permanent employees (26% of the workforce), which rose by 17% due to scientific training programs provided for PhD students (BD1) and to recruitment of personnel on both fixed-term and short-term contracts.

#### 4.1.2.3 Usage of appropriations during the period

Usage of appropriations during the period was the second-largest expenditure—14% of the total. Over 60% of these expenditures were for the purchase of external services (research travel, maintenance and repairs, etc.), while 35% concerned the purchase of goods (supplies, energy, etc.).

The purchase of goods remained stable, after offsetting the impact of the January 1, 2008 change in tax regime (see sect. 3.2). The purchase of external services increased slightly on the other hand—except for travel, missions and reception expenses, which fell for the first time in

three years (-7% in 2008, compared to +15% in 2005 and 2006, and +19% in 2007).

<sup>1</sup> As in previous years, the increase in pension-related expenses is fully taken into account by the supervisory authorities when calculating the SCSF.

#### 4.1.2.4 Amortization expense and provisions

Amortization expense and provisions represent 8% of total expenses; amortization expense makes up most of that 8%.

It should be noted that amortization expense and provisions increased sharply in 2008 (+€20 million). This change is due not so much to an increase in risks and bad debts as to improvement in the methods

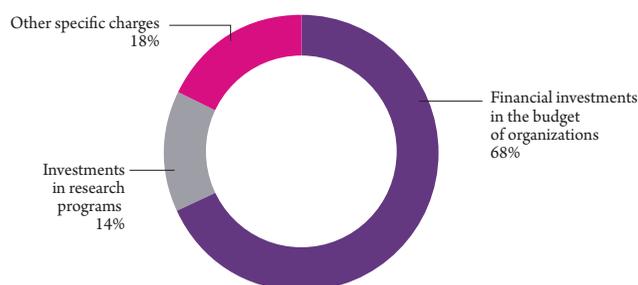
used to evaluate bad debt and to identify provisions and amortization.

A €1.8 million provision was made following a European Commission audit in 2008 on research contracts in the FP6. This provision concerns contested amounts in a sample of 18 contracts (notified by mail on March 16, 2009). However, as it was

impossible to reliably estimate the amount of CNRS debt on the 2008 balance sheet date (Board of Directors meeting on March 26, 2009), the financial statement simply provides detailed information on this matter in the appendix, Note 15.

#### 4.1.2.5 Specific expenses

By offsetting the impact of the tax regime change (see above), specific expenses increased by 12% between 2007 and 2008. Financial investment in the budget of organizations—representing almost 70% of these expenses—increased by 20% following new transactions and an increase in payments to Public Interest Groups. The 24% reduction of investments in various research programs is due to technical reasons: the 2007 accounts mistakenly included a €5 million expense payable.



## 4.2

### 2008 BALANCE SHEET

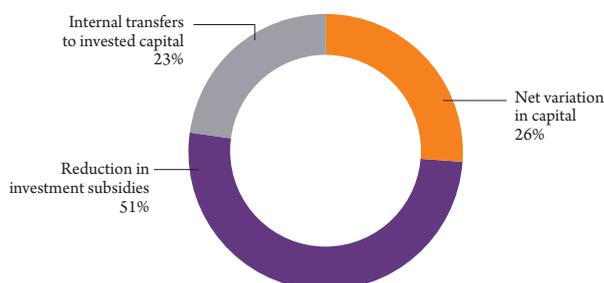
ASSETS	2006	2007	2008	LIABILITIES	2006	2007	2008
Net fixed assets	1 150	1 216	1 233	Invested capital	1 475	1 501	1 529
Net current assets	236	340	428	Provisions, long-term debt	11	59	76
Cash and cash equivalents (assets)	419	504	530	Current liabilities	307	493	580
<b>Total</b>	<b>1 805</b>	<b>2 060</b>	<b>2 191</b>	Cash and cash equivalents (liabilities)	12	7	6
				<b>Total</b>	<b>1 805</b>	<b>2 060</b>	<b>2 191</b>

#### CHANGE IN NET POSITION AND ALLOCATION OF INCOME 2008

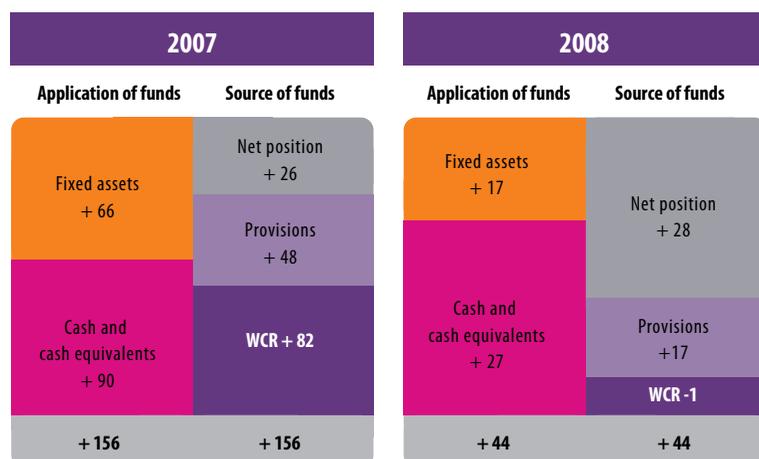
The surplus from CNRS current operations in 2008 (+€106 million) compensates for the €54 million reduction in investment subsidies listed as liabilities (see the change in accounting method for recognizing SCSP); the €4 million reduction in provisions (due to the offsetting of depreciation for provisions for goods received); and accounting adjustments made to retained earnings (€20 million in adjustments to amortization expense in the previous year).

If these restatements are excluded, the 2008 budget outcome made a €28 million net contribution to the CNRS net position.

#### Allocation of 2008 income



## Changes in applications and sources of funds



The change in the net position supplemented by provisions (€28 million, +€17 million) made it possible to finance:

- the €17 million increase in net fixed assets (versus €66 million in 2007). Note however that the 2007 increase in net fixed assets was mainly due to the €48 million recognition of patent assets on December 31, 2007. Excluding this exceptional measure, the 2008 increase is equivalent to that of the previous year.
- the increase in cash and cash equivalents, continuing the trend of recent years albeit at a slower pace (€27 million in 2008, €90 million in 2007, €51 million in 2006, and €120 million in 2005). The increase is notably due to funds from ATR to be distributed to various partners.

Working capital requirements varied only slightly between December 31, 2007 and December 31, 2008.

### 4.2.1 FIXED ASSETS

Gross assets (excluding long-term investments) totaled €3,576 million in 2008 compared to €3,489 in 2007, an €87 million increase. The net value of fixed assets totaled €1,208 million in 2008 versus €1,195 in 2007, a €13 million increase. This increase is due to:

- gross investments for the year, including €219 million (€236 million in 2007) for long-term fixed assets and €18 million for intangible assets (€18 million in 2007)

- minus amortization expense for the year (€196 million), adjustments to amortization prior to 2008 (€20 million), the elimination of items not fully amortized (€6 million), and a reclassification to an expense account (€2 million).

Total investments were lower than in 2007 (€237 million versus €254 million in 2007) due to a reduction in real estate construction (€37 million in flows in 2007 versus €24 million in 2008). On the other

hand, investments to modernize equipment (notably tools and equipment) were comparable to 2007 (see below).

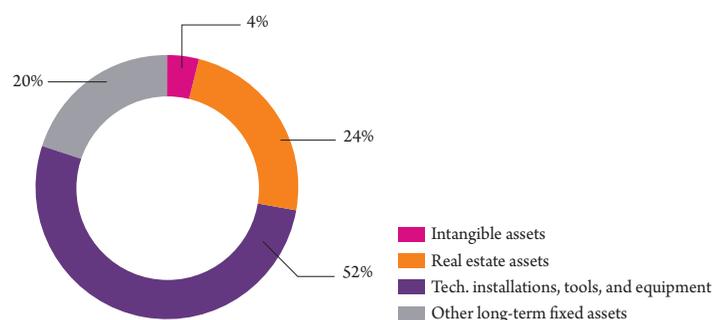
Note that a relatively large amount (€111 million) of amortized equipment was scrapped as part of operations to improve the reliability of the organization's assets.

