NORTH ATLANTIC COUNCIL

CONSEIL DE L'ATLANTIQUE NORD

NATO UNCLASSIFIED

10 August 2015

DOCUMENT
C-M(2015)0057-AS1

IBAN REPORT ON THE RESTATED FINANCIAL STATEMENTS OF THE INTERNATIONAL STAFF FOR 2013

ACTION SHEET

On 7 August 2015, under the silence procedure, the Council noted the IBAN report IBA-AR(2014)19 attached to C-M(2015)0057 and agreed the recommendations contained in the RPPB report.

(Signed) Alexander Vershbow
Deputy Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2015)0057.

29 July 2015

DOCUMENT
C-M(2015)0057-COR1

IBAN REPORT ON THE RESTATED FINANCIAL STATEMENTS OF THE INTERNATIONAL STAFF FOR 2013

Note by the Deputy Secretary General

Please note that Annex 1 of the document C-M(2015)0057 is **NATO UNCLASSIFIED**.

(Signed) Alexander Vershbow

Original: English

29 July 2015

DOCUMENT
C-M(2015)0057
Silence Procedure ends:
7 Aug 2015 16:00

IBAN REPORT ON THE RESTATED FINANCIAL STATEMENTS OF THE INTERNATIONAL STAFF FOR 2013

Note by the Deputy Secretary General

1. I attach the International Board of Auditors for NATO (IBAN) report on the audit of the restated financial statements of the International Staff for the year ended 31 December 2013.

2. The IBAN issued a qualified opinion on the 2013 restated financial statements for the International Staff, and an unqualified opinion on compliance with the NATO Financial Regulations and Civilian Personnel Regulations. The qualification is mainly related to non-compliance with the NATO Accounting Framework.

3. Compliance with the NATO Accounting Framework is expected following the implementation of the Enterprise Resource Planning (ERP) system. The first release of the ERP system was introduced in early January 2015; completion of the other releases will likely take up to two more years for full implementation, assuming no major issues. Therefore, despite the improvements noted by the IBAN in the 2013 report, it is probable that the IBAN will also issue a qualified opinion on the 2014 financial statements related to limitations in the former accounting system, including the inventory system and the lack of a fixed asset module.

4. The IBAN report has been reviewed by the Resource Policy and Planning Board (RPPB), which has provided its own report with conclusions and recommendations to Council.

5. I consider that no further discussion regarding this report is required. Consequently, **unless I hear to the contrary by 16:00 hours on Friday, 7 August 2015,** I shall assume that the Council has noted the IBAN report IBA-AR(2014)19 and agreed the recommendations contained in the RPPB report.

(Signed) Alexander Vershbow

Annex 1: RPPB Notice and Action Sheet
Annex 2: IBAN report

2 Annexes
1 Enclosure

Original: English

BLANK PAGE

IBAN REPORT ON THE AUDIT OF THE 2013 RESTATED FINANCIAL STATEMENTS OF THE INTERNATIONAL STAFF

Draft report by the Resource Policy and Planning Board (RPPB)

References: (a) IBA-A(2014)214 & IBA-AR(2014)19
(b) BC-D(2015)0050-FINAL

Background

1. The present report by the Resource Policy and Planning Board (RPPB) contains the RPPB's observations and recommendations concerning the International Board of Auditors for NATO (IBAN) report (reference (a)). The report is based on the full review of the audit report provided by the Budget Committee (BC) (reference (b)).

2. The RPPB notes and agrees with the conclusions and recommendations of the BC as laid out in their report (reference (b)), which form the basis of the Board's discussions.

RPPB Conclusions

3. The IBAN has issued an unqualified opinion on compliance with the NATO Financial Regulations and Civilian Personnel Regulations and a qualified opinion on the 2013 restated financial statements for the International Staff. This is an improvement on the disclaimer of opinion issued by the IBAN on the 2012 financial statements. The current IBAN report lists six observations and seven recommendations mainly related to non-compliance with the NATO Accounting Framework. The International Staff has agreed with all but one of the IBAN recommendations which relates to the allocation of responsibilities when contracting through the NCIA.

4. Compliance with the NATO Accounting Framework is expected following the implementation of the Enterprise Resource Planning (ERP) system. The first release of the ERP system was introduced in early January 2015; completion of the other releases will likely take up to two more years for full implementation, assuming no major issues. Therefore, despite the improvements noted by the IBAN in the 2013 report, it is probable that the IBAN will also issue a qualified opinion on the 2014 financial statements related to limitations in the former accounting system, including the inventory system and the lack of a fixed asset module.

4.1. Following the introduction of the first release of the ERP system, the production of future financial statements should be improved but the full benefits of the ERP system will take time to materialise. Furthermore, it will be some time before staff resources can fully resume normal Office of Financial Control (OFC) activities in support of the more timely publication of the financial statements due to ongoing work related to future releases of the ERP system.

4.2. Implementation of the ERP system does not in itself guarantee compliance with the NATO Accounting Framework. Therefore, the International Staff must continue working towards compliance by improving accounting policies and disclosures and ensuring that staff members working with the ERP system are trained and understand the principles of accrual based accounting. The RPPB notes that the BC has been informed that the staff are receiving the appropriate training and that the International Staff is working towards the adoption of best practices and the standardisation and integration of internal processes that should lead to compliance with the NATO Accounting Framework and address the IBAN findings detailed in the 2013 audit report related to the preparation and publication of the financial statements.

5. To date work is ongoing on the development of an accounting policy for PP&E under the leadership of the Head of Financial Reporting Policy (HFRP) and with the active engagement of the Financial Controller community. The development and implementation of any procedures pertaining to the identification capture and tracking of costs related to PP&E and intangible assets during the financial year should stem from the NATO-wide accounting policy for PP&E.

6. In relation to procurement activities with the NCIA, the current FRPs are under review and will take into consideration the more detailed procurement guideline documents reviewed and considered by the BC. The IS Financial Controller should ensure that the Procurement Manual remains up-to-date and compliant with the revised NATO Financial Regulations once the NFR have been approved by Council. While the IS has agreements with the NCIA on a case-by-case basis, the International Staff may wish to reconsider the benefits having a more structured arrangement in place for procurement activities with the NCIA and other NATO Agencies, where relevant, once the review of the FRP has been concluded.

7. The International Staff has made progress in settling the outstanding observations from prior years' audits with four of the eleven observations settled. It is expected that the remaining seven outstanding observations will be resolved by the end of 2015. The RPPB, with the assistance of the BC, will continue to monitor the resolution of these issues.

8. The International Staff Financial Controller has reviewed the financial statements in accordance with agreed policies and does not have any issues which he wishes to highlight for consideration by the RPPB before it concludes its recommendations to Council. The RPPB concludes that the subject audit report does not contain information which, according to the NATO Policy on Public Disclosure of NATO Information, shall be withheld from public disclosure, and in line with the agreed policy in PO(2015)0052, recommends that Council agree to the public disclosure of the 2013 IS restated financial statements and of the subject IBAN report.

RPPB recommendations

9. The Resource Policy and Planning Board (RPPB) recommends that Council:

(a) note the present report along with IBA-AR(2014)19;

(b) endorse the conclusions outlined in paragraphs 3 through 8;

(c) note that the resource committees intend to continue to monitor the status of outstanding audit observations;

(d) in line with the agreed policy in PO(2015)0052, agree to the public disclosure of the International Staff 2013 restated financial statements and the associated IBAN report (IBA-AR(2014)19).

---000---

IBAN REPORT ON THE RESTATED FINANCIAL STATEMENTS OF THE INTERNATIONAL STAFF FOR 2013

Note by the Deputy Secretary General

On 19 June 2015, under the silence procedure, the RPPB agreed the report to Council (AC-335-N(2015)0050-COR1-REV1).

(Signed) Alexander Vershbow

Note: This Action Sheet should be attached to the subject notice as the top sheet.

Original: English
G:\04a_RPPB\Support\N\2015\0050-COR1-REV1-AS1.docx

Summary Note for Council
by the International Board of Auditors for NATO (Board)
on the audit of the Restated Financial Statements of the International Staff (IS)
for the year ended 31 December 2013

The International Staff (IS) supports the work of the North Atlantic Council and its Committees. The IS staff complement was 1,169 at the end of 2013 and the total budgetary authorisations for 2013 amounted to EUR 222 million including EUR 187 million of new credits authorised for 2013.

The Board issued a qualified opinion on the IS Restated 2013 Financial Statements due to the following reasons:

- The IS did not systematically identify accrued expenses at year-end which affects the balances of Operating Costs, Capital Expenditures; Programmes and Grants as well as Revenue from Non-Exchange Transactions in the Statement of Performance, and Payables and Unearned Revenue in the Statement of Financial Position. Comparative 2012 figures are affected as well. The possible effects of undetected accrual mistakes on the balances of Operating Costs, Capital Expenditures and Programmes and Grants and the related balances of Revenue from Non-Exchange transactions, Payables and Unearned Revenue could be material but are not pervasive to the Restated Financial Statements as a whole.

- The IS did not disclose separately the cash flow from investing activities. The Board estimates that cash flow from investing activities are approximately EUR 6,400,000. The classification error does not affect the net cash flow in 2013 but materially affects the balance of cash flow from operating and investing activities.

- The 2013 Restated Financial Statements did not properly restate comparative 2012 figures due to prior period errors as required by standards. As a result, our opinion on the current period's financial statements is also modified because of the potential effect of this matter on the comparability of the current period's figures and the corresponding figures.

However, the Board was able to express the opinion that, in all material respects, the financial transactions and information reflected in the financial statements are in compliance with the NATO Financial and Civilian Personnel Regulations.

During the audit, the Board made 6 observations and 7 recommendations. These findings are summarised in the Letter of Observations and Recommendations (Annex 3).

The main findings are:

- The Restated Financial Statements are not compliant with the NATO Accounting Framework (Adapted International Public Sector Accounting Standards).

- The Cash flow from investing activities was not disclosed in the Cash Flow Statement.

- No restatement of comparative 2012 figures.

- The financial statement preparation and review process resulted in delays in publication and errors in the financial statements.

- Absence of clear allocation of responsibilities when contracting through NCIA.

- Confirmation of year-end assets and liabilities outstanding between NATO entities.

31 October 2014

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDITOR'S REPORT ON THE RESTATED FINANCIAL STATEMENTS OF

THE INTERNATIONAL STAFF

(IS)

FOR THE YEAR ENDED 31 DECEMBER 2013

REPORT OF THE INTERNATIONAL BOARD OF AUDITORS FOR NATO TO THE NORTH ATLANTIC COUNCIL

Report on the Restated Financial Statements

The International Board of Auditors for NATO (Board) audited the accompanying Restated Financial Statements of the IS, which comprised the Statement of Financial Position as at 31 December 2013, and the Statement of Financial Performance, Statement of Changes in Equity and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The Board also audited the Statement of Budget Execution for the year ended 31 December 2013.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these Restated Financial Statements in accordance with the NATO Accounting Framework and the requirements of the NATO Financial Regulations as authorized by the North Atlantic Council (NAC).

Auditor's Responsibility

Our responsibility is to express an opinion on these Restated Financial Statements based on our audit, which is conducted in accordance with our Charter and international standards on auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Restated Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the Restated Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Restated Financial Statements, due to fraud or error. In making those risk assessments, internal control relevant to the entity's preparation and presentation of the Restated Financial Statements is considered in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. An audit also includes evaluating the appropriateness of accounting policies used, the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Restated Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Basis for Qualified Opinion on the Restated Financial Statements

The IS did not systematically identify accrued expenses at year-end. The expenses in the Statement for Performance are based on budgetary commitments and not accrued expenses. The fact that accrued expenses are not systematically identified affects the balances of Operating Costs, Capital Expenditures; Programmes and Grants as well as Revenue from Non-Exchange Transactions in the Statement of Performance, and Payables and Unearned Revenue in the Statement of Financial Position. Comparative 2012 figures are affected as well.

As the IS did not identify accrued expenses, there is uncertainty about the exact amount of misstatements. The possible effects of undetected accrual mistakes on the balances of Operating Costs, Capital Expenditures and Programmes and Grants and the related balances of Revenue from Non-Exchange transactions, Payables and Unearned Revenue could be material but are not pervasive to the Restated Financial Statements as a whole.

In the Cash Flow Statement, the IS did not disclose separately the cash flow from investing activities. These cash flows are included in the balance of cash flow from operating activities. The Board estimates that cash flow from investing activities are approximately EUR 6,400,000. The classification error does not affect the net cash flow in 2013 but materially affects the balance of cash flow from operating and investing activities.

The 2013 Restated Financial Statements did not properly restate comparative 2012 figures due to prior period errors. The 2012 Statement of Position, the Statement of Cash Flow and the segment reporting in the notes were not restated as required by standards. As a result, our opinion on the current period's financial statements is also modified because of the potential effect of this matter on the comparability of the current period's figures and the corresponding figures.

Qualified Opinion on the Restated Financial Statements

In our opinion, except for the possible effects of the matters described in the *Basis for Qualified Opinion on the Restated Financial Statements* paragraph, the Restated Financial Statements present fairly, in all material respects, the financial position of IS as of 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with the NATO Accounting Framework.

Report on Compliance

Management's Responsibility for Compliance

In addition to the responsibility for the preparation and presentation of the Restated Financial Statements described above, management is also responsible for ensuring that the financial transactions and information reflected in the Restated Financial Statements are in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations as authorised by the North Atlantic Council (NAC).

Auditor's Responsibility

In addition to the responsibility to express an opinion on the Restated Financial Statements described above, our responsibility includes expressing an opinion on whether the financial transactions and information reflected in the Restated Financial Statements are, in all material respects, in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations. This responsibility includes performing procedures to obtain reasonable assurance about whether the funds have been used for the settlement of authorised expenditure and whether their operations have been carried out in compliance with the financial and personnel regulations in force. Such procedures include the assessment of the risks of material non-compliance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion on Compliance

In our opinion, in all material respects the financial transactions and information reflected in the Restated Financial Statements are in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

Brussels, 31 October 2014

Dr Charilaos Charisis
Chairman

INTERNATIONAL BOARD OF AUDITORS FOR NATO

LETTER OF OBSERVATIONS AND RECOMMENDATIONS

FOR THE INTERNATIONAL STAFF

(IS)

FOR THE YEAR ENDED 31 DECEMBER 2013

Introduction

The International Board of Auditors for NATO (Board) audited the IS Restated Financial Statements for the year ended 31 December 2013, and issued a qualified opinion on those restated financial statements and an unqualified opinion on compliance.

Observations and Recommendations

During the audit, the Board identified 6 observations and provided 7 recommendations. They are summarised herein.

The first three observations result in audit qualifications.

1. Restated Financial Statements are not compliant with the NATO Accounting Framework (Adapted International Public Sector Accounting Standards) as accrued expenses were not systematically identified at year-end.

2. Cash flow from investing activities was not disclosed in the Cash Flow statement.

3. No restatement of comparative 2012 figures.

In addition to the three observations that impact the audit opinion, the Board also identifies a further three observations as follows:

4. Financial statement preparation and review process resulted in delays in publication and errors in the financial statements.

5. Absence of clear allocation of responsibilities when contracting through NCIA.

6. Confirmation of year-end assets and liabilities outstanding between NATO entities.

The Board also followed up on the status of observations from previous years' audits and noted that 4 are settled, 2 are superseded by current year observations, and 4 are still outstanding.

OBSERVATIONS AND RECOMMENDATIONS

1. RESTATED FINANCIAL STATEMENTS ARE NOT COMPLIANT WITH THE NATO ACCOUNTING FRAMEWORK (ADAPTED INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS)

Reasoning

1.1 The NATO Accounting Framework is NATO adapted IPSAS and is based on the principles of accrual based accounting. All NATO entities are required to comply with the framework.

Observation

1.2 As reported in the financial statements, due to limitations in the IS current accounting system, the IS Restated Financial Statements are not fully accruals based, and therefore not compliant with the NATO Accounting Framework. The Board notes that progress has been made and that the financial statements are now closer to accrual based financial statements, while still not fully complying.

1.3 The IS has not systematically identified accrued expenses at year-end. The expenses in the Statement for Performance are based on budgetary commitments and not accrued expenses whereas expenses in the Budget Execution Statement are cash payments done in 2013 and to some extent adjusted for outstanding payables at year-end.

1.4 The fact that accrued expenses are not systematically identified affects mainly the balances of Operating Costs, Capital Expenditures and Programmes and Grants in the Statement of Performance as well as Revenue from Non-Exchange Transactions, Payables and Unearned Revenue in the Statement of Financial Position. Personnel costs are not significantly different from accrued Personnel Costs.

1.5 As the IS did not identify accrued expenses, there is uncertainty about the exact amount of misstatements. The possible effects of undetected accrual mistakes on the balances of Operating Costs, Capital Expenditures and Programmes and Grants and the related balances of Revenue from Non-Exchange transactions, payables and unearned revenue could be material but are not pervasive.

1.6 The Board understands that full compliance with the NATO Accounting Framework will not be obtained before the implementation of a new accounting system, Enterprise Resource Planning (ERP), which is planned to be operational in 2015.

1.7 Further, the value of inventory is misstated as it is not based on the principles in NATO Accounting Framework for inventory valuation due to limitations in the inventory system used (see note 7 of the IS Restated Financial Statements). In addition, the IS does not have a fixed asset module and effectively reconstructed Property, Plant &

Equipment (PP&E) listings retrospectively in May/June 2014.

Recommendation

1.8 As part of the ERP implementation, the IS should continue working towards preparing the accounts to be compliant with NATO Accounting Framework including improving accounting policies and disclosures. Further, the IS should ensure proper training of staff who will be working with the ERP system and especially, the IS should ensure divisions understand the principles of accrual based accounting.

Comment of the International Staff

Agreed.

2. CASH FLOW FROM INVESTING ACTIVITIES NOT DISCLOSED IN THE CASH FLOW STATEMENT

Reasoning

2.1 According to paragraph 18 of IPSAS 2, *Cash Flow Statement*: *"The cash flow statement should report cash flow during the period classified by operating, investing and financing activities".* The IS present the Cash Flow Statement using the direct method.

Observation

2.2 The Board found that the IS did not separately disclose cash flow from investing activities, i.e. cash payments to acquire PP&E and Intangible assets. These cash flows were included under cash flow from operating activities. Additions to PP&E and Intangible Assets in 2013 amounted to EUR 6,400,000. Although this does not necessarily equal actual payments in 2013, the Board finds that it is reasonable to believe that cash flow from investing activities is a material amount.

Recommendation

2.3 The Board recommends the IS to disclose cash flow from investing activities in the Cash Flow Statement to comply with the NATO Accounting Framework.

Comment of the International Staff

Agreed.

3. NO RESTATEMENT OF COMPARATIVE 2012 FIGURES

Reasoning

3.1 According to paragraph 47 of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, an entity shall correct material prior period errors retrospectively in the first set of financial statements […] after their discovery by restating the comparative amounts for prior period(s) presented.

Observation

3.2 The IS in the Restated Financial Statements for 2013 presented financial statements including 5 segments. In the 2012 Financial Statements, these segments were not properly consolidated as the Statement of Position did not include all segments and inter-segment transactions were not properly eliminated[1]. Further, in 2013 the IS recognized revenue and expenses related to third party funds only in cases where the IS is acting as principal, whereas in 2012 the IS recognized revenue and expenses for all funds managed for third parties.

3.3 The Board found that the IS, in the 2013 Restated Financial Statements, did not consistently and properly restate comparative 2012 figures to adapt to the above changes made in 2013. The 2012 figures in the Statement of Position and Statement of Cash Flow as well as the segment reporting in the notes were not properly restated as required by the NATO Accounting Framework (IPSAS 3).

Recommendation

3.4 The Board recommends the IS to comply with the disclosure requirements in the NATO Accounting Framework (adapted International Public Sector Accounting Standards).

Comment of the International Staff

Agreed.

[1] See the Board's Management Letter 2012 (IBA-AML(2013)09).

4. FINANCIAL STATEMENTS PREPARATION AND REVIEW PROCESS RESULTED IN DELAYS IN PUBLICATION AND ERRORS IN THE FINANCIAL STATEMENTS INCLUDING DISCLOSURE ERRORS

Reasoning

4.1 The financial statements should be free of any mathematical errors, non-reconciling items, or any other errors. Entities should have proper internal controls, including reviews, in place to ensure the consistency and accuracy of information presented in the statements before its issuance.

Observation

4.2 The IS did not issue financial statements by the deadline (30 April 2014). The unaudited Financial Statements were issued on 15 July 2014 and further based on audit findings, Restated Financial Statements were issued on 9 September 2014.

4.3 Although the preparation of the financial statements is complicated by the non-existence of a fully functional information system (see above), the Board believes that part of the delay is due to deficiencies in the book-closing processes in the IS. The Board is aware that in 2013 and 2014 the IS Office of Financial Controller has been heavily involved in implementing the new ERP, taking over the control of the Staff centre operations and issues related to the New HQ which also has had an effect on the delay of the financial statements and subsequent restatement.

4.4 The Board noted in particular:

- There are no written procedures for the preparation of financial statements, which would include deadlines, responsibilities and review processes. However, the Board understands that an accounting manual is already developed for the new accounting system.
- There is a lack of a chief accountant position. The Financial Controller is overloaded with a number of operational tasks and is too deeply involved in the preparation of financial statements instead of coordinating the process and reviewing it.
- As a result, data for consolidation and preparation of financial statements are prepared with delays and require significant manual work to reconcile (e.g. PP&E and Intangible Assets).
- The system is fully dependent on the Financial Controller and without him the financial statements could not be prepared. Despite the fact that the Financial Controller is doing his best to prepare them, there is a risk of mistakes, unreconciled items, omitted items, etc.

4.5 The Board identified several accounting errors, non-reconciling items and/or omitted information in the financial statements as published on 15 July 2014 (Reference FC(2014)141. The Board found numerous mistakes in the values of recognized PP&E

and Intangible Assets, mathematical errors in the Cash Flow Statements and non-reconciling items and/or omitted information in the notes to the financial statements. These findings were discussed with the IS and corrected by the IS during the audit. As a result, IS issued Restated Financial Statements on 9 September 2014 (reference FC(2014)169) which were audited by the Board.

Recommendation

4.6 The Board recommends establishing robust internal procedures which would define responsibilities, requirements and internal deadlines for the preparation of the financial statements in order to ensure that they are issued on time in accordance with the NFRs.

4.7 Further, the Board recommends the IS to establish robust procedures for the identification, capture and tracking of costs related to PP&E and Intangible assets during the financial year. The IS should ensure that the new ERP system provides asset module functionalities to record PP&E and intangible assets and proper coordination with divisions in the IS currently maintaining asset register should take place.

Comment of the International Staff

These recommendations are agreed.

The generation of the financial statements is a collective work involving several individuals and not only the Financial Controller.

The timelines related to the issuance of the 2013 financial statements have been impacted by the need to allocate the same resources to the ERP whilst still maintaining normal business. Considering the number of statements to be issued by the Office of Financial Control (eight each year) it was not possible, therefore, to publish all of them by the required deadline. The delay should be considered on a global basis, noting that this year several financial statements were issued well before the deadline, which is a substantial improvement.

The risk of errors in the financial statements, such as the ones noted by IBAN, is an issue which is identified specifically in the Statement on Internal Control which states that:

"The IT financial system, implemented in the early 1990s, was conceived to track budget execution and make payments, but was not designed to be an accounting system. It was never updated. The system does not generate financial statements and much work and analysis relies on spreadsheets. Manual adjustments are necessary, requiring a significant effort impacting the overall process of generating the financial statements of the NATO bodies for which I am responsible. As such they constitute a risk factor for errors.

In addition, the present IT system is not connected to any Human Resources database nor is connected to other IT systems such as the Procurement and Contract Information System; which also constitutes a risk factor for errors. As a consequence the internal control system relies greatly on the control environment, in particular on knowledge acquired and values shared by the staff. In this context, any existing single point of failure could become an issue. "

PPE collection is also made difficult by the necessity to concentrate scarce IT resources on the implementation of ERP rather than updating the current FCS. It is regrettable but unfortunately the price to pay for a transition situation. Nevertheless, data is gathered with a view to providing proper input to the ERP, but because of the limitation of the current IT system this is largely a manual process and is, therefore, prone to errors. These errors were corrected when the financial statements were restated.

5. ABSENCE OF CLEAR ALLOCATION OF RESPONSIBILITIES WHEN CONTRACTING THROUGH NCIA

Reasoning

5.1 According to Article XXI of the FRPs, the FC is responsible for ensuring that procurement of goods and services conforms to the relevant provisions and, thus, that rules and regulations are complied with.

Observation

5.2 The Board, during its audit of procurement activities, found one case (Main implementation contract for DAMS - Digital Asset Management system - Total value EUR 899,601), where NCIA acts as a procurement agent on behalf of the IS.

5.3 The Board found that the IS uses NCIA as a procurement agent on a case by case basis when the IS estimates that NCIA's expertise could be value added. For the DAMS project, it was decided to go through NCIA because the agency is already in charge of NATO New HQ ICT Infrastructure. NCIA provided a price quotation (based on cost reimbursable) and a separate proposal for Project Service Costs to the IS.

5.4 There is no global agreement between the IS and NCIA setting out the roles and responsibilities when using NCIA as a procurement agent. This means that it is not clear who (the IS or NCIA) is responsible for, among other things, compliance with the FRPs in relation to bidding and contracting, the contract management, payment terms and conditions to NCIA, access to information/documentation etc.

5.5 According to the IS FC, the IS considers that when NCIA acts as procurement agent on behalf of the IS, the responsibility lies with NCIA towards compliance with the FRP's Article XX on contracting and procurement. The Board finds that the IS FC cannot delegate the responsibility under article XX of the FRP to NCIA without specific prior agreement with the NCIA setting out the roles and responsibilities.

Recommendation

5.6 The Board recommends that a Memorandum of Agreement (MOA) governing those types of relationships should be signed by both parties clarifying the roles and responsibilities in the procurement process, contract management, etc.

Comment of the International Staff

When NCIA is the service provider, like all other NATO entities, it applies its own rules. This situation is specifically provided for in the NATO-IS Procurement manual.

Board's position

The Board reiterates its recommendation that a MOA is needed to govern and clarify roles and responsibilities in relation to procurement requirements, contract management, payment terms and conditions, etc.

6. CONFIRMATION OF YEAR-END ASSETS AND LIABILITIES OUTSTANDING BETWEEN NATO ENTITIES

Reasoning

6.1 NATO bodies have significant transactions with other NATO bodies. For example, NCIA provides various services to the IS and the IS provides services to the International Military Staff (IMS), delegations and other NATO bodies. As a result of these transactions, there will be assets and liabilities outstanding between these NATO bodies at year-end. These assets and liabilities are recorded in the respective NATO bodies' financial statements.

Observation

6.2 The Board found that IS does not confirm outstanding year-end assets and liability balances between the IS and other NATO bodies (NCIA, IMS, etc.) with the other NATO body. Therefore, there is no certainty that the other NATO body agrees on the amount of the outstanding balances.

Recommendation

6.3 The Board recommends the IS, as from 2014, to confirm the outstanding asset and liability balances it has with other NATO bodies as part of the preparation of the financial statements.

Comment of the International Staff

Agreed. This process was initiated in 2013 for a series of other financial statements issued by NATO-IS OFC (New NATO HQ, Pensions, RMCF).

FOLLOW-UP OF PREVIOUS YEAR'S OBSERVATIONS

The Board reviewed the status of the observations and recommendations arising from the previous audit. The observations and their status are summarised in the table below.

STATUS OF PREVIOUS YEARS' OBSERVATIONS

OBSERVATION/RECOMMENDATION	ACTION	STATUS
1. IBA-AR(2013)24 (FY 2012) paragraph 5.2 Property, Plant & Equipment (PP&E) and Intangible Assets The IS did not recognise any PP&E in the 2012 IS Financial Statements as required by IPSAS 17. This represents a material misstatement in the accounts under IPSAS, which was the accounting framework for the 2012 financial statements given that the adapted accounting framework for NATO was not approved by Council until 2 August 2013, more than 1 month after the accounts had been submitted for audit. **Board's recommendation** The Board recommends that now an adapted IPSAS framework has been approved, with different requirements for PP&E compared to IPSAS 17, the IS should develop a detailed accounting policy on PP&E and ensure sufficient note disclosures on PP&E in future financial statements taken into account recommendations made by the Board in its report on the IS 2011 Financial Statements (reference IBA-AR(2012)39).	The Board identified misstatements for PP&E and Intangible Assets.	Observation **Superseded by current year observation**.
2. IBA-AR(2013)24 (FY 2012) paragraph 5.3 The collection of concession revenue from commercial shops in HQ building and the contract management hereof The Board found that due to an unclear mandate for the commercial activities in the HQ building, annual rent and reimbursement of utility costs had not in all cases been collected as otherwise agreed in the concession contracts. Also, one of the contracts did not contain provision for reimbursement of utility costs and two contracts had expired in 2012. **Board's recommendation** The Board recommends that written agreement and instructions are established	The IS during 2013 and the beginning of 2014 collected reimbursement of utility costs from 4 concessionaires in the HQ building for in total EUR 120,000. Outstanding to be collected is reimbursement from the Staff Centre of utility costs for the period 2008-2013 of EUR 165,000. The IS issued invoices to the Staff Centre, but they have not yet been paid.	Observation **Outstanding**.

OBSERVATION/RECOMMENDATION	ACTION	STATUS
between the IS and the Staff Centre specifying each of their responsibilities relating to commercial activities in the HQ building in order to ensure that rent and utility costs are collected as appropriate. Also, the IS should immediately ensure that outstanding rent and utility cost reimbursement is collected. The Board also recommends that expired contracts are regularised by either re-competing or extending the contracts.	Further, the IS Procurement Service is in the process of revising and changing current concession contracts. A standard format for concession contracts has been developed and 2 contracts has so far been changed and signed and the reimbursement of utility costs has been included in the contracts. Other contracts are in the process of being changed and negotiated with the concessionaires. The Board will follow the IS work on renewing and changing current concession contracts.	
3. IBA-AR(2013)24 (FY 2012) paragraph 5.4 Improvements needed in the settlement of monthly advances to External Offices The Board found that expenses were understated by up to EUR 1 million due to lack of timely settlement of advances provided to external offices. **Board's recommendation** The Board recommends the IS to strengthen the coordination with the external offices related to procedures and deadlines for providing settlement of advances and also to strengthen the internal control procedures in the IS, especially at year-end, in order to ensure that expenses related to the financial year is recognized correctly in the accounts.	The IS improved the procedures for the settlement of advances to external offices in 2013. All external offices provide monthly justifications of expenses incurred. At year-end, the IS received justifications for expenses incurred and of 2013 expenses was done.	Observation **Settled**.
4. IBA-AR(2013)24 (FY 2012) paragraph 5.5 Surplus generated on the sale of petrol to staff members The Board found that a surplus of EUR 301,750 was generated on the sale of petrol to eligible personnel. No decision has yet been taken on the use or distribution of this surplus. **Board's recommendation** The Board recommends that the IS decides on the use of the generated surplus from the sale of petrol. Whatever action is chosen, the Board recommends the IS to inform the BC.	No decision had yet been taken on the use of the surplus generated from the sale of petrol. The total balance was EUR 324,086 at the end of 2013.	Observation **Outstanding**.

OBSERVATION/RECOMMENDATION	ACTION	STATUS
5. IBA-AR(2013)24 (FY 2012) paragraph 5.6 A best bid, which was not the lowest, was accepted based on best value methodology but was not forwarded to BC for approval as required by FRPs Article XX		
In one case, where the best bid accepted was not the lowest bid and the value exceeded level E of the EFL, the IS did not inform the BC as required by the FRPs. This was due to the interpretation by the OFC that, with the implementation of the best value for money evaluation methodology in the new Procurement Manual, the requirement to inform the BC when the lowest bid is not accepted and the amount involved exceeds the equivalent of level E of the EFL was no longer necessary. **Board's recommendation** The Board recommends the IS to seek the Nations agreement with the interpretation of the OFC that informing the BC is no longer necessary in these circumstances due to the best value for money evaluation method in the new Procurement Manual. Also, the IS should ensure that the current updating of the NFRs and FRPs takes this issue into consideration.	The Budget Committee, at its meeting the 13 February 2014 (BC-D(2014)0010-REV1), agreed with the approach of the IS with regard to the "best value" procurement. Therefore the FRPs Article XX only applies in procurement procedures where the price of the complaint bid is the criterion for attribution of the contract.	Observation **Settled**.
6. IBA-AR(2013)24 (FY 2012) paragraph 5.7 Transfers made after the revised budget not authorised by the Financial Controller		
The Board was not able to obtain documentation to support that the Financial Controller formally authorised the transfers between and within resource pools and global objectives after the revised budget approval. **Board's recommendation** The Board recommends that the approval of transfers by the Financial Controller made after the revised budget approval should be explicitly approved and formally documented at the time they are made.	The transfers made after the revised budget approval was approved by the Financial Controller.	Observation **Settled**.