#### 4.2.1.1 Breakdown of assets by type

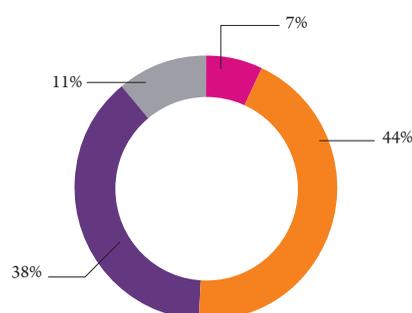
The breakdown of assets by type is the same as in 2007. Technical installations, tools, and equipment make up over half of gross assets, and real estate assets represent one quarter.

Real estate has a very high proportion (44%) in net terms, owing to its long depreciation period (50 years).

#### Analysis of gross fixed assets on December 31, 2008



#### Analysis of net fixed assets on December 31, 2008



### 4.2.1.2 Asset renewal rate

The slight improvement in the asset obsolescence and renewal rates is due to the priority CNRS gives to modernizing its scientific equipment.

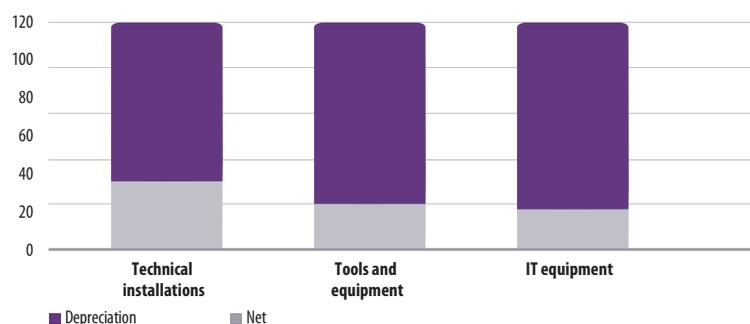
As in 2007, investment flows for 2008 were greater than annual amortization

expenses (€237 million invested in 2008 compared to €196 million in annual amortization expenses). This is notably the case for technical and IT equipment. For real estate holdings, however, 2008 investment flows are below 2007 levels

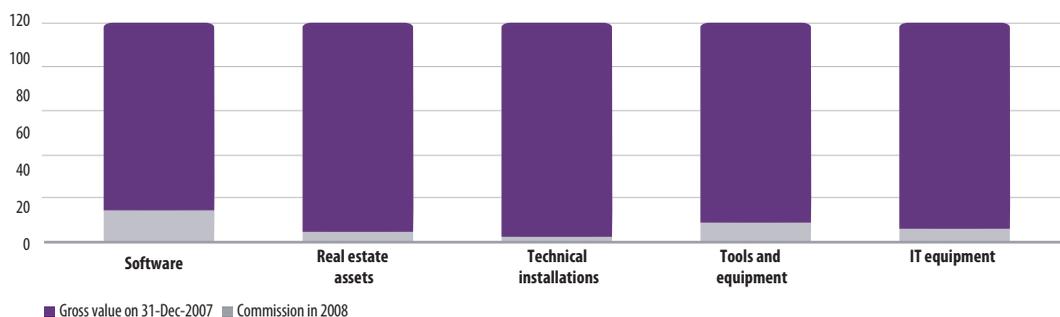
(€37 million in ongoing construction in 2007 versus €24 million in 2008).

However, the investment has little impact on total assets held on December 31, 2008.

#### Obsolescence rate of major industrial research assets



#### Asset renewal rate



### 4.2.2 CURRENT ASSETS

	2006	2007	2006	Variation 2007/2008	
				2007	2008
Advances and prepayments with orders	ns	2	13	11	550%
Accounts payable (gross)	103	162	150	-12	-7%
Depreciation	0	8	3	-5	-63%
Accounts receivable (net)	103	154	147	-7	-5%
Other receivables	132	178	265	87	+49%
Trade receivables	235	332	412	80	+24%
Cash assets and securities	419	504	531	27	+5%
Prepaid expenses	0	1	1	0	-
<b>Current assets</b>	<b>655</b>	<b>841</b>	<b>957</b>	<b>116</b>	<b>+14%</b>

(in millions of euros)

CNRS current assets totaled €957 million on December 31, 2008. The two main items were trade receivables (43%) and cash assets and securities (55%).

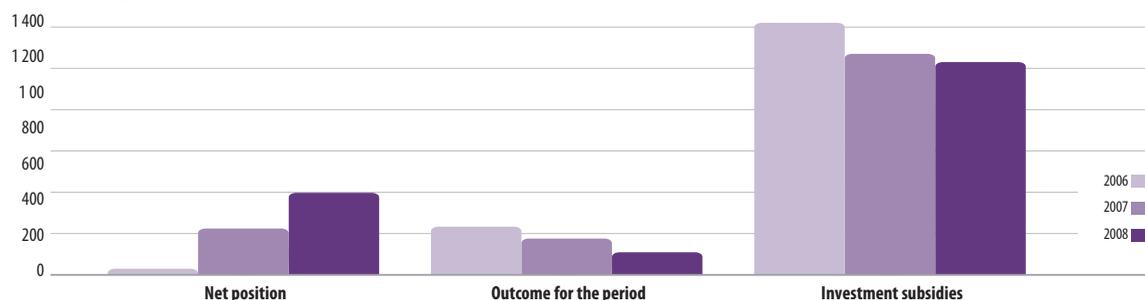
The increase in trade receivables is mainly due to the recognition in 2008 of both a €74 million VAT credit and €184 million in accrued income. Together they represent a 142% increase over 2007. See Note 9 for an analysis of trade receivables.

Cash and cash equivalents continued to increase (+5%), specifically due to the December payment dates for ANR funds (see Note 11, Cash and cash equivalents).

## 4.2.3 LIABILITIES

### 4.2.3.1 Long-term liabilities

#### Change in long-term liabilities



Long-term liabilities increased by 2% in 2008 (+€30 million). This is mainly attributable to the €160 million improvement

in the net position compared to 2007, due to the increase in retained earnings (see Note 12).

The €106 million surplus for 2008 also helped improve the net position, even though the surplus is less than in 2007.

### 4.2.3.2 Current liabilities

	2006	2007	2008
Provisions for liabilities and charges	0	48	64
Advances and prepayments received on orders	0	144	231
Research contracts	101	98	240
Amounts payable to partners	29	59	227
Prepaid income	72	39	13
<b>Accruals</b>	<b>143</b>	<b>130</b>	<b>69</b>
Ongoing operations	46	84	40
Mandates and payment orders paid outside France	42		
Social agencies-tax liabilities-ongoing payments		72	30
Pending revenue	4	12	10
Long-term debt	11	11	18
Other	17	41	
<b>Total</b>	<b>318</b>	<b>556</b>	<b>662</b>

(in millions of euros)

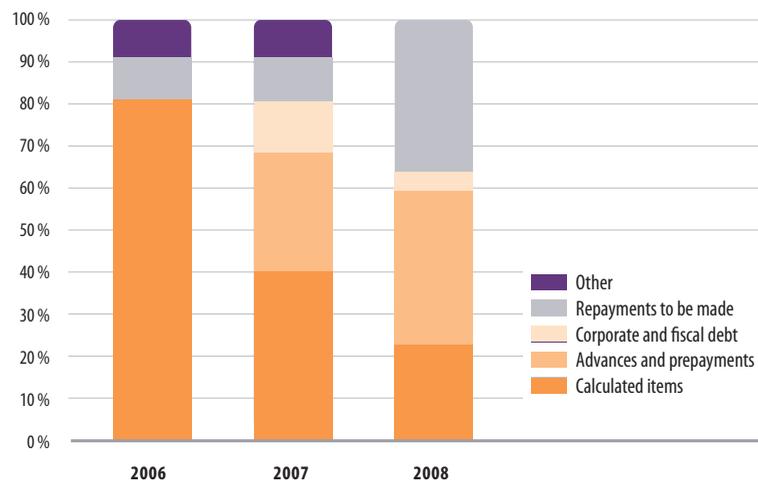
Principal components of current liabilities include:

- advances and prepayments received on outstanding orders (36%)
- transfers to be distributed to partners with research contracts within the European Union or ANR (36%)
- calculated items: provisions, expenses payable, and prepaid income (23%)
- tax liabilities (5%)

The 19% increase in current liabilities is essentially due to an increase in the amounts to be paid to partners (+€169 million, mostly ANR payments to both CNRS and external partners), combined with reductions in payroll liabilities (-€71 million) and expenses payable (-€62 million) (see Note 10, Operating debts).

Provisions for liabilities and charges also increased in 2008 (see Note 13, Provisions)

#### Current liabilities



## 4.3

### FINANCIAL EQUILIBRIUM

#### 4.3.1 FUNCTIONAL BALANCE SHEET

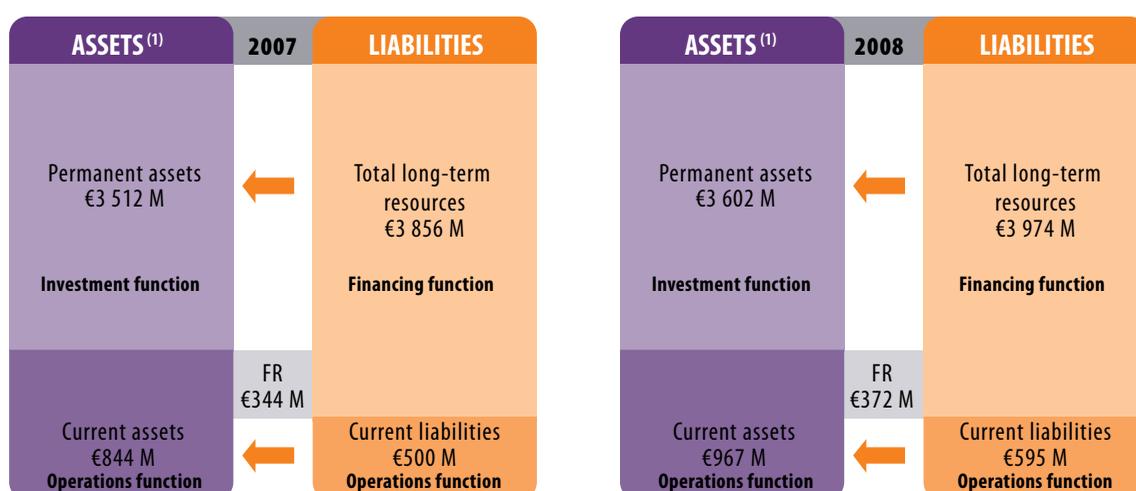
The functional balance sheet classifies assets (expenditures) and liabilities (resources) according to their related functions:

- investments and financing: long-term items
- operating cycle: current items

It allows to identify working capital, which represents the portion of current assets financed by stable resources.

	2007	2008
Net working capital requirements (operating and non-operating)	- 153	- 152
Net cash	+ 497	+ 524
<b>Working capital</b>	<b>344</b>	<b>372</b>

(in millions of euros)



(1) Gross values (excluding amortization and provisions).

#### 4.3.2 STATEMENT OF SOURCE AND APPLICATION OF FUNDS

The statement of source and application of funds lists the source of the funds available during 2008 on one side, and how they were used on the other side.

Application of funds	2008	Source of funds	2008
Acquisition of fixed assets	241	Cash from operations	212
Reduction of capital	0	Disposal or reduction of fixed assets	10
Repayment of long-term debt		Capital increase	46
		Increase in long-term debt	1
<b>Total funds applied</b>	<b>241</b>	<b>Total funds generated</b>	<b>269</b>
		Overall net change in working capital	-28
		<b>Total</b>	<b>241</b>

Pursuant to the recognition of SCSP in the income statement, the CNRS cash flow from operations (CFFO) is gradually approaching its meaningful value. In 2008,

acquisitions of fixed assets were financed mainly by CFFO (85%), as well as by investment subsidies received (15%).

### 4.3.3 CASH FLOW STATEMENT

While the statement of source and application of funds describes the financial flows of a given period, the cash flow statement only gives cash inflows and outflows for the period.

	2008	
Net result	106	
Elimination of revenue and expenditures with no impact on cash or not related to operating activities	108	
Cash from operations	214	
Change in working capital requirements related to operating activities	4	
Net cash flow from operating activities		218
Acquisitions of fixed assets	-238	
Investment revenue	47	
Net cash flow from investing activities		-191
Net cash flow from financing activities	0	0
Increase/decrease in cash and cash equivalents		27
Cash and cash equivalents at beginning of year	497	
Cash and cash equivalents at end of year	524	
<b>Balance</b>	<b>27</b>	

(in millions of euros)

The positive cash flow (+€218 million) generated by ongoing activities both covered investment requirements (-€191 million) and increased cash and cash equivalents by €27 million.

# 5 Improving the reliability of financial statements

In 2008, for the first time the organization submitted consolidated financial statements for CNRS to statutory auditors for certification. Extensive work was carried out by the service offices and the organization's Accounting Office in order to improve risk management, perfect reporting on the financial situation and the asset base, and implement more effective controls. This was done in preparation for the statutory auditors' certification, and in accordance with its commitments in the Protocole de modernisation de sa gestion administrative, financière et comptable endorsed in February 2005 by the Director General, the CNRS Financial Controller and the Chief Accounting Officer.

## 5.1

### CONSOLIDATION AND AUDITING OF FINANCIAL STATEMENTS

#### 5.1.1 CONSOLIDATION

Article 136 of the law of August 1, 2003 (the Financial Security Law) stipulates that French public entities "[...] should they control one or more corporate entities and have significant influence [...] shall prepare [...] and publish consolidated financial statements as well as a report on the group's management". This is not required, however, when the

group (the organization and its affiliates) does not meet more than two of the following three minimal criteria over two successive years: an average of 250 permanent employees, sales of €30,000,000 ex-VAT, and a balance sheet total of €15,000,000.

Until 2007, consolidated financial statements were not necessary as CNRS affilia-

tes and comparable entities had only a marginal effect both in the balance sheet and in its results (4%). Following completion of the first phases of work on the SOLEIL synchrotron as well as their gradual introduction in 2008, the organization had to revise this policy and present consolidated financial statements.

#### ENTITIES CONTROLLED BY CNRS

The list of entities CNRS controls as defined by accounting standards (exclusive control, joint control, and significant influence) is provided in the appendix (Note 8, Long-term investments)

#### SCOPE OF CONSOLIDATION 2008

Due to the very limited financial impact of certain units, the CNRS scope of consolidation for 2008 includes only those units where CNRS has over 50% of voting rights, i.e. only those under its exclusive control: CNRS Editions, FIST SA, INIST Diffusion, and SOLEIL.

Note: As this is the first year the new reporting method is applied, neither the 2008 consolidated financial statements nor the consolidated management report will be presented before the second half of 2009.

#### 5.1.2 AUDITING OF FINANCIAL STATEMENTS

In accordance with the provisions of article 135 of the aforementioned Financial Security Law, public entities are required to appoint two statutory auditors and two deputies when drawing up consolidated financial statements. Such was the case for CNRS in 2008.

In September 2007 CNRS launched the procedure for selecting the statu-

tory auditors. Following the Board of Directors meeting on March 27 2008, the organization wrote to the Ministry of the Economy and proposed to appoint PricewaterhouseCoopers and Ernst & Young. The nomination was approved on July 22, 2008.

Following their notification on September 12 and 15 2008, the statutory

auditors reached an agreement with the Director General whereby their audit would cover the opening balance sheet (at December 31, 2007) and the 2008 financial year until the end of the first half of 2009. Therefore they will not issue their opinion on the 2008 financial statements (of CNRS and the CNRS group) until the Board of Directors meeting on June 25, 2009.