OBSERVATION/RECOMMENDATION	ACTION	STATUS
7. IBA-AR(2013)24 (FY 2012) paragraph 5.8 Non-compliance with the Civilian Personnel Regulations (CPRs) - Shift work and overtime compensation The Board found cases where staff had continued to receive shift allowance for more than one year although they were no longer entitled to shift allowance. This was because EM(HR) never executed the request for change from the division concerned. Further, the Board found that in one division the management of overtime payments to 12 staff performing shift work was not in compliance with the CPRs. This was due to an internal practice implemented and approved by the Head of Personnel in 1985 without providing any justification. As a result the IS has been overpaying around 12 staff in one division for overtime since 1985. Whilst the amounts concerned are relatively small for NATO as a whole, the Board considers that full compliance with the CPRs and equal treatment of staff are necessary also considering that the amounts can be significant for the individuals concerned. **Board's recommendation** Board recommends that the IS apply the regulations for shift work as stipulated in the CPRs correctly and consistently across all divisions, thus ensuring that staff are paid their correct entitlements. In support of this, EM(HR) should guide and help the divisions in how to apply the regulations for shift work correctly. For example, by issuing new internal guidelines applicable to all divisions or standardized forms. The previously issued notice from 1985 should be withdrawn. The Board recommends EM(HR) and the division concerned to cooperate in the development of a shift work planning schedule that will allow the division to obtain the full benefits of working under a shift system through the efficient use of available resources, while at the same time, respecting existing rules and regulations. If the IS wishes to continue with the current system until the move to the New HQ, the Board recommends the IS to seek Nations approval hereof. Once the move to the New	The Budget Committee, at its meeting the 13 February 2014 (BC-D(2014)0010-REV1), agreed "*with the arguments by the International Staff, that while not entirely clear and easy to apply, it has proved a workable and cost effective means of meeting the business requirement for the current Headquarters. The Committee further notes the potential legal risks and financial costs of changing the current practice and is willing, exceptionally, to support the current arrangement only for the lifetime of the current Headquarters".* The Board recommends that once the move to the New HQ is completed, a new system should be implemented in full compliance with the CPRs. The Board will follow the implementation of new arrangements for the New HQ.	Observation **Settled**.

OBSERVATION/RECOMMENDATION	ACTION	STATUS
HQ is completed, a new system should be implemented in full compliance with the CPRs. The Board recommends that the IS fully and properly respond to future Internal Audit Service reports. Responses that reference that further work is needed should be followed up by additional formal responses once the work is performed.		
8. IBA-AR(2012)08 (FY 2010) paragraph 5.2 Accounting for funds relating to the former NATO HAWK Production and Logistics Organization Cash balances of EUR 598,300 and USD 89,619 held by the IS as an agent for the former NHMO entity, and payments of EUR 946,319 during the year under the management of IS were not disclosed. **Board's recommendation** The Board recommends that the IS should determine the best method to account and disclose the assets and liabilities and movements of funds during the year of the former NHMO.	The IS informed the Board that separate financial statements would be issued for NHPLO. No financial statements have been issued yet. The Board noted that the last payments in HAWK had been executed and all activities were now finished, and that a surplus of EUR 425,013 remained to be distributed to nations.	Observation **Outstanding**.
9. IBA-AR(2012)08 (FY2010) paragraph 5.5 Bank reconciliations not signed As there was no signature by the reviewer of the IS bank reconciliations, there was no documented evidence of the operation of the review. In addition the reconciliations were not signed by the preparer and therefore there was no documented evidence of the operation of segregation of duties for this internal control. **Board's recommendation** The Board recommends that in future bank reconciliations are signed both by the preparer and the Head of Treasury (or deputy) as reviewer.	Bank reconciliations were signed by the preparer and the reviewer during the audit on the request of the auditor. Bank reconciliations should be reviewed and signed when prepared.	Observation **Outstanding**.

OBSERVATION/RECOMMENDATION	ACTION	STATUS
10. IBA-AR(2009)01 (FY 2007) paragraph 5.1 Delay in issuing the financial statements **Board's recommendation** The IS should develop a process that will allow it to adequately prepare, review and publish the financial statements, even with the use of the "transformational" method, by 30 April deadline date.	The financial statements for 2013 were issued on 15 July 2014, 2.5 months later than the NFR deadline date.	Observation **Superseded by Observation 2.**

FC(2014)169

INTERNATIONAL STAFF

RESTATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2013

ANNEXES :

1 Statement of financial position

2 Statement of financial performance

3 Cash flow statement

4 Statement of changes in net assets/equity

5 Budgetary operations for financial years 2013 and 2012

6 Budgetary operations for financial year 2013 : use of credits by Global Objective

7 Budgetary operations for financial year 2013 : use of credits by Resource Pool

8 Breakdown of Global Objectives' commitments by Resource Pool

9 Credit transfers between Global Objectives authorized by the Financial Controller (Article 10 of the NFRs)

10 Credit transfers between Resource Pools authorized by the Financial Controller (Article 10 of the NFRs)

11 Explanatory notes to the financial statements

ANNEX 1 to
FC(2014)169

NATO INTERNATIONAL SECRETARIAT STATEMENT OF FINANCIAL POSITION
as at 31 December 2013
(All amounts in Euro)

	Notes	Current Year	Prior Year	Variance
		31-Dec-13	**31-Dec-12**	**CY - PY**
ASSETS				
CURRENT ASSETS				
Cash and Cash Equivalents	3			
Cash		2,249.35	2,176.82	72.53
Current bank accounts		68,565,700.12	46,666,612.49	21,899,087.63
Cash equivalents		0.00	0.00	0.00
Subtotal Cash & Equivalent		68,567,949.47	46,668,789.31	21,899,160.16
Cash Managed for Third Parties	4	11,844,681.60	11,474,849.85	369,831.75
Total Cash and Cash Equivalents		**80,412,631.07**	**58,143,639.16**	**22,268,991.91**
Receivables	**5**			
Contributions from Member Nations Receivables		44,584,206.46	57,045,606.00	-12,461,399.54
Receivables from Nations, Partners and others		1,079,862.85	3,888,896.98	-2,809,034.13
Budget undercall		0.00	2,000,000.00	-2,000,000.00
Receivables from other NATO bodies		34,167.21		34,167.21
Receivables from Staff Members		957,980.24	1,006,849.06	-48,868.82
Receivables from Post Employment Benefit Schemes		90,827.26	0.00	90,827.26
Bank interest accrued		195,586.53	213,096.77	-17,510.24
Total Receivables		**46,942,630.55**	**64,154,448.81**	**-17,211,818.26**
Prepayments	6			
Other receivables		3,220,709.36	2,066,018.68	1,154,690.68
Total Prepayments		**3,220,709.36**	**2,066,018.68**	**1,154,690.68**
Inventories	7			
Office supplies		169,477.42	305,067.31	-135,589.89
Supplies/maintenance		319,380.16	319,895.38	-515.22
Medicine and vaccines		343,582.17	342,458.01	1,124.16
Munitions		30,907.00	29,773.00	1,134.00
Total Inventories		**863,346.75**	**997,193.70**	**-133,846.95**
TOTAL CURRENT ASSETS		**131,439,317.73**	**125,361,300.35**	**6,078,017.38**
NON CURRENT ASSETS				
Receivables		-	0.00	0.00
		-		
Infrastructure, plant and equipment	8	**1,035,768.68**	0.00	1,035,768.68
		-		
Land and buildings	8	-	0.00	0.00
		-		
Intangible assets	**8**	**9,041,200.87**	0.00	9,041,200.87
TOTAL NON CURRENT ASSETS		**10,076,969.55**	**0.00**	**10,076,969.55**
				0.00
TOTAL ASSETS		**141,516,287.28**	**125,361,300.35**	**16,154,986.93**

ANNEX 1 to
FC(2014)169

TABLE 2

NATO INTERNATIONAL SECRETARIAT STATEMENT OF FINANCIAL POSITION
as at 31 December 2013
(All amounts in Euro)

	Notes	Current Year	Prior Year	Variance
		31-Dec-13	**31-Dec-12**	**CY - PY**
LIABILITIES				
CURRENT LIABILITIES				
Payables	9			
Payable to Nations				
Interest		109,948.14	225,329.53	-115,381.39
Lapsed credits		10,937,453.63	9,862,045.35	1,075,408.28
Miscellaneous receipts		315,268.95	346,570.05	-31,301.10
US & NL reimbursables		5,022,398.28	4,753,130.51	269,267.77
Project accumulated surplus		565,547.68	0.00	565,547.68
Other payable to Nations		1,699,471.14	4,024,042.44	-2,324,571.30
Total Payable to Nations		**18,650,087.82**	**19,211,117.88**	**-561,030.06**
Payable to Staff		**0.00**	**0.00**	**0.00**
Payable to NATO Bodies				
Stikker fund		95,535.77	95,139.57	396.20
Agencies		1,570.70	0.00	1,570.70
Post Employment Benefit Schemes		0.00	0.00	0.00
Total Payable to NATO Bodies		**97,106.47**	**95,139.57**	**1,966.90**
Payable to Suppliers				
Payable to Suppliers		10,560,332.98	7,098,314.67	3,462,018.31
Accrued expenses		0.00	0.00	0.00
Total Payable to Suppliers		**10,560,332.98**	**7,098,314.67**	**3,462,018.31**
Payable to Others				
Other Accounts Payable		907,288.30	904,102.34	3,185.96
Trust Funds		15,017,577.46	15,021,003.38	-3,425.92
Total Payable to Others		**15,924,865.76**	**15,925,105.72**	**-239.96**
Total Accounts Payable		**45,232,393.03**	**42,329,677.84**	**2,902,715.19**
Unearned Revenue and Advanced Contributions	10			
Unearned revenue from budgetary credits		38,405,800.23	35,280,633.83	3,125,166.40
Unearned revenue from Annex IV - Partners' Accomodation		20,777.72	53,794.98	-33,017.26
Unearned revenue from previous years surplus		0.00	0.00	0.00
Unearned revenue advance called for Y +1		46,917,000.00	46,700,000.00	217,000.00
Unearned revenue inventory		863,346.75	997,193.70	-133,846.95
Total Unearned Revenue and Advanced Contributions		**86,206,924.70**	**83,031,622.51**	**3,175,302.19**
TOTAL CURRENT LIABILITIES		**131,439,317.73**	**125,361,300.35**	**6,078,017.38**
NON CURRENT LIABILITIES	11			
Long-term unearned revenue from PPE		1,035,768.68	0.00	**1,035,768.68**
Long-term unearned revenue from intangible assets		9,041,200.87	0.00	**9,041,200.87**
Provisions		**0.00**	**0.00**	**0.00**
TOTAL NON CURRENT LIABILITIES		**10,076,969.55**	**0.00**	**10,076,969.55**
TOTAL LIABILITIES		**141,516,287.28**	**125,361,300.35**	**16,154,986.93**
NET ASSETS				
Surplus/Deficit of the period		0.00	0.00	0.00
Total Net Assets		**0.00**	**0.00**	**0.00**
TOTAL NET ASSETS		**0.00**	**0.00**	**0.00**

ANNEX 2 to
FC(2014)169

NATO INTERNATIONAL SECRETARIAT STATEMENT OF FINANCIAL PERFORMANCE
As at 31 December 2013
(All amounts in EUR)

	Notes	Civil Budget	PMIS	OSS	Trust Funds	Partners' Accommodation	Neutralisation of Internal Transactions	Total
		Current Year	Current Year	Current Year	Current Year	Current Year		Current Year
		31-Dec-13	31-Dec-13	31-Dec-13	31-Dec-13	31-Dec-13		31-Dec-13
Revenue	12							
Revenue from non exchange transactions		163,146,658.35	-	601,158.21	-	-		163,747,816.56
Revenue from exchange transactions		9,645,844.00	98,161.69	-	1,854,982.67	2,152,908.87		13,751,897.23
Financial Revenue		217,897.51	175.70	1,320.08		-		219,393.29
Other revenue		-	-	-	-	-		-
Long term revenue funding depreciation and impairment		2,131,526.67						2,131,526.67
Internal Transactions		261,234.00	36,392.96			692,933.40	(990,560.36)	-
Total Revenue		**175,403,160.53**	**134,730.35**	**602,478.29**	**1,854,982.67**	**2,845,842.27**	**(990,560.36)**	**179,850,633.75**
Expenses	13							
Wages, salaries and employee benefits		121,095,604.90	115,837.54	402,155.62		-		121,613,598.06
Operating costs: rents, supplies and consumables used		23,867,829.50	18,892.81	118,988.27	-	2,382,245.05		26,387,955.63
Capital Expenditure		3,842,652.22						3,842,652.22
Programmes and grants		23,499,108.77	-	-	1,854,982.67	-		25,354,091.44
Financial Costs		109,264.45	-	-	-	-		109,264.45
Other expenses (interest to nations and transfers)		209,182.06	-	-	-	-		209,182.06
Depreciation		131,526.67	-	-	-	-		131,526.67
Impairment		2,000,000.00	-	-	-	-		2,000,000.00
Internal Transactions		647,991.96		81,334.40		261,234.00	(990,560.36)	-
Total Expenses		**175,403,160.53**	**134,730.35**	**602,478.29**	**1,854,982.67**	**2,643,479.05**	**(990,560.36)**	**179,648,270.53**
Surplus/Deficit for the period	**14**	-	-	-	-	202,363.22	-	202,363.22

NATO INTERNATIONAL SECRETARIAT STATEMENT OF FINANCIAL PERFORMANCE
As at 31 December 2012
(All amounts in EUR)

	Notes	Civil Budget	PMIS	Agency Reform and OSS	Trust Funds	Partners' Accommodation	Neutralisation of Internal Transactions	Total
		Current Year	Current Year	Current Year	Current Year	Current Year		Current Year
		31-Dec-12	31-Dec-12	31-Dec-12	31-Dec-12	31-Dec-12		31-Dec-11
Revenue	12							
Revenue from non exchange transactions		176,272,517.55	-	151,529.00	-	-		176,424,046.55
Revenue from exchange transactions		9,567,247.77	92,037.72	435,857.47	1,194,226.06	2,106,071.07		13,395,440.09
Financial Revenue		290,741.42	234.62	-		-		290,976.04
Other revenue		-	-	-	-	-		-
Internal Transactions		262,112.00	39,830.97			709,675.00	(1,011,617.97)	-
								-
Total Revenue		**186,392,618.74**	**132,103.31**	**587,386.47**	**1,194,226.06**	**2,815,746.07**	**(1,011,617.97)**	**190,110,462.68**
Expenses	13							
Wages, salaries and employee benefits		127,868,542.54	112,282.36	431,552.16		-		128,412,377.06
Operating costs: rents, supplies and consumables used		22,490,293.39	19,820.95	155,834.31	-	2,607,891.77		25,273,840.42
Capital Expenditure		11,599,242.22						11,599,242.22
Programmes and grants		23,394,293.20	-	-	1,194,226.06	-		24,588,519.26
Financial Costs		65,411.89	-	-	-	-		65,411.89
Other expenses (interest to be reimbursed to nations)		225,329.53	-	-	-	-		225,329.53
Depreciation		-	-	-	-	-		-
Internal Transactions		749,505.97				262,112.00	(1,011,617.97)	-
								-
Total Expenses		**186,392,618.74**	**132,103.31**	**587,386.47**	**1,194,226.06**	**2,870,003.77**	**(1,011,617.97)**	**190,164,720.38**
Surplus/Deficit for the period	**14**	-	-	-	-	(54,257.70)		(54,257.70)

ANNEX 3 to
FC(2014)169

INTERNATIONAL STAFF

CASH FLOW STATEMENT

CASH FLOW FROM OPERATING ACTIVITIES	Note	2013	2012
RECEIPTS / RECETTES	15		
Contributions		179,268,516.22	180,736,192.50
Advances on Civil Budget		640,000.00	2,987,991.00
Other operational revenues		9,593,920.01	8,189,540.36
Financial Revenues		235,058.08	145,872.88
Financial Revenues Y 2012		0.00	60,696.82
Extraordinary revenues		-	-
Others / Autres		15,451,490.11	17,158,690.03
Partner Accomodation		1,935,899.29	1,776,684.94
Contributions paid to incorrect account		760,221.20	10,127,696.85
Net gain on foreign exchange transactions		64,176.76	0.00
TOTAL		**207,949,281.67**	**221,183,365.38**
PAYMENTS / PAIEMENTS	16		
Personnel Costs (RP1)		(119,679,476.25)	(124,351,217.59)
Operating Costs (RP2)		(21,906,518.73)	(22,664,364.45)
Capital Costs (RP3)		(5,286,455.55)	(10,340,298.26)
Programmes (RP4)		(16,685,069.15)	(22,711,892.58)
Partner Accomodation		(1,795,504.16)	(3,493,522.17)
Correction of Contributions paid to incorrect account		(760,221.20)	(10,127,696.85)
Miscellaneous Payments		(19,775,601.60)	(16,181,921.55)
Financial Costs		(42,795.26)	(37,891.87)
Net loss on foreign exchange transactions		(118,479.61)	(6,977.62)
TOTAL		**(186,050,121.51)**	**(209,915,782.94)**
NET CASH FLOW FROM OPERATING ACTIVITIES		**21,899,160.16**	**11,267,582.44**
CASH FLOW FROM INVESTING ACTIVITIES			
PURCHASE OF NON CURRENT ASSETS		-	
		-	
NET CASH FLOW FROM INVESTING ACTIVITIES		**0.00**	**0.00**
CASH FLOW FROM FINANCIAL ACTIVITIES			
RECEIPTS / RECETTES		0.00	0.00
PAYMENTS / PAIEMENTS		0.00	0.00
NET CASH FLOW FROM FINANCING ACTIVITIES		**0.00**	**0.00**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS OF PERIOD	16	**21,899,160.16**	**11,267,582.44**
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	16	**46,668,789.31**	**31,855,053.34**
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**68,567,949.47**	**43,122,635.78**
CASH FLOW FROM THIRD PARTIES	17		
RECEIPTS		13,975,230.31	13,687,213.82
PAYMENTS		(13,605,398.57)	(15,873,238.31)
NET CASH FLOW FROM THIRD PARTIES		**369,831.74**	**-2,186,024.49**