### 5.2.1 THE AUDIT COMMITTEE AND THE INTERNAL AUDIT OFFICE

The Internal Audit Office (DAI), created in July 2007 and reporting to the Director General, is now fully opera-

tional. Its annual audit plan is approved by the Audit Committee, chosen from the CNRS Board of Directors. The DAI

carried out eight missions in 2008, including an analysis of the payroll process.

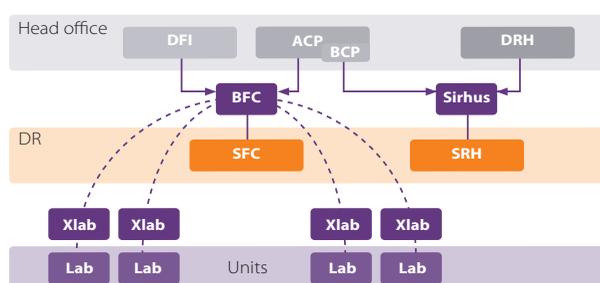
### 5.2.2 RISK MAPPING

In 2006 CNRS initiated a program to identify its major risks. This project, involving both researchers and administrators, iden-

tified 31 major risks (15 strategic risks, 12 operational risks, and 4 damage risks).

### 5.3.1 ORGANIZATION OF THE CNRS FINANCIAL AND ACCOUNTING INFORMATION SYSTEM

#### Main IT applications providing financial and accounting information



Since January 2007, CNRS has benefited from two new management applications, BFC and SIRHUS, which are both based on SAP enterprise resource planning packages. SIRHUS provides human resource management, while BFC manages the budgetary, financial, and accounting issues. BFC has an interface with the **Xlab** application for managing research units.

### 5.3.2 REVIEW OF THE BFC INFORMATION SYSTEM

In preparation for the audit of its financial statements, in 2008 CNRS requested that Deloitte, an independent auditing firm, evaluate its BFC application. The firm's July 2008 report indicates that both the

system and the audit environment implemented provide "[...] a reasonable level of assurance concerning the validity of the financial statements [...]".

### 5.3.3 ONGOING EFFORTS TO IMPROVE THE RELIABILITY OF FINANCIAL INFORMATION

In 2008 CNRS pursued its efforts to provide a more reliable balance sheet and income statement. Work mainly focused

on the valuation of fixed assets and on tracking research contracts.

#### INVENTORY OF FIXED ASSETS

For materials and equipment, the operations carried out in 2008 only focused on assets worth more than €10,000. The goal was to verify the physical presence of these assets in the laboratories. Assets which could not be located or which had been

destroyed were removed from the balance sheet.

For buildings, the inventory was part of a more global project to improve the reliability of real estate listed in the Tableau Général des Propriétés de l'Etat initiated in 2006 by the Ministry of the Budget, Public

Accounts, and Public Service.

To that end, a list of all assets used by CNRS (state property, buildings leased or occupied at no cost, etc.) was sent to France Domane in July 2007. These assets are currently being evaluated by France Domane.

### USING THE PROGRESS METHOD TO RECOGNIZE CONTRACTS

In order to ensure the quality of the financial and accounting information, CNRS has improved the reliability of contracts recognized using the progress method in the BFC information system.

### CORRECTION OF BFC –XLAB DISCREPANCIES

The fact that the BFC and Xlab applications are interfaced resulted in the generation of significant discrepancies when rolling out BFC.

During 2008 teams identified the causes of the principal differences and determined the transactions involved. These concern three main categories:

- most problems were corrected via upgrades or bug fixes in the BFC application

In 2008 extensive work was carried out in collaboration with all the Secondary Accounting Officers to identify and verify these contracts. Furthermore, two additional types of analysis were implemented in BFC at year end in order to set up periodic checks in 2009 on the coherence of such contracts and

- synchronization issues due to improper management led to the publication of “best practices”
- discrepancies resulting from different business rules between BFC and Xlab were gradually addressed in expenditure flows

To compensate for these inconsistencies, the financial and accounting services in the regional offices were requested to periodically monitor errors by using reports pro-

vided on the BFC portal, and to diagnose and follow up these errors. For the cases that were more difficult to detect, regional offices were asked to use lists drawn up selectively by the BFC project team and to periodically check the Xlab database against unit credit usage reports (ECCU) by using a tool for comparing Xlab and BFC reports.

vided on the BFC portal, and to diagnose and follow up these errors. For the cases that were more difficult to detect, regional offices were asked to use lists drawn up selectively by the BFC project team and to periodically check the Xlab database against unit credit usage reports (ECCU) by using a tool for comparing Xlab and BFC reports.

## 5.4 INTERNAL ACCOUNTING AND FINANCIAL AUDIT PROCEDURE

To prepare for certification by statutory auditors, CNRS accounting services have worked closely with other service offices

since 2006 to perform an in-depth review of the various audit procedures used within the organization.

### A TRADITIONAL APPROACH FOCUSED ON COMPLIANCE WITH BUDGET AUTHORIZATIONS AND CASH FLOWS

CNRS is a public entity subject to public accounting rules. These rules are based on the principle of separating the “fiscal officer/public accountant” function from the accountant’s personal and financial responsibility. They provide a solid base for ensuring the quality of the information provided in the Financial account. The rules systematically involve two parties: the fiscal officer who initiates and authorizes financial

operations, and the public accountant who checks them systematically before entering them in the accounts. This method is all the more effective as any negligence by the public accountant is sanctioned by the Cour des comptes and may lead to personal financial consequences for the accountant.

This setup is well-suited for managing the budget, a major financial concern for

all public entities. It ensures compliance with the budget approved by the Board of Directors and maintains the entities’ financial equilibrium.

It was necessary to revise this traditional approach, however, to take into account new accounting requirements.

### A NEW APPROACH INTENDED TO ENSURE THE QUALITY OF FINANCIAL AND ACCOUNTING INFORMATION

In just a few years, CNRS has had to modify its accounting organization in order to comply simultaneously with requirements set forth in the organic law concerning finance laws (LOLF) dated August 1, 2001; with the decree of February 22, 2002 instituting a new budgetary and accounting framework (NCBC) for Public Scientific and Technological Institutions; and with the Financial Security Law of August 1, 2003 calling for the consolidation and auditing of public entities’ financial statements (see above, section 1. The regulatory framework).

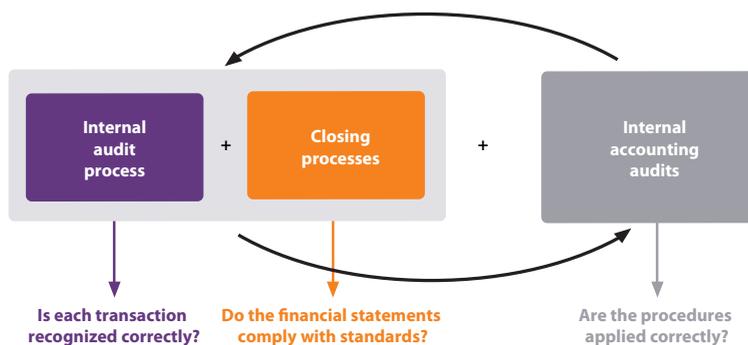
functional domains (revenue, accounting, third parties, etc.).

This system was designed to increase the reliability of all procedures involved in preparing accounting and financial statements. The procedures were defined and tested in 2007; they were progressi-

vely deployed throughout the accounting process starting in 2008.

The selected approach is based on three indissociable components: internal accounting control, the end-of-period review process, and the standardization of internal audits.

### The three components of accounting quality



To comply with these new regulations designed to improve transparency of public entities, CNRS had to move beyond a system of a priori controls. The first step was to focus on expenses. In 2005 the organization launched the Justified and optimized spending control program (CMOD); it was gradually extended to all

## 5.4.1 THE INTERNAL ACCOUNTING AND FINANCIAL AUDIT PROCESS

**THE INTERNAL AND FINANCIAL AUDIT PROCESS (CICF)**, unlike other types of audits carried out at CNRS, focuses exclusively on the quality of the Financial account presented by the Chief Accounting Officer. For this reason, it covers all the processes used—within research units, regional offices, and at CNRS headquarters—in order to provide the Chief Accounting Officer (and the regional Secondary Accounting Officers) with a

reasonable level of assurance that:

- all income received during a given period is recognized
- only operations authorized by the budget or by CNRS Management are recognized
- financial statements provide a sincere, accurate image of the budget execution, the results (budget outcome and accounting income), and the organization's financial situation and asset base.

At the national level, the CICF is defined and implemented by all the office managers, in collaboration with the audit managers. In concrete terms, the CNRS CICF stands on two pillars: the internal accounting and financial audit table and the functional task descriptions.

### THE INTERNAL ACCOUNTING AND FINANCIAL AUDIT TABLE

Schematically, the internal accounting and financial audit table is a list for identifying (and putting into perspective) the main sources of risks, and then identifying (and

evaluating) procedures set up to minimize those risks. Thus the internal audit table allows to ensure that all the administrative events processed

by the information system (Xlab, BFC, SIRHUS, etc.) meet the defined “general securitization objectives”.

#### GENERAL SECURITIZATION OBJECTIVES

These objectives are designed to ensure that operations which affect accounting are all:

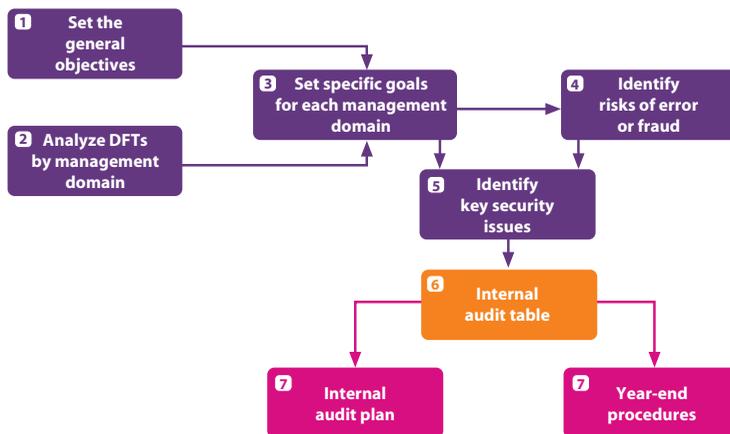
- recorded in correctly opened credits and comply with the CNRS statutes
- duly authorized by the competent hierarchical authority
- analyzed and recognized in the correct accounts (for the budget, cost accounting, and regular accounting), with the correct amount and in the correct period
- correctly evaluated for operations requiring calculations (such as depreciation)
- consistent with other data in the information system (e.g. sales history or results)
- correctly recognized in the Financial account, and more specifically in the balance sheet, which requires an analysis of the conditions for keeping, maintaining, and taking inventory of assets

The internal audit table is applied to all functional domains (payroll, fixed assets,

contracts, etc.). It improves the quality of all accounting procedures and thus results

in more reliable information in the financial statements.

#### Method for designing the internal audit table



① General securitization objectives for ② analyzing management operations (authorization, recording, saving of assets, etc.) are defined in each Functional Task Description (DFT) in order to ③ set specific goals for each management domain.

④ Risks of error and fraud are identified for each specific goal.

⑤ Key security issues are defined as well as the internal procedures for reaching each specific goal, and for hedging against identified risks.

⑥ The internal audit table identifies the main risks and key security issues for each management domain.

The internal audit plan and year-end procedures ⑦ are defined according to the internal audit table.

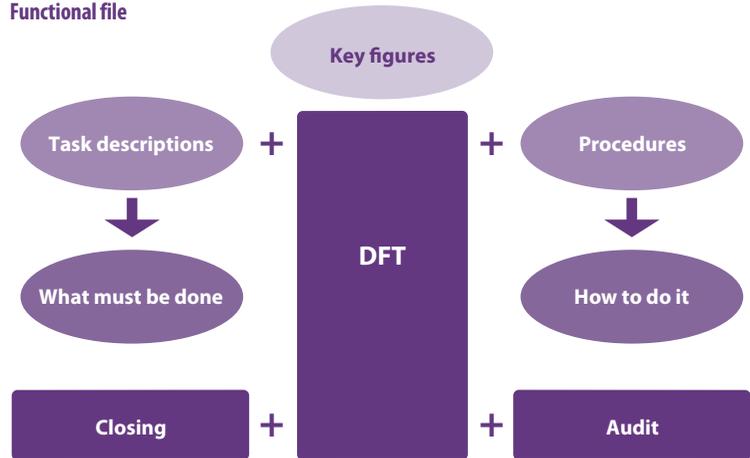
### FUNCTIONAL TASK DESCRIPTION (DFT)

A DFT is prepared for each functional domain: payroll, CNRS contracts and revenue, fixed assets, research travel, other purchases, accounts payable/accounts receivable, cash and cash equivalents, accounting, etc. The purpose

of the DFT is to specify the role of each party (administrators, fiscal officers, and accountants) and to list the control points used to secure the workflows. Task descriptions (what must be done) and procedures (how to do it) are defined

for each DFT as required. These documents are assembled in a functional file providing the reference documentation for accounting services.

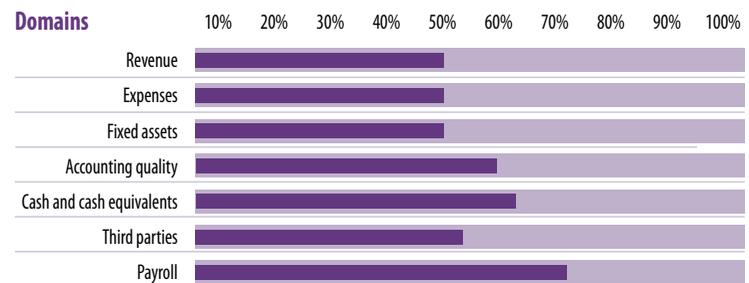
#### Functional file



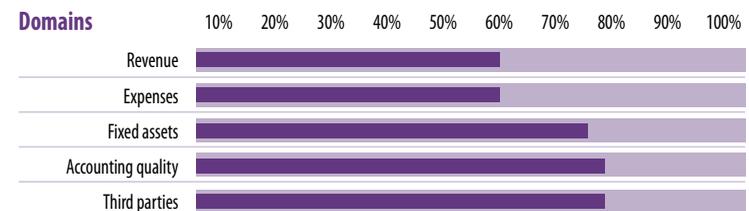
DFTs and their related technical documents are then adapted at the local level by the Secondary Accounting Officers, who are responsible for preparing a func-

tional organization chart and related job descriptions, and for submitting them to the Chief Accounting Officer (ACP).

#### Progress report on work by the main Accounting Office in order to design and formally define DFTs



#### Progress report on work by the services involved (head office and regional offices) in order to design and formally define DFTs



## 5.4.2 THE END-OF-PERIOD REVIEW PROCESS

An in-depth internal audit is vital for ensuring quality financial reporting, however it must be accompanied by an end-of-period review process.

This procedure is applied both at year end and for quarterly closings (including monthly closings for certain reconciliation procedures). The procedure is organized identically for all periods. It involves both taking inventory and performing an account review procedure.