ANNEX 4 to
FC(2014)169

INTERNATIONAL STAFF

STATEMENT OF CHANGES IN NET ASSETS/EQUITY AS AT 31/12/2013 (IN EUR)	
	Accumulated surpluses/(deficits)
Balance at 31 December 2011	**0.00**
Revaluation of investments	0.00
Revaluation of investments	0.00
Currency translation differences	0.00
Net gains and losses not recognized in statement of financial performance	0.00
Net surplus/deficit for the period	0.00
Balance at 31 December 2012	**0.00**
Revaluation of investments	0.00
Revaluation of investments	0.00
Currency translation differences	0.00
Net gains and losses not recognized in the statement of financial performance	0.00
Net surplus/deficit for the period	0.00
Balance at 31 December 2013	**0.00**

INTERNATIONAL STAFF

(n = 2013) (in EUR)

CHAPTER		BUDGET AUTHORISATIONS			COMMITMENTS	EXPENDITURES	BUDGETARY SURPLUS	
		BUDGET INITIAL : BC-D(2013)0005 REV: BC-D(2013)0215 -	AUTHORIZED TRANSFERS	ADJUSTED CREDITS			Credits carried forward to n+1	Lapsed credits
		(1)	(2)	(3) = (1)+(2)	(4)	(5)	(6) = (4) - (5)	(7) = (3) - (4)
1	**PERSONNEL COSTS**							
	Financial year n	123,184,714.14	2,741.80	123,187,455.94	122,483,905.83	118,550,477.41	3,933,428.42	703,550.11
	Carried forward:							
	Financial year n-1	4,318,647.85	0.00	4,318,647.85	4,257,470.62	3,307,565.72	949,904.90	61,177.23
	Financial year n-2	896,847.81	0.00	896,847.81	113,312.26	113,312.26	0.00	783,535.55
	Financial year n-3	29,295.48	-29,295.48	0.00	0.00	0.00	0.00	0.00
		128,429,505.28	-26,553.68	128,402,951.60	126,854,688.71	121,971,355.39	4,883,333.32	1,548,262.89
2	**OPERATING COSTS**							
	Financial year n	26,613,872.55	-400,000.00	26,213,872.55	23,977,829.50	22,175,953.95	1,801,875.55	2,236,043.05
	Carried forward:							
	Financial year n-1	1,700,465.38	0.00	1,700,465.38	1,427,107.74	1,326,438.95	100,668.79	273,357.64
	Financial year n-2	543,686.47	0.00	543,686.47	53,627.81	53,627.81	0.00	490,058.66
	Financial year n-3	0.00	0.00	0.00	0.00	0.00	0.00	0.00
		28,858,024.40	-400,000.00	28,458,024.40	25,458,565.05	23,556,020.71	1,902,544.34	2,999,459.35
3	**CAPITAL COSTS**							
	Financial year n	8,464,705.15	397,258.20	8,861,963.35	8,667,601.22	2,302,461.63	6,365,139.59	194,362.13
	Carried forward:							
	Financial year n-1	9,121,570.48	0.00	9,121,570.48	9,075,233.57	5,061,528.49	4,013,705.08	46,336.91
	Financial year n-2	4,500,499.69	0.00	4,500,499.69	4,334,719.99	736,943.34	3,597,776.65	165,779.70
	Financial year n-3	315,993.89	29,295.48	345,289.37	338,973.98	161,633.98	177,340.00	6,315.39
		22,402,769.21	426,553.68	22,829,322.89	22,416,528.76	8,262,567.44	14,153,961.32	412,794.13
4	**PROGRAMMES TOTAL**							
	Financial year n	28,605,708.00	0.00	28,605,708.00	23,576,070.68	10,069,572.00	13,506,498.68	5,029,637.32
	Carried forward:		0.00					
	Financial year n-1	10,528,718.78	0.00	10,528,718.78	9,889,707.08	5,935,982.43	3,953,724.65	639,011.70
	Financial year n-2	3,304,908.00	0.00	3,304,908.00	3,005,653.41	3,005,653.41	0.00	299,254.59
	Financial year n-3	20,000.00	0.00	20,000.00	13,336.00	13,336.00	0.00	6,664.00
		42,459,334.78	0.00	42,459,334.78	36,484,767.17	19,024,543.84	17,460,223.33	5,974,567.61
	TOTAL CHAPTERS 1 TO 4							
	Financial year n	186,868,999.84	0.00	186,868,999.84	178,705,407.23	153,098,464.99	25,606,942.24	8,163,592.61
	Carried forward:							
	Financial year n-1	25,669,402.49	0.00	25,669,402.49	24,649,519.01	15,631,515.59	9,018,003.42	1,019,883.48
	Financial year n-2	9,245,941.97	0.00	9,245,941.97	7,507,313.47	3,909,536.82	3,597,776.65	1,738,628.50
	Financial year n-3	365,289.37	0.00	365,289.37	352,309.98	174,969.98	177,340.00	12,979.39
		222,149,633.67	0.00	222,149,633.67	211,214,549.69	172,814,487.38	38,400,062.31	10,935,083.98

(n = 2012) (in EUR)

CHAPTER		BUDGET AUTHORISATIONS			COMMITMENTS	EXPENDITURES	BUDGETARY SURPLUS	
		BUDGET INITIAL : BC-D(2012)0011 REV: BC-D(2012)0201-R	AUTHORIZED TRANSFERS	ADJUSTED CREDITS			Credits carried forward to n+1	Lapsed credits
		(1)	(2)	(3) = (1)+(2)	(4)	(5)	(6) = (4) - (5)	(7) = (3) - (4)
1	**PERSONNEL COSTS**							
	Financial year n	128,937,568.67	437,501.98	129,375,070.65	127,868,542.54	123,549,894.69	4,318,647.85	1,506,528.11
	Carried forward:							
	Financial year n-1	4,233,018.94	0.00	4,233,018.94	3,839,798.47	2,942,950.66	896,847.81	393,220.47
	Financial year n-2	566,674.52	0.00	566,674.52	354,104.37	324,808.89	29,295.48	212,570.15
	Financial year n-3	25.25	-25.25	0.00	0.00	0.00	0.00	0.00
	Financial year n-4	2,777.92	-0.48	2,777.44	2,277.44	2,277.44	0.00	500.00
	Financial year n-5	17,831.51	-0.51	17,831.00	17,831.00	17,831.00	0.00	0.00
	Financial year n-6	0.00	0.00	0.00	0.00	0.00	0.00	0.00
		133,757,896.81	437,475.74	134,195,372.55	132,082,553.82	126,837,762.68	5,244,791.14	2,112,818.73
2	**OPERATING COSTS**							
	Financial year n	25,953,815.35	-1,431,657.00	24,522,158.35	23,239,799.36	21,539,333.98	1,700,465.38	1,282,358.99
	Carried forward:		0.00					
	Financial year n-1	4,816,495.59	0.00	4,816,495.59	4,710,638.65	4,166,952.18	543,686.47	105,856.94
	Financial year n-2	1,180,348.79	0.00	1,180,348.79	521,931.83	521,931.83	0.00	658,416.96
	Financial year n-3	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Financial year n-4	0.00	0.00	0.00	0.00	0.00	0.00	0.00
		31,950,659.73	-1,431,657.00	30,519,002.73	28,472,369.84	26,228,217.99	2,244,151.85	2,046,632.89
3	**CAPITAL COSTS**							
	Financial year n	10,638,157.48	1,094,934.26	11,733,091.74	11,599,242.22	2,477,671.74	9,121,570.48	133,849.52
	Carried forward:							
	Financial year n-1	10,552,767.35	0.00	10,552,767.35	10,474,718.83	5,974,219.14	4,500,499.69	78,048.52
	Financial year n-2	2,700,159.08	0.00	2,700,159.08	2,413,362.72	2,097,368.83	315,993.89	286,796.36
	Financial year n-3	63,979.45	0.00	63,979.45	11,127.91	11,127.91	0.00	52,851.54
	Financial year n-4	11,239.27	0.00	11,239.27	10,624.62	10,624.62	0.00	614.65
	Financial year n-5	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Financial year n-6	158,782.49	-753.00	158,029.49	158,029.49	158,029.49	0.00	0.00
		24,125,085.12	0.00	25,219,266.38	24,667,105.79	10,729,041.73	13,938,064.06	552,160.59
4	**PROGRAMMES TOTAL**							
	Financial year n	27,538,097.00	-100,000.00	27,438,097.00	23,394,293.20	12,865,574.42	10,528,718.78	4,043,803.80
	Carried forward:		0.00					
	Financial year n-1	12,883,168.31	0.00	12,883,168.31	12,312,966.22	9,008,058.22	3,304,908.00	570,202.09
	Financial year n-2	2,613,309.65	0.00	2,613,309.65	2,076,882.40	2,056,882.40	20,000.00	536,427.25
	Financial year n-3	0.00	0.00	0.00	0.00	0.00	0.00	0.00
		43,034,574.96	-100,000.00	42,934,574.96	37,784,141.82	23,930,515.04	13,853,626.78	5,150,433.14
	TOTAL CHAPTERS 1 TO 4							
	Financial year n	193,067,638.50	779.24	193,068,417.74	186,101,877.32	160,432,474.83	25,669,402.49	6,966,540.42
	Carried forward:							
	Financial year n-1	32,485,450.19	0.00	32,485,450.19	31,338,122.17	22,092,180.20	9,245,941.97	1,147,328.02
	Financial year n-2	7,060,492.04	0.00	7,060,492.04	5,366,281.32	5,000,991.95	365,289.37	1,694,210.72
	Financial year n-3	64,004.70	-25.25	63,979.45	11,127.91	11,127.91	0.00	52,851.54
	Financial year n-4	14,017.19	-0.48	14,016.71	12,902.06	12,902.06	0.00	1,114.65
	Financial year n-5	17,831.51	-0.51	17,831.00	17,831.00	17,831.00	0.00	0.00
	Financial year n-6	158,782.49	-753.00	158,029.49	158,029.49	158,029.49	0.00	0.00
		232,868,216.62	0.00	232,868,216.62	223,006,171.27	187,725,537.44	35,280,633.83	9,862,045.35

INTERNATIONAL STAFF
BUDGETARY OPERATIONS FOR FINANCIAL YEAR 2013 : USE OF CREDITS BY GLOBAL OBJECTIVE

	GLOBAL OBJECTIVES	BUDGET AUTHORISATIONS			COMMITMENTS	EXPENDITURES	BUDGETARY SURPLUS		Consumption rate budget	Consumption rate adjusted credits
		REVISED BUDGET	AUTHORIZED TRANSFERS	ADJUSTED CREDITS			Credits carried forward to n+1	Lapsed credits		
		(1)	(2)	(3) = (1)+(2)	(4)	(5)	(6) = (4) - (5)	(7) = (3) - (4)	(8) = (4)/(1)	(8) = (4)/(3)
A	ACTIVE OPERATIONS	15,694,308.93	0.00	15,694,308.93	14,963,262.16	13,700,006.44	1,263,255.72	731,046.77	95.34%	95.34%
C	ALLIANCE CAPABILITIES	25,289,625.16	-50,000.00	25,239,625.16	25,173,606.18	20,996,737.37	4,176,868.81	66,018.98	99.54%	99.74%
P	CONSULTAT COOP WITH PARTNERS	29,318,000.82	50,000.00	29,368,000.82	25,246,702.12	17,728,319.02	7,518,383.10	4,121,298.70	86.11%	85.97%
R	PUBLIC RELATIONS	21,754,556.52	-150,000.00	21,604,556.52	20,448,397.48	16,932,489.19	3,515,908.29	1,156,159.04	94.00%	94.65%
N	CONSULTATION PROCESS	20,687,962.93	378,000.00	21,065,962.93	20,675,664.16	20,245,473.65	430,190.51	390,298.77	99.94%	98.15%
M	OPERATIONAL ENVIRONMENT OF THE SITE	25,815,162.24	0.00	25,815,162.24	24,780,847.36	22,194,292.03	2,586,555.33	1,034,314.88	95.99%	95.99%
G	GOVERNANCE AND REGULATION	22,719,417.83	-21,000.00	22,698,417.83	22,643,232.39	17,878,427.91	4,764,804.48	55,185.44	99.66%	99.76%
S	HQ SECURITY	20,716,965.41	-207,000.00	20,509,965.41	20,228,423.72	18,877,447.72	1,350,976.00	281,541.69	97.64%	98.63%
L	PRIOR YEAR CREDITS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00%	0.00%
Z	PENSION SCHEMES	4,873,000.00	0.00	4,873,000.00	4,545,271.66	4,545,271.66	0.00	327,728.34	93.27%	93.27%
	GRAND TOTAL	186,868,999.84	0.00	186,868,999.84	178,705,407.23	153,098,464.99	25,606,942.24	8,163,592.61	95.63%	95.63%

INTERNATIONAL STAFF

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2013

BUDGETARY OPERATIONS FOR FINANCIAL YEAR 2013 : USE OF CREDITS PER RESOURCE POOL

	RESOURCE POOLS	BUDGET AUTHORISATIONS			COMMITMENTS	EXPENDITURES	BUDGETARY SURPLUS		Consumption rate revised budget	Consumption rate adjusted credits
		REVISED BUDGET	AUTHORIZED TRANSFERS	ADJUSTED CREDITS			Credits carried forward to n+1	Lapsed credits		
		(1)	(2)		(4)	(5)	(6) = (4) - (5)	(7) = (3) - (4)	(8) = (4)/(1)	(8) = (4)/(3)
1	Personnel / Personnel	123,184,714.14	2,741.80	123,187,455.94	122,483,905.83	118,550,477.41	3,933,428.42	703,550.11	99.43%	99.43%
2	Operating costs	26,613,872.55	-400,000.00	26,213,872.55	23,977,829.50	22,175,953.95	1,801,875.55	2,236,043.05	90.10%	91.47%
3	Capital	8,464,705.15	397,258.20	8,861,963.35	8,667,601.22	2,302,461.63	6,365,139.59	194,362.13	102.40%	97.81%
4	Programmes	28,605,708.00	0.00	28,605,708.00	23,576,070.68	10,069,572.00	13,506,498.68	5,029,637.32	82.42%	82.42%
	GRAND TOTAL	186,868,999.84	0.00	186,868,999.84	178,705,407.23	153,098,464.99	25,606,942.24	8,163,592.61	95.63%	95.63%

INTERNATIONAL STAFF

BREAKDOWN OF OBJECTIVES' COMMITMENTS BY RESOURCE POOLS FOR YEAR 2013

GLOBAL OBJECTIVES		Personnel			Operating Credits			Capital			Programmes			
			(1)	(2)		(1)	(2)		(1)	(2)		(1)	(2)	
A	ACTIVE OPERATIONS	13,091,892.93	83.42%	7.01%	1,224,894.00	7.80%	0.66%	172,075.00	1.10%	0.09%	1,205,447.00	7.68%	0.65%	100.00%
C	ALLIANCE CAPABILITIES	19,847,995.16	78.64%	10.62%	1,010,530.00	4.00%	0.54%	0.00	0.00%	0.00%	4,381,100.00	17.36%	2.34%	100.00%
P	CONSULTAT COOP WITH PARTNERS	13,210,700.82	44.98%	7.07%	902,345.00	3.07%	0.48%	0.00	0.00%	0.00%	15,254,955.00	51.94%	8.16%	100.00%
R	PUBLIC RELATIONS	11,268,236.52	52.16%	6.03%	1,661,714.00	7.69%	0.89%	1,020,000.00	4.72%	0.55%	7,654,606.00	35.43%	4.10%	100.00%
N	CONSULTATION PROCESS	19,170,741.43	91.00%	10.26%	1,732,521.50	8.22%	0.93%	162,700.00	0.77%	0.09%	0.00	0.00%	0.00%	100.00%
M	OPERATIONAL ENVIRONMENT OF THE SITE	9,923,240.45	38.44%	5.31%	13,072,943.33	50.64%	7.00%	2,818,978.46	10.92%	1.51%	0.00	0.00%	0.00%	100.00%
G	GOVERNANCE AND REGULATION	17,884,456.22	78.79%	9.57%	939,201.72	4.14%	0.50%	3,791,159.89	16.70%	2.03%	83,600.00	0.37%	0.04%	100.00%
S	HQ SECURITY / SECURITE DU SIEGE	13,917,192.41	67.86%	7.45%	5,669,723.00	27.64%	3.03%	897,050.00	4.37%	0.48%	26,000.00	0.13%	0.01%	100.00%
L	PRIOR YEAR CREDITS	0.00	0.00%	0.00%	0.00	0.00%	0.00%	0.00	0.00%	0.00%	0.00	0.00%	0.00%	0.00%
Z	PENSION SCHEMES	4,873,000.00	100.00%	2.61%	0.00	0.00%	0.00%	0.00	0.00%	0.00%	0.00	0.00%	0.00%	100.00%
	SubTotal	123,187,455.94		55.87%	26,213,872.55		10.99%	8,861,963.35		4.26%	28,605,708.00		15.29%	86.42%
	Grand Total													
	186,868,999.84													

(1) % to total of Global Objective
(2) % to Grand Total

ANNEX 9 to
FC(2014)169

INTERNATIONAL STAFF

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2013

Financial Year n

CREDIT TRANSFERS BETWEEN GLOBAL OBJECTIVES AUTHORIZED BY THE FINANCIAL CONTROLLER (NFR , ARTICLE 10) INCLUDES INTERNAL TRANSFERS

(EUR)

ORIGIN OF THE CREDITS			CREDITS NEEDED		
GLOBAL OBJECTIVE	AMOUNTS	TOTAL	GLOBAL OBJECTIVE	AMOUNTS	TOTAL
C	50,000.00				
R	150,000.00				
M	400,520.93				
G	24,705.14				
S	378,000.00				
			P	50,000.00	
			N	378,000.00	
			M	400,520.93	
			G	3,705.14	
			S	171,000.00	
TOTAL		1,003,226.07			1,003,226.07

Transfers authorised by FRP X.a - BC-DS(2004)0003 -EM(2004)0683 (transfers no more than 10 % of the original objective credit which received the credits) .

ANNEX 9 to
FC(2014)169

INTERNATIONAL STAFF

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2013

Financial Year N

CREDIT TRANSFERS BETWEEN GLOBAL OBJECTIVES AUTHORIZED BY THE FINANCIAL CONTROLLER (NFR , ARTICLE 10) EXCLUDES INTERNAL TRANSFERS

(EUR)

ORIGIN OF THE CREDITS			CREDITS NEEDED		
GLOBAL OBJECTIVE	**AMOUNTS**	**SUB - TOTAL**	**GLOBAL OBJECTIVE**	**AMOUNTS**	**SUB - TOTAL**
C	50,000.00		**P**	50,000.00	
R	150,000.00		**S**	150,000.00	
G	21,000.00		**S**	21,000.00	
S	378,000.00		**N**	378,000.00	
TOTAL		**599,000.00**	**TOTAL**		**599,000.00**

ANNEX 10 to
FC(2014)169

INTERNATIONAL STAFF

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2013

Financial Year N

CREDIT TRANSFERS BETWEEN RESOURCE POOLS AUTHORIZED BY THE FINANCIAL CONTROLLER (NFR , ARTICLE 10)

ORIGIN OF THE CREDITS			CREDITS NEEDED		
RESOURCE POOLS	**AMOUNTS**	**SUB - TOTAL**	**RESOURCE POOLS**	**AMOUNTS**	**SUB - TOTAL**
RP1	428,442.41		**RP1**	428,442.41	
	520.93		**RP3**	520.93	
		428,963.34			428,963.34
RP2	400,000.00		**RP3**	400,000.00	
		400,000.00			400,000.00
RP3	171,000.00		**RP3**	171,000.00	
	3,262.73		**RP1**	3,262.73	
		174,262.73			174,262.73
RP4	0.00				
		0.00			0.00
TOTAL		**1,003,226.07**			**1,003,226.07**

Transfers authorised by FRP X.a - BC-DS(2004)0003 -EM(2004)0683 (no more than 5 % of the original credit of the resource pool which received the credits).

ANNEX 10 to
FC(2014)169

INTERNATIONAL STAFF

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2013

Financial Year N

CREDIT TRANSFERS BETWEEN RESOURCE POOLS AUTHORIZED BY THE FINANCIAL CONTROLLER (NFR , ARTICLE 10)

ORIGIN OF THE CREDITS			CREDITS NEEDED		
RESOURCE POOLS	**AMOUNTS**	**SUB - TOTAL**	**RESOURCE POOLS**	**AMOUNTS**	**SUB - TOTAL**
RP1	428,963.34				
RP2	400,000.00				
RP3	174,262.73				
			RP1	431,705.14	
			RP3	571,520.93	
TOTAL		**1,003,226.07**			**1,003,226.07**

EXPLANATORY NOTES TO NATO INTERNATIONAL STAFF 2013 FINANCIAL STATEMENTS

NOTE 1: GENERAL INFORMATION

The financial statements cover the budgetary and financial operations relating to the NATO International Staff (IS) budgeted and non-budgeted functions and programs. Funds where the NATO-IS Office of Financial Control (OFC) is the Treasurer for the project (specifically Trust Funds) are also reported.

NOTE 2: ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below.

Declaration of conformity

The NATO-IS financial statements have been prepared in accordance with the NATO Accounting Framework as approved by nations under C-M(2013)0039 on 26 July, 2013 (which adapts a small number of IPSAS standards to better suit the specific requirements of the Alliance), with the .NATO Financial Regulations (NFR), the Financial Rules and Procedures (FRP) and, as decided by the North Atlantic Council on 17 July 2002 on the basis of the International Public Sector Accounting Standards (IPSAS) (Handbook of International Public Sector Accounting Pronouncements 2013 Edition) implemented by the International Public Sector Accounting Standards Board (IPSASB) and based on International Financial Reporting Standards (IFRS/IAS) issued by the IAS Board.

Due to limitations in the current automated accounting system, the IS financial statements are not yet fully IPSAS compliant. The accounting system currently used by NATO-IS is a budgetary driven cash accounting system. It can be analysed as a hybrid system which is essentially budget and cash based. It does not have an accrual based accounting functionality.

Basis of preparation

In the NATO-IS IT financial system, commitments are recorded for budget execution and control purposes, in accordance with NATO Financial Regulations. The commitment of credits is defined as the advance acceptance and recording of the financial consequence resulting from a legal obligation incurred during the financial year. Expenses linked to those commitments are recorded when the settlement of invoices is due. The unexpended balances of committed credits may be carried forward to the following financial years; eventually the unused part lapses.

Expenses reported in the Statement of Financial Performance are based on budgetary credit commitments. As a result of this approach, expenses in the Statement of Financial Performance tend to be overestimated, compared to accruals, and the presentation could be seen as too prudent.

This overestimation is not material for Personnel Costs (which represent 68% of the total) and is limited for Operating Costs since the budgetary controls tend to analyse the commitment requests on an approach similar to accruals (e.g. based on service provided between 1 January and 31 December). In 2013, the OFC continued to apply the process whereby invoices received after 31 December 2013 but relating to 2013 have been taken into account and allocated against the appropriate commitment. As a consequence it is considered that reported expenses are not significantly different from accruals for Personnel and Operating costs.

For Programme credits, on the other hand, the inherent nature of certain operations (e.g. grants) is such that the related project is executed over several years and achievement of objectives is only known at the end.. Commitments relating to Programme credits are generally based on an individual decision taken by the Organisation to award the grant. At that stage the Organisation has not benefited from the outcome of the subsidized event and the beneficiary has not entered into expenses eligible for reimbursement. Therefore, from an accrual perspective this could justify that no liability or expense be recorded. However, from the grantee's perspective the expectation may have been created that it will receive an inflow of cash from the Organisation; and therefore some form of obligation exists on the side of the Organisation. Experience indicates that the vast majority of grants result in the payments of the benefit to the grantees in amounts comparable, if not equal, to the one provided in the award decision. Lapse rates can also be explained by the fact that grantees, for their own reasons, do not always seek the payment of the awarded amounts. It is, however, reasonable on the part of the Organisation to expect that they will seek full payment of the award, and therefore in that respect it is normal that the related transactions be recorded as a commitment by the Organisation. This difference between the expected amounts of the expense or the liability and its actual value is inherent to the use of estimates, for which IPSAS provides.

Similarly, capital expenditures generate lapse rates that result from prudent budgetary evaluation of funding needs. In addition, some commitments are made at the end of the year in relation to special carry-forwards of credits, as provided by Article 11 bis of the NATO Financial Regulations, with approval of the Budget Committee, for specific projects for which no service was provided to the IS, nor goods received by the IS, during the financial year. It is estimated that the use of commitments overestimates expenses by 1-2%.

Contributions are registered as unearned revenue on the date they are called and revenue is recognized afterwards on the basis of related expenditure.

The NATO-IS will transition to full transactional accrual accounting with the implementation of an integrated Enterprise Resource Planning (ERP) solution.

The financial statements have been prepared on a going-concern basis and the amounts shown in these financial statements are presented in EUR. NATO-IS will continue in operation for the foreseeable future. The financial year begins on 1 January and ends on 31 December of the same year.

The following IPSAS have no material effect on the 2013 financial statements of the NATO-IS:

IPSAS 5: Borrowing Costs
IPSAS 6: Consolidated and Separate Financial
IPSAS 7: Investments in Associates.
IPSAS 8: Interests in Joint Ventures
IPSAS 10: Financial Reporting in Hyperinflationary Economies
IPSAS 11: Construction Contracts
IPSAS 16: Investment Property
IPSAS 21: Impairment of non-cash generating assets
IPSAS 26: Impairment of Cash-Generating Assets
IPSAS 27: Agriculture
IPSAS 32: Service Concession Arrangements: Grantor

The Cash Flow Statement has been prepared using the direct method, as recommended under IPSAS 2, item 27. a): "*whereby major classes of gross cash receipts and gross cash payments are disclosed*".

Segment Reporting

A segment is a distinguishable activity or group of activities for which it is appropriate to separately report financial information. For NATO IS the segment information is based on principal activities and different sources of financing for different categories of activities of the organisation. For this purpose, the following segments have been adopted: Civil Budget, Personnel Management Information System, Office of Shared Services, Trust Funds and Partners' Accommodation. Civil Budget operations can be broken down into Global Objectives.

Segment reporting for 2013 follows a more detailed methodology. It is not fully comparable to 2012 in that certain data was not available for 2012. The difference is not material.

Changes in Accounting Policy

In February of 2013 Council decided to adapt a number of IPSAS standards to better suit the specific requirements of the Alliance (C-M(2013)0006). The adaptations were spelled out in C-M(2013)0039 of July 2013, among which were specific items addressing IPSAS 6 Consolidated and Separate Financial Statements, IPSAS 12 Inventories, IPSAS 17 Property Plant and Equipment (PPE) and IPSAS 31, Intangible Assets. The items are detailed below.

Reclassification of financial statements of previous years

Compared to the 2012 financial statements, the breakdown of items of the Statement of Financial Position has been changed, bringing more detail and coherence in particular with relation to segment reporting.

Use of estimates

In accordance with generally accepted accounting principles, the financial statements include amounts based on estimates and assumptions by management, according to the most reliable information available, judgement and assumptions. Estimates include accrued revenue and expenses. Actual results could differ from those estimates. Changes in estimates are reflected in the period in which they become known.

Foreign currency transactions

The NATO-IS budget is authorized and managed in EUR so contributions are called in EUR. Foreign currency transactions as required are accounted for at the NATO exchange rates prevailing on the date of the transaction. Monetary assets and liabilities at year-end which were denominated in foreign currencies were converted into EUR using the NATO exchange rates applicable at 31 December 2013.

Realised and unrealised gains and losses resulting from the settlement of such transactions and from the revaluation at the reporting dates of monetary assets, and liabilities denominated in foreign currencies are recognised in the Statement of Financial Performance.

Financial risks

NATO-IS uses only non-derivative financial instruments as part of its normal operations. These financial elements include cash, bank accounts and deposit accounts.

All the financial instruments are recognised in the Statement of Financial Position at their fair value.

The Organisation is exposed to a variety of financial risks, including foreign exchange risk, credit risk, currency risk, liquidity risk and interest rate risk.

a. Foreign currency exchange risk

The exposure to foreign currency risk is limited as the majority of the NATO-IS's expenditures are made in EUR. The current bank accounts are held in EUR, CAD, CHF, DKK, GBP, NOK and USD. There are accounts with local banks for the Information and Liaison Offices in New York, Moscow, Kyiv, Tbilisi, Chisinau and Tashkent. The currency risk associated with these holdings is considered very limited because the aggregated amount held in these accounts is not more than KEUR 187.

The maximum exposure as at 31 December 2013 is equal to the total amount of bank balances, short term deposits and receivables. There is very limited credit risk associated with the realization of these elements.

b. Credit risk

Concerning cash and cash equivalent, the NATO-IS credit risk is managed by holding current bank accounts and short term highly liquid deposits that are readily convertible to a known amount of cash held with ING Bank (Belgium) which has the following short term credit ratings:

ING Bank	Credit Ratings as at 31.12.2013			
	Fitch	S&P	Moody's	Date of last rating update
Short term	A+	A	A2	17.12.2013

c. Liquidity risk

The liquidity risk, also referred to as funding risk, is based on the assessment as to whether the Organisation will encounter difficulties in meeting its obligations associated with financial liabilities. A liquidity risk could arise from a short term liquidity requirement. There is a very limited exposure to liquidity risk because of the funding mechanism which guarantees contributions in relation to the approved budgets. Some limited risk could be due to the accuracy of budget forecasts. However, past history shows that this process results in surpluses, and the budgetary rules provide for revised budgets.

d. Interest rate risk

Except for certain cash and cash equivalent balances, the NATO-IS financial assets and liabilities do not have associated interest rates. NATO-IS is restricted from entering into borrowings and investments, and, therefore, there is an insignificant interest rate risk. Interest earned is not a budgetary resource but contributes to the surplus owed to Nations.

Current Assets

a. Cash and cash equivalents

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

b. Funds managed for third parties

Funds managed on behalf of third parties are held in cash and are presented as a liability. They are accounted for when cash is effectively received. They are represented as a separate item in the cash flow statement of the entity in order to avoid any confusion.

c. Receivables

Receivables are stated at net realisable value, after provision for doubtful and uncollectable debts.

Contributions receivable are recognised when a call for contribution, based on the approved budget, has been issued to the funding Nations. These receivables represent the uncollected contributions from Member Nations. No allowance for loss is recorded with respect to Member countries' assessed contributions receivable.

d. Prepayments

A prepayment is a payment in advance of the period to which it pertains and is mainly in respect of advance payments made to third parties.

e. Inventories

As mentioned above, NATO's adaptations of IPSAS were spelled out in C-M(2013)0039 of July 2013, which included IPSAS 12 Inventories. It is described as follows:

Control of NATO-IS Inventories was refined with a set of 10 criteria to be used in assessing the level of control of an asset. A positive response on six of the criteria will lead to the asset being capitalised in the financial statements if it is above the capitalization threshold. This is applied from January, 2013.

Criteria that may indicate control of an asset
The act of purchasing the asset carried out (or resulted from instructions given) by the NATO Reporting Entity.
The legal title is in the name of the NATO Reporting Entity.
The asset is physically located on the premises or locations used by the NATO Reporting Entity.
The asset is physically used by staff employed by the NATO Reporting Entity or staff working under the NATO Reporting Entity's instructions.
The fact that the NATO Reporting Entity can decide on an alternative use of the asset.
The fact that the NATO Reporting Entity can decide to sell or to dispose the asset.
The fact that the NATO Reporting Entity, if it has to remove or destroy the asset, can take the decision to replace it.
The fact that a representative of the NATO Reporting Entity regularly inspects the asset to determine its current condition.
The fact that the asset is used in achieving the objectives of the NATO Reporting Entity.
The fact that the asset will be retained by the NATO Reporting Entity at the end of the activity.

Capitalization thresholds relevant to the financial statement are as follow:

Category	**Threshold**	**Basis**
Consumables	€50,000	Per location/warehouse
Spare Parts	€50,000	Per location/warehouse
Ammunition	€50,000	Per location/warehouse
Strategic stocks	€50,000	Per location/warehouse

Slow moving inventory – Assuming turnover of stock is over a 12 month period, any items not used over a 36 month period will be deemed to be slow moving.

Strategic stock **–** Some complex elements of slow moving stock can be identified as strategic if they are deemed essential to the effective operation of an asset and cannot be readily replaced by commercial off the shelf items or cannot be purchased due to market decisions to close production lines of key inventory items due to the advanced age of the strategic asset to which the stock relates

NATO-IS will capitalise inventory which it controls in its financial statements. Where there is a conflict between more than one NATO Reporting Entity as to the control of inventory, only the end-user entity will report the inventory in its financial statements, based on reliable information provided by the NATO services provider entity as defined in individual agreements between the two entities.