- Inventories allow to recognize all income (and expenses) incurred during a given period which has not yet been

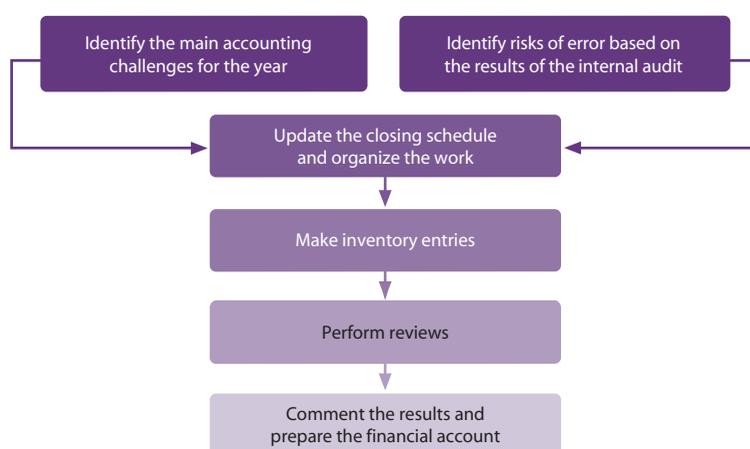
included in the accounts. This involves allocating income and expenses to the appropriate accounts (notably for CNRS-generated resources recognized using the progress method), closing out amortization expenses and provisions, reviewing investment subsidies, etc.

- The account review procedure first involves reviewing the major changes occurring over the period, analyzing the most important transactions (provisional allocations, investments, research contracts), and making any necessary adjustments. Once this task has been completed, external confirmation must

be obtained for certain account balances (mainly through circularization<sup>2</sup>) and the analysis of replies.

<sup>2</sup>. Technique whereby third parties working with CNRS are requested to confirm the organization's account balances. This usually concerns third parties whose accounts contain information that should in theory be consistent with CNRS data (accounts receivable, accounts payable, social agencies, public funding organizations). This technique also applies to third parties which, through their dealings with CNRS, may have information useful for anticipating future events: attorneys for disputes, intellectual property rights firms for patent disputes, or partners helping finance medium- and long-term investments in expensive research equipment, e.g. to finance the dismantlement of equipment hazardous to the environment.

### Main steps in the closing process



## 5.4.3 ACCOUNTING AND FINANCIAL AUDITS

The objective of accounting and financial audits is to ensure that the risk control methods identified in the func-

tional files and DFTs are carried out correctly.

### MANAGEMENT OF FINANCIAL AND ACCOUNTING AUDITS BY THE CHIEF ACCOUNTING OFFICER

Public accounting rules require that public accountants prepare the financial statements of public entities. The public accountants must “ensure compliance with accounting principles and rules. They notably ensure the quality of accounting entries and compliance with procedures” (article 31 of the LOLF). Moreover, they are “[...] personally and financially responsible [...] for the verifications they are required to perform [...]” (see article 60 of the Financial law of February 23, 1963).

Under these circumstances, it is essential for

the Chief Accounting Officer to also carry out audits in order to ensure a posteriori that regulations applicable to CNRS—as well as all of the organization's measures with a potential financial impact—have been applied correctly.

It appears that the CNRS Chief Accounting Officer's application of these audits is a direct result of the gradual discontinuation of an a priori, systemic verification of the accounting documents “to be handled” in accounting.

Audits must not interfere with missions carried out by the Internal Audit Office at the Director General's request. However, in order to optimize efficiency and administration, the Internal Audit Office and the Chief Accounting Office have agreed, under the auspices of the Audit Committee, to exchange their audit plans and consult with one another before scheduling their audits<sup>3</sup>.

<sup>3</sup>. A similar consultation was agreed with the Finance Office for audits it wishes to launch as part of internal verification of purchases by the units.

## AUDITS PERFORMED BY THE CHIEF ACCOUNTING OFFICE

CNRS carries out three major types of audits: general audits concerning all financial and accounting data focusing on the Financial and Accounting Offices (SFCs) in the Regional Office as well as the research or administrative units; specific payroll audits; and those concerning European contracts.

### General audits

General audits are designed to ensure the quality of all financial and accounting data produced by CNRS. They are carried out every quarter, using a methodology and audit plan defined by the Chief Accounting Officer. These audits are performed by the Chief Accounting Officer's representatives in the case of SFCs, or by Secondary Accounting Officers (ACS) for laboratories or administrative units.

In 2008, seven of the nineteen SFCs were audited by the Chief Accounting Officer (Brittany and Pays de la Loire, Nord Pas de Calais and Picardy, Ile de France Ouest et Nord, Côte d'Azur, Midi Pyrénées, Alpes, and Paris B), and three were audited jointly

with the Internal Audit Office (Midi Pyrénées, Alpes, and Paris B).

At the regional level, Secondary Accounting Officers audited 283 units (representing over 42% of all CNRS finances). All these audits required more than 1100 man-days.

### Audits by the Central Payroll Office

The Chief Accounting Officer organizes the payroll processing performed by the Central Payroll Office. This organization makes the Human Resource Office in the regional offices responsible for the entry of administrative events and for the safekeeping of related accounting documents. In order to avoid "paper" transmissions and to rationalize audit procedures, the Chief Accounting Officer—in accordance with the Director of Human Resources—organizes yearly a posteriori verifications concerning the reliability of the data it receives from the nineteen regional offices. Central Payroll Office auditors of the Chief Accounting Officer have carried out ten audits since July 1, 2008 (covering 60% of total payroll).

### Audits performed on European contracts

The adoption of the European Community's 7th Framework Program for Technological Research and Development (FP7) resulted in the publication of official notices and reminders by the European Commission concerning the principles to apply. These rules specifically stipulate that the accounting officers in public entities must be independent and have the necessary skills to perform the financial audits demanded by European regulations.

The Secondary Accounting Officers in the regions operate under the authority of the Chief Accounting Officer, who monitors the quality of the work carried out locally. The officers in the regions must certify for the European Commission all the Financial reports (form C, etc.) justifying the work carried out by researchers, as well as all related financing.

## 5.5

### ORGANIZATION OF THE ACCOUNTING OFFICES

In order to provide complete and consistent financial reporting, CNRS accounting is organized using a matrix management system.

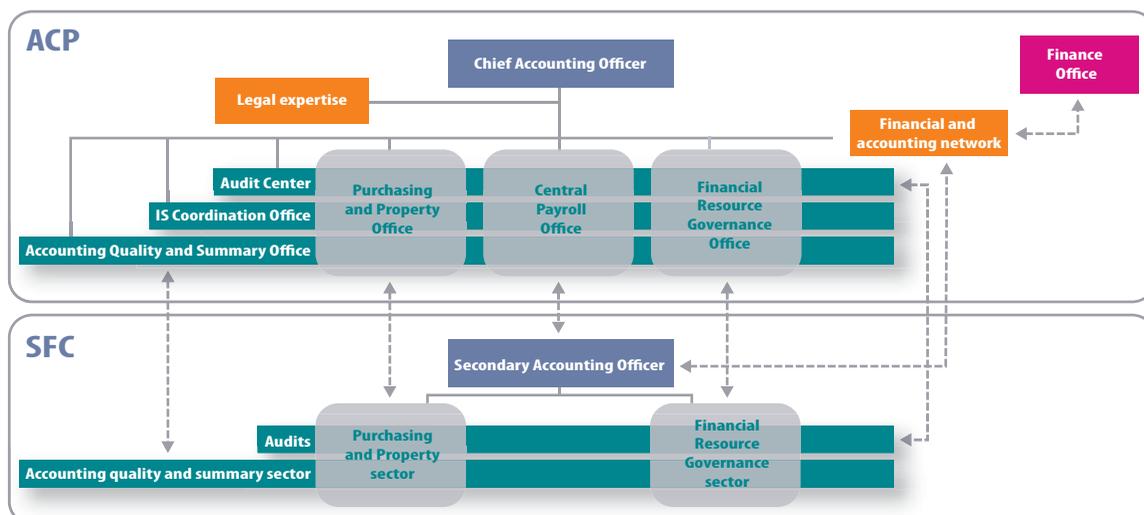
The organization chart of the main Accounting Office includes three functional offices—the Central Payroll Office (BCP), the Purchasing and Property Office (BAP), and the Financial Resource Governance Office (BPRF), and three cross-functio-

nal offices—the Audit Center (PA), the Information System Coordination Office (BCSI), and the Accounting Quality and Summary Office (BSQC).