NATO-IS will include transportation costs involved in bringing the inventories to their present location and condition in the initial valuation of inventory. These costs will be measured on the actual cost of transportation per item of inventory or by using an apportionment of the global transportation costs of bringing the inventories to their present location and condition across all inventory items in the period. Transportation costs involved in the subsequent movement of inventory which brings them into operational use will not be included in the value of inventory. The method of measuring these costs will be disclosed.

For inventory held prior to 1 January 2013, and not previously recognized as an asset, NATO-IS provides a brief description of inventory held within its inventory recording systems in the notes to the financial statements.

Where this adaptation conflicts with another requirement of IPSAS this adaptation shall apply. For the remainder, IPSAS 12 shall apply.

Fixed assets (Property, Plant & Equipment and Intangible Assets)

a. Property, Plant & Equipment

As mentioned above, NATO's adaptations of IPSAS were spelled out in C-M(2013)0039 of July 2013, which included IPSAS 17 Property Plant and Equipment. It is described as follows:

Control of NATO PPE was refined with a set of 10 criteria to be used in assessing the level of control of an asset – they are the same as mentioned above under Inventory. A positive response on six of the criteria will lead to the asset being capitalised in the financial statements if it is above the capitalization threshold. This is applied from January 2013.

Capitalization thresholds relevant to the financial statement are as follow:

Category	Threshold	Depreciation life	Method
Land	€200,000	N/A	N/A
Buildings	€200,000	40 years	Straight line
Other infrastructure	€200,000	40 years	Straight line
Installed equipment	€ 30,000	10 years	Straight line
Machinery	€ 30,000	10 years	Straight line
Vehicles	€ 10,000	5 years	Straight line
Aircraft	€200,000	Dependent on type	Straight line
Vessels	€200,000	Dependent on type	Straight line
Mission equipment	€ 50,000	3 years	Straight line
Furniture	€ 30,000	10 years	Straight line
Communications	€ 50,000	3 years	Straight line
Automated information Systems	€ 50,000	3 years	Straight line

In light of the forthcoming move to a New NATO HQ in 2016, it has been decided, in general, that core PPE relating to the current HQ and Building Z will be fully expensed as will any fixed equipment and furniture that is not to be transferred to the New HQ. Only movable items purchased with a view to being used again in the New HQ/Building Z environment will be capitalized.

Where and as appropriate, specific pieces of PPE (for example buildings), will be broken down into component parts to allow depreciation of different parts of the asset at different rates. The IS has considered PP&E acquired prior to 1 January 2013 as fully expensed. For PPE held prior to 1 January 2013, and not previously recognized as an asset, the IS will provide a brief description in the Notes below.

NATO-IS deems that the NAC, by approving this guideline, recognized that the resources necessary to deal with the issues capitalising the legacy assets would exceed the benefits. In light of this and, combined with the fact that substantial assets will not survive the move to the New NATO HQ at the end of 2015, NATO-IS decided to apply the IPSAS principle of balance between Benefit and Cost (IPSAS 1, Appendix A).

b. Intangible Assets

As mentioned above, NATO's adaptations of IPSAS were spelled out in C-M(2013)0039 of July 2013, which included IPSAS 31 Intangible Assets. It is described as follows:

Control of NATO Intangible Assets was refined with a set of 10 criteria to be used in assessing the level of control of an asset – they are the same as mentioned above under Inventory. A positive response on six of the criteria will lead to the asset being capitalised in the financial ftatements if it is above the capitalization threshold. This is applied from January, 2013.

NATO Intangible Assets Capitalization Thresholds – NATO-IS will capitalise each intangible asset item that is above the following agreed NATO thresholds:

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

NATO-IS will capitalize all controlled intangible assets above the NATO Intangible Asset Capitalization Threshold. For anything below the threshold, the IS will have the flexibility to expense specific items.

NATO-IS will capitalize integrated systems and include research, development, implementation and can include both software and hardware elements. But NATO-IS will not capitalise the following types of intangible assets in their financial statements:

- rights of use(air, land and water);
- landing rights;
- airport gates and slots;
- historical documents; and,
- publications

NATO-IS will capitalize other types of intangible assets acquired after 1 January 2013 including:

- Copyright
- Intellectual Property Rights
- Software development

NATO-IS may consider intangible assets acquired prior to 1 January 2013 as fully expensed. The IS looked as far back as 2006 in establishing values of work in progress, especially software under development.

NATO-IS will report controlled intangible assets in its financial statements. Where there is a conflict between more than one NATO Reporting Entity as to the control of intangible assets, only the end-use entity will capitalise the intangible asset in its financial statements based on reliable information provided by the NATO services provider entity as defined in individual agreements between the two entities.

For intangible assets held prior to the 1 January 2013, and not previously recognized as an asset, NATO-IS will provide a brief description of intangible assets held in its intangible asset recording systems in the notes to the financial statements. Such disclosure will include as a minimum the types of intangible held, locations where intangible assets are held and the approximate number of items held per asset category.

If an intangible asset is upgraded after 1 January 2013, only the portion related to the modification will be capitalized.

Where this adaptation conflicts with another requirement of IPSAS this adaptation will apply. For the remainder, IPSAS 31 shall apply. This adaptation is effective for financial reporting periods beginning on 1 January 2013.

Current liabilities

a. Payables

Payables are amounts due to Nations in relation with budget rules or to third parties for goods received and services provided that remain unpaid. This includes an estimate of accrued obligations to third parties for goods and services received but not yet invoiced.

b. Advances and Unearned revenue

Funds are always called in advance of their need because NATO-IS has no capital that would allow it to pre-finance any of its activities.

Unearned revenue represents participating Nations' contributions which have been called for current budgets but that have not yet been recognised as revenue in the absence of matching expenses.

Advances are recognised when calls in relation to future year budgets are issued.

Leases

In addition to lease agreements that NATO-IS has signed for its own use, lease contracts were signed by NATO-IS for some delegations' accommodation; the related costs are charged back to the occupants in relation to the surface they occupy in the leased buildings.

Revenue and expense recognition

a. Revenue from non-exchange transactions

Revenue comprises contributions from Member nations. Contributions to be called from Member Nations, based on the budget approved by the North Atlantic Council, are initially recorded as unearned revenue liabilities. Because contributions are subject to conditions that, if unfulfilled, require the return of the transferred resources, the entity recognises a liability until the condition is fulfilled.

Assessed contributions for the NATO-IS Civil Budget are accounted for as unearned revenue when called; revenue is recognised and the liability is discharged when the conditions are fulfilled. Revenue is recognised in that it is probable that the economic benefits will flow to the entity and the revenue can be measured reliably. The balance of unspent contributions and other revenues which relate to future periods are deferred accordingly.

In-kind contributions of services are currently not recognised in the Statement of Financial Performance. The number of Voluntary National Contributions (VNCs) staff is disclosed in the "employee disclosure" section below.

b. Revenue from exchange transactions

Resources of revenue from exchange transactions are measured at fair value of the consideration received or receivable and are recognised when goods and services are delivered. This is revenue in relation to the reimbursement of administrative support and common operating costs, PMIS and accommodation costs.

Voluntary contributions such as pledges in relation to Trust Funds are accounted for as unearned revenue when confirmed by the donor, revenue is recognised and the liability is discharged when the conditions are fulfilled.

c. Expenses

Expenses are reported in the Statement of Financial Performance and based on budgetary credit commitments as explained above in "Basis for preparation".

d. Long term unearned revenue

The budget resources provided by Nations for the funding of capital expenditure are recognised as a liability in the Statement of Financial position as long term unearned revenue.

Earned revenue will be progressively recognised from long term unearned revenue, in an amount equal to annual depreciation of the related non current assets, as future economic benefits and service potential will flow to the NATO international Staff when the asset is operational.

NOTE3: CASH AND CASH EQUIVALENTS

The current bank accounts are held in EUR, CAD, CHF, DKK, GBP, NOK and USD. Deposits are held in interest-bearing bank current accounts that are immediately available.

NATO-IS has information and liaison offices in New York, Moscow, Kyiv, Tbilisi, Tashkent and Chisinau. Current accounts of these offices held with local banks. The aggregate holdings in these local currencies amount to approximately KEUR 187.

Cash held for Trust Funds for which NATO-IS is the executing agent and therefore acts as the principal amounted to EUR 3,172,895.86, as listed below:

	AGENCY	CURRENCY	AMOUNT	ACCOUNT NUMBER	CURRENCY	BALANCE
	NATO MANAGED					
46	CRISIS MGMT MAURITANIA			310-1920560-46	EUR	606,618.78
76	NATO JWGDR PROF DEV PROGR			310-1920224-01	EUR	253,806.79
85	NATO TRUST FUND BUILDING INTEGRITY			310-1920518-04	EUR	1,160,361.55
57	N.R.C. WEB SITE			310-1920500-83	EUR	14,579.18
87	NATO-SPS STAND.OFF EXPLOSIV DETECT.			310-1920523-09	EUR	946,535.78
36	NATO SILK AFGHANISTAN PROGRAMME	USD	258,701.07	310-1920544-30	EUR	190,993.78
	Total					3,172,895.86

NOTE 4: FUNDS MANAGED FOR THIRD PARTIES

Funds managed on behalf of third parties are held in cash or as a receivable if they correspond to an unpaid non-budgetary contribution in relation to nationally funded elements. In case of an anticipated contribution, they are accounted for when cash is effectively received. The corresponding amounts are presented as a current liability.

The NATO-IS manages as Treasurer 26 accounts for third parties, essentially for various Trust Fund projects not financed by the common funding principle. A list of these accounts is provided below. For transparency reasons the related cash amounts are disclosed separately in order to avoid any confusion with funds held by NATO IS on its own behalf.

	AGENCY	CURRENCY	AMOUNT	ACCOUNT NUMBER	CURRENCY	BALANCE
	THIRD PARTY					
22	COLONIES VACANCES			310-0966598-79	EUR	119,613.93
24	NATO AIRCRAFT EW TRIAL			310-1101880-46	EUR	500,973.72
27	NATO SWG4 NAVAL EW TRIAL			310-1278152-69	EUR	236,960.23
30	NTF GEORGIA PROF. DEV. PROGR.			310-1920526-12	EUR	293,392.21
33	NATO TRUST FUND TAJIKISTAN II			310-1920540-26	EUR	445,788.64
34	NATO TRUST FUND MOLDOVA II			310-1920542-28	EUR	266,259.31
35	NATO TRUST FUND BOSNIA-HERZEGOVINA II			310-1920543-29	EUR	469,261.49
37	NRC - CAI PHASE IV			310-1920545-31	EUR	289,788.75
38	NRC - HELICOPTER MAINTENANCE			310-1920548-34	EUR	2,002,336.18
		USD	306,875.73	310-1920548-34	EUR	226,493.71
39	NATO TRUST FUND AZERBAIJAN JCP			310-1920550-36	EUR	951,729.12
40	NATO TRUST FUND UKRAINE II PH 2			310-1920549-35	EUR	530,204.41
41	NATO UKRAINE RADACT DISP			310-1920551-37	EUR	84,995.00
42	NATO TRUST FUND GEORGIA IV			310-1920556-42	EUR	308,904.23
43	NATO CNAD VNCF			310-1920555-41	EUR	373,653.63
44	NTF JORDAN III			310-1920558-44	EUR	20,000.00
45	NTF SERBIA IV			310-1920559-45	EUR	814,916.91
47	NRC DISPOSAL EXCESS AMMUN			310-1920561-47	EUR	50,000.00
49	NRC HELICOPTER MAINT PH II			310-1920563-49	EUR	2,584,999.80
52	ASSOCIAT. DU PERSONNEL			310-0961992-32	EUR	86,115.59
63	NATO APM DESTR.BELARUS			310-1918922-57	EUR	22,735.96
66	UKRAINE II SALW MUNITIONS DESTR.			310-1919440-90	EUR	14,338.14
70	NATO TRUST FUND KMELNITSKY			310-1920133-07	EUR	2,514.77
74	NATO TF PROJECT AFGHAN & CENTRAL ASIA	USD	99,251.53	310-1920198-72	EUR	73,275.40
75	NATO US TRAMIL	USD	514,706.62	310-1919684-43	EUR	379,997.50
83	N.R.C. - TMD III			310-1920516-02	EUR	25,047.81
84	NATO TRUST FUND MAURITANIA			310-1920517-03	EUR	670,385.16
	Total					11,844,681.61

NOTE 5: ACCOUNTS RECEIVABLE

Contributions receivable are funds requested from the Nations to finance the 2013 budget and the advances called in relation to the 2014 budget that remain unpaid at year end. One advance for the 2013 budget was called in 2012 (FC(CC)(2012)0015(CBC-02)) and two calls for contributions were issued in 2013: (FC(CC)(2013)0008(CBC-01) in February and FC(CC)(2013)0015(CBC-02) in November. In 2013 an advance was called for the 2014 budget (FC(CC)(2013)0015(CBC-02)). At year-end 2013, outstanding contributions relating to previous financial years were not material.

Receivables from member Nations, Partners and others correspond to amounts due in relation to common operating costs, administrative support, rental of modular buildings, accommodation fees of Partner buildings, items procured on behalf of third parties, etc.

Receivables from staff members correspond to advances to be regularised (education allowances, travel on duty) and loans as provided by the CPRs.

Receivables from the Provident Fund are funds that were advanced by the IS, as manager of the fund, to accelerate the pay out on the retirement of individuals and which is to be recovered.

Undercalled receivables relates to EUR 2,000,000 at the end of 2012 that were not called in 2012. The resulting undercall was regularised in 2013 in accordance with NFRs governing the Call for Contribution process.

NOTE 6: PREPAYMENTS

Other receivables are mainly constituted of other advances to be regularised (NATO Liaison Offices, pre-payments etc.).

NOTE 7: INVENTORIES

Inventories for office supplies, maintenance supplies, medicines and munitions are valued at EUR 863,346.75 based on a hybrid method imposed by the various types of software used in the IS. Inventories represent less than 0.3% of the annual IS budget.

NOTE 8: FIXED ASSETS

See changes in accounting policy.

The following principles have been applied.

Property, Plant and Equipment

Infrastructure, plant and equipment are stated under the accounting principles mentioned in Note 2 above.

This consists principally of costs related to the NR2 and audiovisual equipment.

Network Realignment and Robustness (NR2) is part of a strategic plan to revitalize the management and support of Information and Communications Technology (ICT) within the Headquarters. This element delivered a hardware and software upgrade to the physical infrastructure for which the bulk was delivered prior ro close 2012. Relevant elements completed in 2013 are reported hereunder.

Land and buildings

Land and buildings are shown at fair value, based on internal valuation and judgment on each reporting date.

Belgium has granted to NATO by way of concession a plot of land on which NATO is authorized to erect all necessary buildings and facilities needed to perform its functions. A symbolic price is paid annually for the rent. NATO is the full owner of all structures built thereon. Belgium remains the sole and full owner of the land, which is public domain (“domaine publique”). The concession ends 180 days after NATO has left the buildings and facilities. At the end of the concession, there will be no property rights transferred to NATO. As a consequence, given the indefinite economic life of land and the specific nature of concessions, the use of the land is classified as an operational lease. The rent charged by the host nation is recognised as an expense in the Statement of Financial Performance.

The original buildings of the current HQ site are estimated as having a zero value in consideration of their age, of the terms of the concession agreement, of the limited value for money of an evaluation study and of the planned move to new premises in 2016.

Material and non-recorded items purchased prior to 1 January 2013 are the fourth wing of Building Z assessed at the historical cost of EUR 2.566 million and the Secretary General’s residence with an assessed market value of EUR 10,300,000 as at November 2013.

Intangible assets

Intangible assets are stated at historical cost minus accumulated depreciation and any recognized impairment loss.The assets deemed valid are software/hardware systems that are work in progress and will be of continuing use in the new HQ. They are as follows:

- Digital Assests Management System (DAMS) – this is a Public Diplomacy tool that will make NATO’s digital assets accessible in multiple formats to the media. It will improve the retrieval and availability of multimedia files to all NATO Staff and will serve as Public Diplomacy’s single shared storage platform for all public digital assets.

- Enterprise Resource Planning (ERP) – this Oracle based software will enable NATO-IS to more effectively manage and report on the human and financial resources under its responsibility.by integrating business processes from Finance, Budget, Procurement, Facility Management, and Human Resources (HR).

- Integrated Library System (ILS) – the project is designed to provide an online library automation solution to support the daily operations of the IS Library (which is part of PDD) ranging from cataloguing and circulation procedures to delivering resources and services via its website.

- Web Content Management (WCM) – the project will update and improve the web based content management system for the public facing website of NATO Headquarters.

- Enterprise Information Management (EIM) is a core multi-year program of procedures and integrated software applications to manage information throughout NATO HQ and ensure that information is handled effectively and securely.

- Project Portfolio Management System (PPM) is part of a NATO Resource Reform process under the aegis of the NATO Office of Resources (NOR). The system will provide the necessary functionality for collecting, analysing, validating, recording, consolidating and reporting information on current and planned common funded military resources in terms of Investment, Operation and Maintenance and Manpower costs.

Depreciation

Straight-line depreciation method is used for all categories, with the life cycles being in keeping with those stated in the change in accounting policy.

Impairment of fixed assets

The carrying amounts of fixed assets are reviewed for impairment if events or changes of circumstances indicate that they may not be recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the impairment loss. Any provision for impairment losses is charged against the Statement of Financial Performance in the year concerned. The only impairment concerns the EIM project wherein there was a loss estimated of EUR 2,000,000 due to an unsuccessful implementation in an early phase of the project..

The values of the PP&E and intangible assets as at 31 December 2013 are presented below:

(amounts in EUR)	Carrying Amount end 2012	Updated accounting policy-start point	Additions	Disposals	Depreciation	Impairment	Carrying Amount end 2013
COMMON FUNDED							
Installed equipment	0	0	383,444	0	0	0	383,444
Machinery	0	0	131,720	0	13,172	0	118,548
Vehicles	0	0	22,486	0	3,373	0	19,113
Communications	0	0	558,530	0	43,866	0	514,663
Land and buildings	0	0	0	0	0	0	0
Intangible assets	0	5,808,285	5,304,032	0	71,115	2,000,000	9,041,201
TOTAL	**0**	**5,808,285**	**6,400,212**	**0**	**131,527**	**2,000,000**	**10,076,970**

NOTE 9: PAYABLES

Payable to Nations

The payable of EUR 109,948.14 represents the net revenue in 2013 from interest, foreign exchange difference gain and bank charges – this figure includes €1,315.08 in interest from the OSS

For the Civil Budget, these receipts are deducted from the contributions due by Nations to fund the Civil Budget in the following year; the deduction is made in the second call. The table below reflects the Civil Budget breakdown (Civil Budget only).

	December 31, 2013	December 31, 2012
Revenue		
Interest	197,180.01	276,359.43
Foreign exchange rate difference/gain	20,717.50	14,381.99
Total revenue	**217,897.51**	**290,741.42**
Expenses		
Bank costs	37,990.26	41,202.28
Foreign exchange rate difference/loss	71,274.19	24,209.61
Total expense	**109,264.45**	**65,411.98**
Net revenue to return to nations	**108,663.06**	**225,329.53**

Lapsed credits are budget funds for which no legal liability exists. They cannot be spent in subsequent years. Lapsed credits are deducted from the contributions due from nations to fund the Civil Budget in the second call of the following year. Lapsed credits for the Civil Budget alone amounted to EUR 10,935,083.98. Lapsed credits for the PMIS amounted to EUR 2,369.65 (there were no other lapsed credits for segments).

Miscellaneous receipts correspond to amounts collected by NATO-IS for services rendered to staff (e.g. private phone calls) or services rendered to and works performed for entities, including delegations, present on the HQ site (e.g. telephone, refurbishment works, cabling). They also include amounts related to Science for Peace and Security grants returned to NATO-IS. These receipts come as a deduction in the calculation of the contributions due from nations to fund the Civil Budget in the following year; the deduction is made in the second call.

The payable of EUR 5,022,398.28 in relation to the reimbursable salaries represents the amount due to the United States (EUR 4,824,187) and the Netherlands (EUR 180,211) for civilian staff members who are paid directly by the United States or Netherlands Governments. This amount payable is usually used by the nations in question applying it against their annual project contribution.

Other payables to Nations consist of monies relating to balances of closed Trusts Funds for which NATO-IS is awaiting instructions on the redistribution of funds (EUR 548,767), to the settlement of the closure of the HAWK Agency (EUR 425,013), to three other projects, “ISAF economic footprint Afghanistan”, “National Kosovo” and “Partnership Network” (EUR 77,141) and to a number of Nations’ voluntary advances (EUR 640,000).

Stikker Fund

The Stikker Fund originates from a donation made by former Secretary General D.U. Stikker in the 1960s. In accordance with the conditions laid down by the donor, the Fund is used for special financial aid to NATO staff in exceptional and distressing circumstances.

Payable to suppliers

Payables to suppliers appear further to the adoption in 2012 of a procedure for registering this liability. This corresponds to invoices dated 2013, relating to 2013, received up to the closure of accounts, but not yet certified and not having given rise to an outflow of cash. Of a total amount of EUR 10,560 million, EUR 8,056,585 million related to Civil Budget transactions.

Payable to others

This item consists mainly of amounts due to executing agents in relation to Trust Funds.
Other payables include deposits in relation to appeals, settlement of salaries for staff leaving the organisation at the end of the year, etc.

NOTE 10: UNEARNED REVENUE AND ADVANCED CONTRIBUTIONS

	December 31, 2013	December 31, 2012
Unearned revenue from budgetary credits	38,405,800.23	35,280,633.83
Unearned revenue from Partner Accommodation	20,777.72	53,794.98
Unearned revenue from previous years' surplus	0	0
Advance contributions	46,917,000.00	46,700,000.00
Unearned revenue inventory	863,346.75	997,193.70
Total Unearned Revenue and Advances	**86,206,924.70**	**83,031,622.51**

Unearned Revenue

Unearned revenue corresponds to contributions called in 2013 or before, but for which corresponding expenses will be incurred after the reporting date of 31 December 2013.

The unearned revenue includes principally those amounts of contributions which will be spent in subsequent years on the NATO Civil Budget as credits carried-forward resulting from the budget execution in accordance with the NATO Financial Regulations or as advances received for the following years' budget.

a. Unearned revenue from Civil Budget execution

EUR 38,400,062.31 was part of calls for the 2013 or prior Civil Budget but is foreseen to be spent in subsequent years. The NATO Financial Regulations provide that credits lapse if the funds are not spent by the end of the second year following the year in which they have been approved. There was also an unearned revenue from OSS in the amount of EUR 5,737.92.

Because the current IT financial system has neither invoice registration functionality nor an accounts payable functionality, the current reporting is based on commitments instead of expenses. As a consequence, unearned revenue is estimated at the amount of credits carried forward (EUR 38,400,062.31). However, these funds can be classified in three indicative categories:

1) Funds for which no purchase order has been issued at year end – this relates to a special carry-forward of credits authorized by the Budget Committee under BC-D(2013)0220 and BC-DS(2013)0066 essentially for the ICT-Revitalization Programme, NOR's Project Portfolio Management, the ERP and PDD DAMS and archival related projects (EUR 7,249,974).

2) Funds for which a purchase order has been issued but the related service provision or delivery of goods had not been completed by year-end - as can typically be the case for some Capital Expenditure and/or can not be precisely assessed for unsettled grants such as those of the Science for Peace and the Security Programme or (estimated amount EUR 25,414,784).

3) Funds for which the service has been rendered or the goods delivered, but the payment has still to be made – typically, this relates to personnel expenditure and the greatest part of Operating Costs (estimated amount EUR 5,735,304).

b. Unearned revenue – Annex IV

When the funding policy for Annex IV was established in 1997 (BC-DS(97)18 Revised), Annex IV had budgetary credits authorised to provide for Partner accommodations on site. These were expanded to create offices in the Manfred Wörner Building. The Civil Budget Committee then decided to have the Partners reimburse the total rent and operational costs in proportion to the space they occupied. Further Nations agreed that financing of Annex IV should be treated separately from the Civil Budget. They also agreed that Annex IV would, in future, be funded by Partners rental payments, therefore Annex IV is not subject to the lapse rules foreseen in NATO's Financial Regulations.

The unearned revenue corresponds to commitments carried forward (e.g. invoices not yet paid or received). In addition, due to the limitations of the current financial software which does not allow the calculation of separate net assets for this budget, the accumulated financial results of Annex IV are shown in a specific commitment carried forward from one year to another. This commitment receives each year the cumulative result of the budget, being the difference between contributions and expenditures represented by commitments: a surplus of EUR 210,539.84 at the end of 2013 (surplus of EUR 8,689.82 at the end of 2012).

The IS contributes to this budget in proportion to the surface occupied by its services and receives income for common operating costs (see Notes 12 and 13).

Advances

Advances called amounting to EUR 46,717,000 relate to funding the 2014 Civil Budget (FC(CC)(2013)0015(CB-02) and an advance of EUR 200,000 was called for the OSS relating to the 2014 budget.

NOTE 11: LONG TERM UNEARNED REVENUE

The long term unearned revenue is unearned revenue in relation to net carrying amounts of PP&E and intangible assets. Revenue is recognised over the estimated life cycle of the PP&E and the intangible assets when PP&E and intangible assets are recognized.

NOTE 12: REVENUE

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the result can be measured reliably.

Revenue from non-exchange transactions

The total revenue from non-exchange transactions is EUR 163,739,749.25 with NATO-IS representing EUR 163,138,591.04. Contributions, when called, are booked as unearned revenue and subsequently recognised as revenue when earned. The revenue recognition is matched with the recognition of expenses against the budgets.

Revenue from exchange transactions

The total revenue from exchange transactions .is broken down as follows: EUR 9,545,325.00 revenue in relation to the reimbursement to the Civil Budget of administrative support and common operating costs + EUR 100,519.00 revenue received from concessions + EUR 98,161.69 in contributions from other NATO bodies to cover the expenses of the PMIS system according to their proportion of established posts + EUR 1,854,982.67 as revenue matching the costs of activites undertaken by NATO-IS as executive agent for Trust funds, and EUR 2,152,908.87 in rent charged principally to Partner Countries for office space at NATO HQ (Buildings V/VA/Woerner).

Financial Revenue

Financial revenue of EUR 219,393.29 (being principally EUR 217,897.51 from the Civil Budget) is revenue from exchange transactions measured at fair value received or receivable for interests and foreign exchange gains.

Internal Transactions

Internal Transactions correspond to transactions between segments for services provided or goods delivered, and to the matching revenue.

In 2013 internal transactions corresponded to the rental cost for space occupied by NATO-IS in the V and VA buildings for Partner accommodation (EUR 611,599) and to its share of the PMIS costs (EUR 36,392.96). Conversely NATO-IS charged common operating costs for V and VA buildings (EUR

261,234). The OSS received a cash advance from the IS in 2013 (EUR 200,000) and paid back IS advances (EUR 350,000), it also paid rent for office space in the V and VA buildings for Partner accommodation (EUR 81,334.40). The PMIS received a cash advance from NATO-IS (EUR 75,000). This comment applies to Note 13 as well.

NOTE 13: EXPENSES

Wages, salaries and employee benefits

The personnel related costs include all staff expenses, as well as other non-salary related expenses in support of common funded activities. The amounts include expenses for salaries and emoluments for approved NATO-IS positions and temporary personnel, for other salary related and non-related allowances including overtime, medical exams, recruitment, installation and removal and for contracted consultants and training in accordance with Civilian Personnel Regulations.

Operating costs: rents, supplies and consumables used

The operating costs relate primarily to costs necessary to the day to day operation of the HQ, as well as travel expenses.

Capital expenditure

Capital expenditure relates to items such as IT, security, television and radio studios and the Media Operations Centre.

Programmes and grants

The majority of grants are considered expended when the decision to attribute the grant is taken. Programmes and grants is a broad term that covers activities with Partners and NATO nations ranging from funding seminars and conferences through NGOs, to bringing groups of experts to NATO HQ for briefings and attributing grants in the framework of the Science for Peace Security Programme (the latter being the main component). It also includes the cost of running NATO Information and Liaison Offices in Russia, Ukraine, Georgia, Moldova and New York.

Programmes and grants expenses include advances paid to beneficiaries of grants. This is an area where NATO-IS is not fully compliant with IPSAS. and is unlikely to be in the near future in light of the adjustments of the current IT budgeting system it would require.

Financial costs

Financial costs include expenses for banking costs and foreign exchange losses.

Other expenses

Other expenses is the amount of net interest revenue that will be returned to the Nations, and is booked as a payable in the Statement of Financial Position. The breakdown of this amount is explained in Note 9. Additionally revenue received from concessions and transferred to third parties (including the Staff Centre) amounts to EUR 117,519 and is reported.

NOTE 14: RESULT OF THE PERIOD

The result of the period is EUR 202,363.22. The surplus is realised from the activities in support of Partner accommodation.

NOTE 15: CASH FLOW STATEMENT – IN FLOWS

Other Operating Revenue

Other operating revenue is comprised of inflows in common operating funds and in administrative support.

Others

This refers to a variety of receipts not attributable to Civil Budget operations including the following approximate figures:

1) Recovery of EUR 3.1 million from the Provident Fund for advances made to departing staff for payment of their capital
2) EUR 3.11 million in contributions received for the Von Karman Institute and paid out again
3) EUR 3.5 million in miscellaneous 2011 invoices for which funds were received in 2012 (including missions, telephone calls etc)
4) EUR 0.87 million in contributing Nations' funds from trust funds that have ended and are being held until re-directed as per instructions from the Nations involved.
5) EUR 1.55 million in rent from nations for the NG-NZ building.

National Contributions paid to incorrect account

This covers contributions inadvertently paid by Nations to NATO-IS for the New NATO HQ or to Pension Fund accounts, which are then re-directed to the correct accounts.

NOTE 16: CASH FLOW STATEMENT – OUT FLOWS

Correction of National Contributions Paid to Incorrect Account

This covers the re-direction of contributions inadvertently paid by nations to NATO-IS in lieu of the New NATO HQ or to Pension Fund accounts.

Miscellaneous Payments

The figure includes items covered under Notes 13 and 15 “Others” above.

Cash Flows related to investment activities

Cash flows related to investment activities could not be indentified due to IT system limitations.

Cash and Cash Equivalents

The columns for 2012 and 2013 are not directly comparable due to the change in methodology for funds held for third parties. As from 2013, the latter are limited to funds for which NATO-IS acts as agent and no longer includes PMIS, OSS and Trust Funds for which NATO-IS is the executing agent (EUR 3,531,520.91 end 2012). The cash held for third parties (EUR 15,021,003.36 end 2012) has therefore been reduced to EUR 11,474,849.85 when using the new approach. Cash held by NATO-IS as principal has become EUR 46,668,789.31 wheras it was EUR 43,122,635.78 in the approach taken end 2012. The total amount of cash remains unchanged at EUR 58,143,639.16 at end 2012.

NOTE 17: BUDGET INFORMATION AND RECONCILIATION WITH CASH FLOWS

Civil Budget

Presently, the NATO Civil Budget is not publicly available.

Presentation of budget information in the financial statements

The initial approved Civil Budget corresponds to total credits authorised by the North Atlantic Council, normally at the end of the previous financial year. During the year the budget is adjusted as required. The final authorisation is the approved credit situation as reported at the end of the financial year including budgetary increases/decreases approved by the Budget Committee and transfers approved by the Budget Committee or by the Financial Controller, depending on thresholds.

The actual amounts referred to by IPSAS 24 ("amounts that result from execution of the budget") are considered to be the commitment of credits.

The Civil Budget is based on an Objective Based Budgeting (OBB) system which links financial and human resources to Global Objectives. Contributions to these Global Objectives by IS Divisions and Independent Offices are broken down into Operational Objectives. The OBB system is based on eight Global Objectives which are defined at a political and strategic level of the Organization.
The eight objectives are set out below:

A	ACTIVE OPERATIONS
C	ALLIANCE CAPABILITIES
P	CONSULTATION AND COOPERATION WITH PARTNERS
R	PUBLIC RELATIONS
N	CONSULTATION PROCESS
M	OPERATIONAL ENVIRONMENT OF THE HEADQUARTERS SITE
G	GOVERNANCE AND REGULATION
S	HEADQUARTERS SECURITY

The budget classification is also based on the economic nature of the expenses broken down into four Resource Pools as follows:

Resource Pool 1: Personnel
Resource Pool 2: Operations and Maintenance
Resource Pool 3: Capital
Resource Pool 4: Programmes

All budget transactions, commitments and payments are tracked according to a classification by Objective and by Resource Pool.

An analysis of budget execution is provided at Annexes 5 to 10.