Furthermore, in order to enable central and regional entities to work in a complementary and coordinated manner, each office manager has a correspondent within each regional Financial and Accounting Office (SFC).

The organization charts of the SFCs are aligned with that of the Chief Accounting Officer in order to encourage networked operations, improve the quality of work, and facilitate change management.

#### New organization chart of CNRS accounting services



# 6 Annual financial statements

## SUMMARY REPORTS

## 6.1

### 6.1.1 INCOME STATEMENT

	Notes to the accounts	2006	2007	2008
Operating subsidies		2 288	2 395	2 432
Business income		277	298	343
Other revenue		111	118	53
Reversal of provisions and depreciation allowances		0	5	15
Operating revenue	Note 1	2 676	2 816	2 843
Purchase of goods	Note 3	177	176	151
Purchase of external services	Note 3	280	280	255
Taxes and related payments	Note 2	2	2	2
Personnel costs	Note 2	1 820	1 968	2 073
Specific expenses	Note 3	147	142	135
Other current operating expenses		22	4	7
Amortization expense		145	182	196
Estimated expenses and depreciation			7	26
Operating expenses		2 593	2 761	2 846
<b>Operating result</b>		<b>83</b>	<b>55</b>	<b>-3</b>
Interest income		2	5	7
Financial expenses		0	0	1
<b>Financial result</b>	Note 4	<b>2</b>	<b>5</b>	<b>6</b>
Extraordinary revenue from normal operations		5	2	1
Revenue from disposal of assets		3	2	3
Revenue from the offsetting of depreciation allowances		5	5	5
Investment subsidies recognized as income		189	119	100
Reversal of provisions and depreciation allowances		0	0	0
Extraordinary revenue		202	128	109
Extraordinary expenses		56	4	6
<b>Extraordinary profit</b>	Note 5	<b>146</b>	<b>124</b>	<b>103</b>
<b>Profit</b>		<b>231</b>	<b>184</b>	<b>106</b>

(in millions of euros)

Internal invoicing has been offset in the income statement.

## 6.1.2 BALANCE SHEET

ASSETS	Notes to the accounts	2006	2007	2008
Intangible assets	Note 6	23	78	86
Long-term fixed assets	Note 7	1 116	1 118	1 122
Long-term investments	Note 8	11	20	25
<b>Net fixed assets</b>		<b>1 150</b>	<b>1 216</b>	<b>1 233</b>
Inventory		1	1	1
Advances and payments with orders		ns	2	13
Accounts payable (gross)	Note 9	103	162	150
Depreciation		0	8	3
Accounts receivable (net)		103	154	147
Other receivables	Note 9	132	178	265
Trade receivables		235	332	412
Cash assets and securities	Note 11	419	504	531
Prepaid expenses		0	1	1
<b>Current assets</b>		<b>655</b>	<b>841</b>	<b>957</b>
<b>Grand total</b>		<b>1 805</b>	<b>2 057</b>	<b>2 191</b>

(in millions of euros)

LIABILITIES	Notes to the accounts	2006	2007	2008
Net position		17	233	393
Equipment subsidies		1 227	1 084	1 030
Accounting income for 2008		231	184	106
<b>Invested capital</b>	<b>Note 12</b>	<b>1 475</b>	<b>1 501</b>	<b>1 529</b>
Provisions for liabilities and charges		0	48	64
Long-term debt		23	18	18
Advances and prepayments received on orders		0	144	231
Accounts payable, trade		40	78	48
Social liability		32	107	17
Tax liability		2	28	29
Other liabilities		152	94	241
Operating liabilities	Note 10	226	307	335
Prepaid income		81	39	14
<b>Current liabilities</b>		<b>330</b>	<b>556</b>	<b>662</b>
<b>Grand total</b>		<b>1 805</b>	<b>2 057</b>	<b>2 191</b>

Internal invoicing has been offset in the balance sheet.

(in millions of euros)

### 6.2.1 GENERAL PRINCIPLES

CNRS financial statements are prepared in compliance with instruction no. 05-

030-M9-1 of the General Bureau of Public Finance.

### 6.2.2 ACCOUNTING PRINCIPLES AND METHODS IN EFFECT IN 2008

#### 6.2.2.1 Equity capital and fixed assets

##### EQUITY CAPITAL

Equity capital mainly comprises endowments and investment subsidies received by CNRS since its creation.

As the “assets received as endowments” are not usually renewed as such by the organization, they are treated using the “offsetting” regime (via an annual

adjustment to the endowment for the corresponding amortization expense). Therefore they do not affect the current year’s income.

Since 2006, only subsidies expressly qualified as investments can be included in the income statement. Their amount

is equal to the annual amortization expense of the assets financed in part by these subsidies (see the 2006 financial report, page 4, Impact of the subsidy for public service expenditures).

##### INTANGIBLE ASSETS

As a research organization, CNRS has opted to include on its balance sheet all patents developed internally as assets. Research expenses are treated as expenses for the period. On the other hand, development costs may be recog-

nized as fixed assets when they concern clearly distinctive projects with a serious chance of technical and commercial success and economic viability. Due to the challenge of clearly defining the line between research and develop-

ment, CNRS has chosen to only include as assets those expenses directly related to the initial legal protection of patents.

##### LONG-TERM FIXED ASSETS

Long-term fixed assets are recognized at their historical acquisition cost, excluding financial and administrative expenses. They are depreciated using the linear

method, according to their useful life, and starting at the date of commissioning (pro rata temporis).

##### LONG-TERM INVESTMENTS

Long-term investments are recognized at their historical cost.

#### 6.2.2.2 Provisions

Since 2007, provisions for liabilities and charges have been recognized in accordance with accounting recommendations. A provision is made insofar as there is a legal, contractual, or implicit obligation to a third party at the balance sheet date. The obligation must have a likely outflow of

funds to the third party, and there must be no equivalent counterpart expected after the balance sheet date. In order to make a provision, it must be possible to make a sufficiently reliable estimate of this outflow of funds.

The evaluation of provisions has been updated at each quarterly closing since 2008.

#### 6.2.2.3 Depreciation

CNRS recognizes the likely losses of value in its assets. The type or object of the depreciation must be clearly stated, and it must be evaluated to a sufficient degree of approximation.

Depreciation for customer receivables is evaluated on a case-by-case basis using a risk estimation based on the debtor’s

solvency and whether the receivable is recoverable.

The evaluation of depreciation on receivables has been updated at each quarterly closing since 2008.

The current value (= inventory value) of long-term investments is determined at the closing of each year, and depreciation is

recognized if the current value is less than the book value.

CNRS has not yet defined a methodology for verifying losses on the value of long-term fixed assets and intangible assets.

Depreciation may also be recognized for inventory during the year-end closing.

#### 6.2.2.4 Inventory

Inventory of scientific and technical supplies is recognized using the periodic inventory method. It applies only to

warehouses of four regional offices which supply nearby laboratories. Inventory is evaluated at its weighted average cost

calculated using the cost price (excluding overhead costs and financial expenses).

### 6.2.2.5 Taxes

The tax situation of CNRS is as follows:

#### VALUE ADDED TAX

CNRS has been subject to VAT since 1981. It is under the French “réel normal” tax regime, and is required to make monthly VAT declarations. These are

prepared at the head office, which centralizes all the data from the Financial and Accounting Offices in the regional offices.

In 2008, CNRS was once again able to deduct all its VAT payments for total expenditures covered starting in 2008.

#### INCOME TAX

Article 28 of the Research program law (no.2006-450 dated April 18, 2006) with comments in the Official Tax Bulletin 4H-4-08 no.58 dated May 30, 2008, exempts public research organizations from income tax on revenue from their activities concerning public service missions in

higher education and research, defined in articles L. 123-3 of the Education code and L. 112-1 of the Research code.

Thus operations which are not related to CNRS research activities are now subject to income tax.

CNRS must file its first income tax declaration for the years 2006-2008 before April 30, 2009.

### 6.2.2.6 Revenue

#### SUBSIDY FOR PUBLIC SERVICE EXPENDITURES

Since 2006, the year the Organic law no. 2001-692 dated August 1, 2001 (LOLF) went into effect, CNRS has received a subsidy for public service expenditures (SCSP) from the French government.

This subsidy is the principal financial link between the government and public operators. It covers all the organizations' financial needs, without differentiating those concerning investment from those

concerning operations.

The SCSP is recognized in account 741 “Supervisory ministry – subsidy for public service expenditures”.

#### CNRS-GENERATED RESOURCES

CNRS-generated resources include all funds received by CNRS except for subsidies granted by the supervisory minis-

try. The concept of CNRS-generated resources covers a fairly wide range of situations, from European subsidies to

research contracts with private corporations to research-related agreements with local authorities involved in research.

#### RECOGNITION OF SALES USING THE PROGRESS METHOD

The progress method was used for the first time in 2007 for the closing of September 30, 2007, and its scope has expanded progressively.

Initially the scope of revenue recognized using the progress method was limited to ANR-financed contracts, regardless of the support organization. This only concerned contracts managed in the information system in 2007 (2007 publishing agreements and 2006 agreements which had not been recognized at the 2006 balance sheet date). At the 2007 balance sheet date, the scope was expanded to include all contracts requiring due care, and which were recognized in the information system in 2007.

The scope of revenue recognized using the progress method in 2008 is the same as for 2007. It concerns:

- projects financed by the National Research Agency

- contracts financed by the European Union
- other collaborative contracts with various organizations (corporate entities under both public and private law)
- multi-year operating subsidies paid by third parties (ministries, territorial communities, FEDER funds, etc.) whose execution began in 2007 (subsidies allocated prior to January 1, 2007 are excluded).

Given the difficulty in differentiating “standard” transactions recognized upon invoicing from those transactions recognized using the progress method, and in order to apply the principle of caution, CNRS has opted to recognize revenue at amounts equal to actual costs. Thus the progress method for evaluating sales is based on expenses actually executed and on the invoiced revenue attached to each contract. It excludes expenditures for per-

manent personnel and those financed by funds allocated to contracts).

The amount recognized using the progress method is the difference between real costs and the total amount invoiced since execution began on the contract. Accrued income is recognized at the end of the period when the actual costs are higher than the amount invoiced. Otherwise prepaid income is recognized. These inventory entries are adjusted via reversing entries at the start of the following period.

### 6.2.2.7 Financial investments

CNRS is authorized to make two types of investment:

#### BUDGETARY INVESTMENTS

Funds resulting from surplus of previous years, donations, divestitures, etc. may be invested in government securities, government-backed securities, or treasury notes:

fixed-rate short-term discount treasury bills or fixed rate treasury notes with interest paid annually. These investments are recorded in the budget and capitalized.

#### SHORT-TERM INVESTMENTS

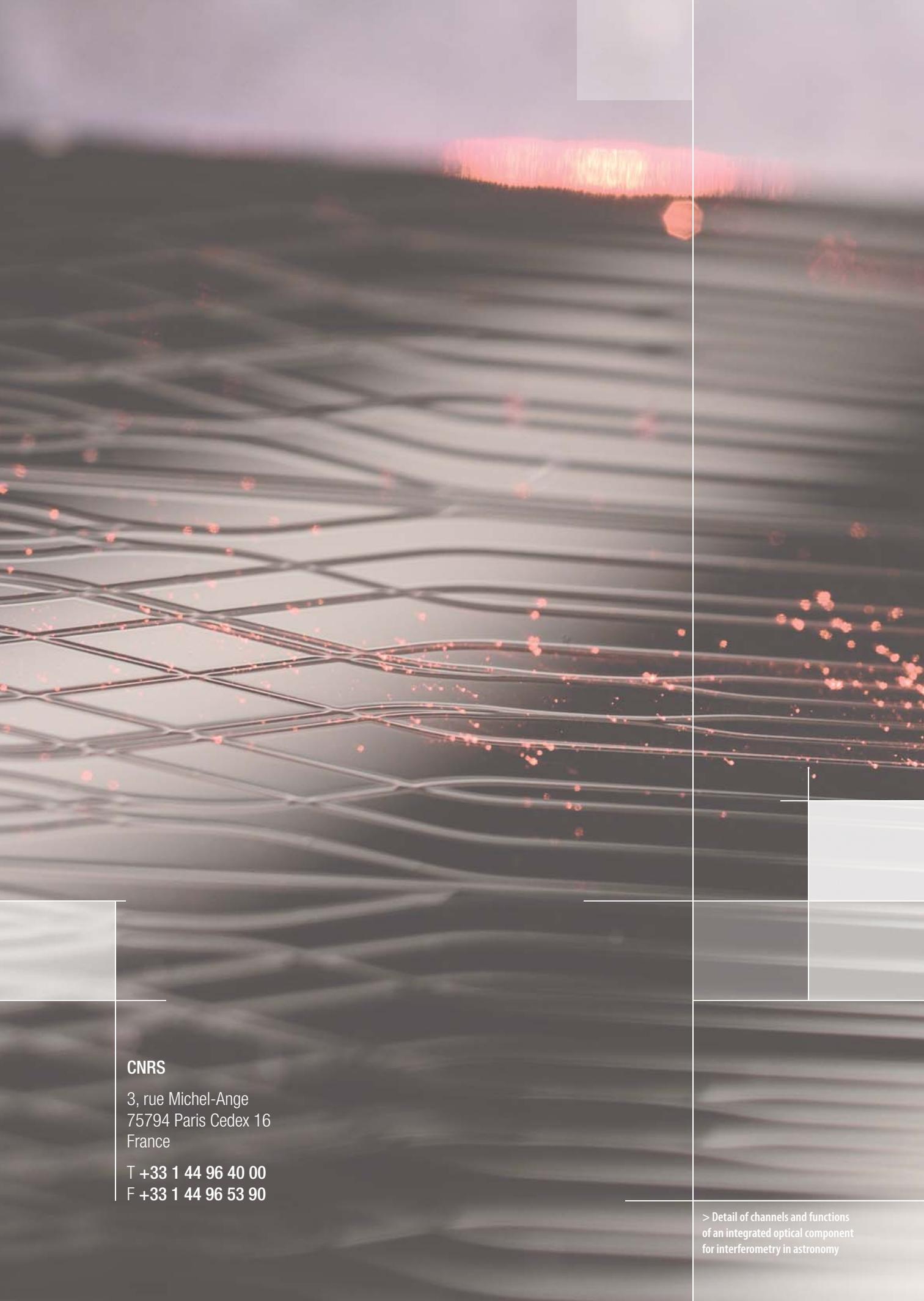
When it has sufficient cash and cash equivalents, CNRS is authorized to make investments in fixed-rate short-term dis-

count treasury bills. In 2002 the CNRS Director General set a ceiling of €130 million for such investments.

A detailed description of data in the income statement and the balance sheet is provided in the following notes to the accounts:

<b>Note 1</b>	Operating revenue
<b>Note 2</b>	Personnel costs and taxes
<b>Note 3</b>	Charges for the period
<b>Note 4</b>	Financial result
<b>Note 5</b>	Extraordinary profit
<b>Note 6</b>	Intangible assets
<b>Note 7</b>	Long-term fixed assets
<b>Note 8</b>	Long-term investments
<b>Note 9</b>	Trade receivables
<b>Note 10</b>	Operating debts and liability accrual accounts
<b>Note 11</b>	Cash and cash equivalents
<b>Note 12</b>	Invested capital
<b>Note 13</b>	Provisions
<b>Note 14</b>	Intergovernmental unit transactions with the state and other public entities
<b>Note 15</b>	Off-balance sheet commitments
<b>Note 16</b>	Other information

These notes may be viewed at the CNRS Web site:  
<http://www.sg.cnrs.fr/acp/chiffres-cles/comptes-2008/default.htm>



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