Lapse Rates

The overall lapse rate at the end of 2013 was EUR 10,935 million, of which lapsed credits related to the 2013 approved budget (excluding carried forward from previous budget years) amounted to EUR 8.164 million. The following table puts the evolution of lapsed credits in context.

in EUR	Financial year 2009	Financial year 2010	Financial year 2011	Financial year 2012	Financial year 2013
Civil Budget	3,151,322.57	4,555,397.41	3,671,208.45	9,862,045.35	10,935,083.98
ANNEX IV: SPECIAL CAPITAL EXPENDITURE RELATED TO OUTREACH PROGRAMME - Lapsed credits	0.00	49,241.13	0.00	0.00	0.00
TOTAL LAPSED CREDITS	3,151,322.57	4,604,638.54	3,671,208.45	9,862,045.35	10,935,083.98
- as a % of the budget	1.4%	2.0%	1.60%	4.44%	5.18%
miscelleanous receipts	601,332.69	589,529.79	410,770.61	346,570.05	315,268.95
net financial results	509,387.81	352,154.07	398,408.65	225,329.53	108,633.06
overcall of contributions	0.00	0.00	0.00	0.00	0.00
TOTAL SURPLUS TO BE DISTRIBUTED	4,262,043.07	5,546,322.40	4,480,387.71	10,433,944.93	11,358,985.99

The high level of lapsed credits come from current year programme credits in the amount of EUR 5.029 million, essentially for projects that did not receive approval as opposed to under spent. For previous years the comparable figures were EUR 4.043 million in 2012 (for similar reasons to 2013), EUR 0.308 million in 2011 and EUR 0.522 million in 2010.

Reconciliation of the Budget Execution Statement and the Cash Flow Statement

The Civil Budget is prepared for the same period (1 January to 31 December) and encompasses the same entity (NATO International Staff) as these financial statements but the basis is different. Consequently, the reconciliation is done with the Cash Flow Statement, in accordance with IPSAS 24. In addition, NATO-IS manages a series of non-appropriated funds and acts as a service provider for other NATO bodies and Member Nations.

The budget and accounting bases differ. The NATO-IS Civil Budget is prepared and executed on a commitment basis; it is not prepared on an accrual basis. The main causes for differences are the following.

1) The commitment of credits is the advance acceptance and recording of the financial consequence resulting from a legal obligation incurred during the financial year. As a consequence credits are allocated, and commitments are approved, for goods and services to be delivered at a later stage. Commitments are settled when an invoice is presented for payment, and not when the service is rendered or goods delivered as is the case for expenses under accrual accounting. All invoices received after 31 December 2013, but relating to 2013, have been taken into account and allocated against the appropriate commitment.

2) In budget accounting, credits related to grants are committed when the grant is attributed and are carried-forward until the beneficiary has completed its mission and provided the necessary justifications (within the two year carry forward principle) and is paid. Advances paid to the grantee are directly imputed to the commitment; the remaining commitment of credits is carried forward. Under accrual accounting the expense would be taken into consideration when the beneficiary has fulfilled its obligation. Similarly under budget accounting, commitments for capital expenditures are made during the year the purchase order is issued, not when the related works (for instance) are completed.

3) Unliquidated commitments are carried forward and added to the budget of the following financial year in relation to an existing legal commitment or if a special agreement is given by the Budget Committee. Outstanding commitments can be carried forward for two years. As a consequence, the services or goods received may relate to a commitment of credits from previous years' budgets.

4) Commitments, because they are an advance acceptance, and because payments cannot be made above approved credit levels, typically include an estimation factor and are (if only slightly) higher than the actual amount eventually paid. This results in commitments being higher than the actual expenses and in credits eventually lapsing. The overall lapse rate (lapses/commitments) for 2013 is 4.4%. Lapse rates for Personnel, Operations and Maintenance or Capital (respectively 0.6%, 8.5% and 2.2% in 2012) tend to be smaller than for Programmes (17.6% in 2013) because they can be estimated more accurately.

5) Commitments are only made in respect of future payments relating to the initial purpose of the commitment. Commitments for capital expenditures are normally made in the year during which the purchase order is issued. In accrual accounting, the related costs would not appear in the Statement of Financial Performance but in the Balance Sheet and only upon reception of the works, goods or services. Conversely, there is no budgetary commitment of credits for non cash flow transactions such as capital depreciation or provisions which would normally appear in the Statement of Financial Performance under accrual accounting.

6) On an exceptional basis, the Budget Committee may approve the carry-forward of credits without any prior legal commitment, for instance for projects at their initiation stage or planned expenditures. In accrual accounting there would be no expense recorded.

7) The balance of unused budgetary credits (not committed) lapses and is returned to Nations at year-end. Lapses may include cases where a project was eventually not completed or started, and therefore lead to no expense.

As required by IPSAS 24, actual amounts as presented in the Budget Execution Statement are to be reconciled to the actual amounts in the financial statements with the Cash Flow Statement. Actual amounts concerning the budget are the amounts of committed credits. The differences between the budget actual amounts and the Cash Flow Statement are due to the difference in bases.

Reconciliation between budget execution and out-flows of cash:

The NATO-IS 2013 budget authorization (final revised) amounted to EUR 222,149,633.67 of which:

1) EUR 35,280,633.83 corresponded to the carry forward of credits from the previous financial years;

2) EUR 186,869,999.84 (including Provident Fund and Defined Contribution Pension Scheme contributions) related to the specific budget authorisation for the financial year 2013 revised budget;

The actual commitments in 2013 amounted to EUR 211,214,549 and, therefore, the difference with the final budget authorization, amounting to EUR 10,935,083.98 lapsed. As such the latter amount becomes part of the annual 2013 budget surplus and should be returned to the contributing Nations in the following year (with the last call issued in 2014) unless they should decide to re-use this surplus.

Based on the committed credits, an amount of EUR 172,814,487 was considered as expended; due to 2013 invoices paid in 2013 or received at the date of closure of the accounts. Of these, EUR 10,560,332.98 were 2013 related, pending certification and were not yet paid. The difference with the committed credits amounted to EUR 38,400,062.31 and was carried-forward. As explained under Note 10, this included an amount of EUR 7,249,974 of special carry-forward for specific purposes, as agreed by the Budget Committee.

The out-flows of cash in 2013 amounted to EUR 200,414,300 of which EUR 161,141,968 related to budget operations and EUR 39,259,255 related to non-appropriated funds and miscellaneous transactions. The difference of EUR 11,659,719 between the expenditures in the budget execution statement and the cash flow statement is explained as follows.

1) Concerning Personnel Costs: The difference relates mainly to US reimbursable staff. The corresponding expenses are credited to the US account. There is no related cash flow. They might be used as a US contribution to the Civil Budget. There are also EUR 0.489 million in invoices relating to 2012, received but not paid pending certification but considered spent from a budget perspective.

2) Concerning Operating Costs: The difference relates mainly to supplier account invoices relating to 2013 received but not paid pending certification but considered spent from a budget perspective, in the order of EUR 3.2 million as well as to advances and pre-payments to be regularized, and to the net NATO-IS contribution for offices it occupies in buildings used for Partner accommodation (Annex IV) which is treated as an internal transaction with no cash flow.

3) Concerning Capital Expenditure: The difference relates mainly to invoices relating to 2013, received but not paid pending certification (EUR 2.89 million) but considered spent from a budget perspective.

4) Concerning Programme Costs: The main difference relates to (EUR 901 million) advances to external offices (Kyiv, Moscow) to be regularized and to invoices relating to 2013, received but not paid pending certification (EUR 1.35 million) but considered spent from a budget perspective.

Reconciliation between budget funding and in-flows of cash:

		BUDGET		ACTUALS			DIFFERENCE		DIFFERENCE		
		Initial	Final	Commitment	Expenses in Budget Statement	Cash Flow 2013	Commitment minus exp in budget statement	Exp in budget statement minus cash flow	BASIS	TIMING	ENTITY
Use of Fund	**Personnel Costs**	128,429,505	128,402,952	126,854,689	121,971,355	119,139,595	4,883,333	2,831,761	2,831,761		
	Operating Costs	28,858,024	28,458,024	25,458,565	23,556,021	20,030,848	1,902,544	3,525,172	3,525,172		
	Capital Costs	22,402,769	22,829,323	22,416,529	8,262,567	5,286,456	14,153,961	2,976,112	2,976,112		
	Programmes Costs	42,459,335	42,459,335	36,484,767	19,024,544	16,685,069	17,460,223	2,339,475	2,339,475		
	SUBTOTAL Budgetary Operations	**222,149,634**	**222,149,634**	**211,214,550**	**172,814,487**	**161,141,968**	**38,400,062**	**11,672,520**	**11,672,520**		
	Non-budgetary Operations					39,272,332		-39,272,332			-39,272,332
	SUBTOTAL Non-budgetary Operations					**39,272,332**		**-39,272,332**	**0**	**0**	**-39,272,332**
	SUBTOTAL	**222,149,634**	**222,149,634**	**211,214,550**	**172,814,487**	**200,414,300**	**38,400,062**	**-27,599,813**	**11,672,520**	**0**	**-39,272,332**

The following table analyses the funding mechanism of the Civil Budget for 2013.

BUDGET AUTHORIZATIONS	in EUR		REFERENCES
Current year credits	186,869,000.00		INITIAL : BC-D(2013)0005
Re-use of 2011 Lapsed credits	0.00		
Re-use of part of 2012 Lapsed credits	0.00		
Credits carried forward from previous years	35,280,633.83		BC-D(2013)0097
NET TOTAL		222,149,633.83	
UNSPENT BALANCE OF THE YEAR 2012		45,714,579.24	BC-D(2013)0097
Credits carried forward from previous years	35,280,633.83		
Lapsed credits from previous year	9,862,045.35		
Miscellaneous income previous year	346,570.53		
Net Interests previous year	225,329.53		
RE-USE OF 2012 LAPSED CREDITS		0.00	
CONTRIBUTIONS CALLED		168,628,495.59	
Advance 2013	46,700,000.00		FC(CC)(2012)0015(CBC-02)
1st instalment	93,451,750.00		FC(CC)(2013)0008(CBC-01)
2nd instalment	28,476,746.00		FC(CC)(2013)0015(CBC-02)
Rounding budget 2013	-0.41		
OTHER INCOME FROM THE FINANCIAL YEAR		9,806,559.00	
Common operating costs	4,036,825.00		FC(CC)(2013)0015(CBC-02)
Administrative Support	5,769,734.00		FC(CC)(2013)0015(CBC-02)
UNDERCALL 2012 - included in 2sd instalment		-2,000,000.00	
NET TOTAL		222,149,633.83	

Of the total 2013 NATO Civil Budget budget authorization, an amount of EUR 35,280,633.83 corresponded to credits carried-forward from previous financial years The related amounts were fully funded by contributions called before 1 January 2012.

The amount of EUR 186,869,000 related specifically to the final revised budget authorisation for financial year 2013. In order to fund this element, the net contributions due by Nations amounted to EUR 168,628,495. The difference corresponds to the surplus reimbursable to Nations amounting to EUR 18,240,505 which is broken down as per the table below.

Reconciliation authorised budget 2013 and net calls for 2013	
a. Budget authorisation 2013	186,869,000.00
b. Lapsed credits 2012	- 9,862,045.35
c. Miscellaneous income from 2012	- 346,570.53
d. Interest from 2012	- 225,329.53
e. Administrative support income	- 5,769,734.00
f. Common operating costs income	- 4,036,825.00
g. Undercall from 2012	+2,000,000.00
Total net callable in relation to the 2013 budget (= a – b – c – d –e – f + g)	168,628,495.59

(there is a small difference of EURO 0.16 due to the fact that CBMS does not round figures)

It should be noted that EUR 2,000,000 originated from credits lapsed at the end of 2011. The funds were not called in 2012, resulting in an undercall of EUR 2,000,000, which was regularized in 2013.

Contributions called from Nations in 2013 amounted to EUR 168,611,495.43 of which EUR 46,717,000 was called in 2013 as an advance for 2014. EUR 46,700,000 was called in 2012 as an advance for 2013.

The total in-flow of cash related to contributions called amounted to EUR 177,007,257.63 (of which EUR 137,636,987 relates to the current year and EUR 18,532,345 to previous years' contributions due). In addition, EUR 20,650,925 was received in relation to the advance called for 2014 and EUR 640,000 was received as a voluntary advance for the 2014 budget. The differences with amounts called resulted in outstanding amounts receivable.

The in-flows of cash for administrative support, common and operating costs were respectively EUR 3,833,468.86 and EUR 5,769,734.45. The difference from the invoices raised is the outstanding amounts receivable (respectively EUR 0 and EUR 203,666.93).

The in-flows of cash related to non-appropriated fund operations amounted to EUR 35, 432,831.

Personnel Management Information System (PMIS)

The PMIS budget for 2013 was approved by the Budget Committee in the amount of EUR 137,100 (BC-D(2013)0014). Its funding is provided through contributions by the NATO bodies who are members of the PMIS in proportion to their staffing levels. In 2013 EUR 2,369.65 lapsed and will be deducted from the amounts due by the NATO bodies participating in this system in 2013.

PMIS 2013					
	Approved Budget	Commitments	Payments	Lapsed	Carried-Forward
Salaries	115,837.54	115,837.54	115,837.54	-	-
Operations and maintenar	21,262.46	18,892.81	18,892.81	2,369.65	-
Total	**137,100.00**	**134,730.35**	**134,730.35**	**2,369.65**	**-**

Office of Shared Services Budget

An amount of MEUR 5.8 was made available for the pre-financing of the initial Agency Reform transition costs as part of the MTRP 2012-2016 (C-M(20110067). The Budget Committee agreed a framework mechanism for the management and control of the funds related to the initial transition costs and subsequently to the budget allocation of the pre-financed credits to allow full oversight (BC-D(2012)0202-REV1 and BC-D(2011)0209-ADD1). Council agreed this as part of the 2012 Military Budget Recommendations (C-M(2011)0099). The full implementation of OSS at NATO was estimated to cost between MEUR 24.2 and 28.3 as described in the Office of Shared Services Business Case (PO(2011)0239). In considering the Office of Shared Services (OSS) request for the 2013 budget, Nations requested that the Chairman BC inform the Chairman RPPB of the BC's intention to use the pre-financing agreed in 2012 to cover the 2013-2015 costs of the OSS within the agreed total pre-financing amount of EUR 5.8 million (OCB(2012)0039 and BC-DS(2012)0041).

The BC agreed to the 2013 pre-financed allocation of EUR 795,500 and that any unused funds from 2012 could be used in 2013 and onwards in 2014 and 2015 for the OSS. From this amount EUR 89,872.01 was not used and has been carried forward for future use. An amount of EUR 1,305,200 remains frozen.

Office of Shared Services				(in EUR)
		2012	2013	Cumulative Total
Approved Annual Tranche		241,400.00	795,500.00	**1,036,900.00**
Commitments		160,748.27	521,143.89	**681,892.16**
Unused Annual Credits		**80,651.73**	**274,356.11**	**355,007.84**

Office of Shared Services 2013					
	Approved Budget	Commitments	Payments	Not Used	Carried-Forward
Salaries	666,443.43	402,155.62	396,985.00	264,287.81	5,170.62
Operations and maintenan	129,056.57	118,988.27	118,420.97	10,068.30	567.30
Total	**795,500.00**	**521,143.89**	**515,405.97**	**274,356.11**	**5,737.92**

Office of Shared Services 2012					
	Approved Budget	Commitments	Payments	Not Used	Carried-Forward
Salaries	206,200.00	128,289.98	128,289.98	77,910.02	-
Operations and maintenan	35,200.00	32,458.29	32,458.29	2,741.71	-
Total	**241,400.00**	**160,748.27**	**160,748.27**	**80,651.73**	**-**

The 2012 chart above is different from that shown in 2012; it has been updated to reflect payments amounting to EUR 39,319.06 that were regularized.

		(in EUR)
Original Overall Allocation	(a)	5,800,000.00
Approved Annual Tranches	(b)	1,036,900.00
Unused Credits	(c)	355,007.84
Remaining Resources	**(d) = (a-b+c)**	**5,118,107.84**

In 2012, the NATO IS pre-financed the OSS 2012 budget with EUR 241,400; the undercall was dealt with in the military budget calls in 2013. The call for contributions for 2013 was in two calls (FC(CC)20130007(MB-01) and FC(CC)(2013)0012 (MB-02) for the budget of EUR 795,500. Additionally, an advance call was made for 2014 of EUR 200,000.

NOTE 18: SEGMENTS

The tables below provide segment information for financial performance, financial position and cash flow statements for 2013.

NATO INTERNATIONAL SECRETARIAT STATEMENT OF FINANCIAL POSITION
as at 31 December 2013
(All amounts in Euro)

	IS	PMIS	OSS	TRUST FUNDS	PARTNER ACCOMODATION	BUILDINGS	INTER ENTITY	Current Year 31-Dec-13
ASSETS								
CURRENT ASSETS								
Cash and Cash Equivalents								
Cash	2,249.35							2,249.35
Current bank accounts	65,245,854.04	44,773.14	102,177.08	3,172,895.86				68,565,700.12
Cash equivalents	0.00							0.00
Subtotal Cash & Equivalent	65,248,103.39	44,773.14	102,177.08	3,172,895.86	0.00	0.00	0.00	68,567,949.47
Cash Managed for Third Parties				11,844,681.60				11,844,681.60
Total Cash and Cash Equivalents	**65,248,103.39**	**44,773.14**	**102,177.08**	**15,017,577.46**	**0.00**	**0.00**	**0.00**	**80,412,631.07**
Receivables								
Contributions from Member Nations Receivables	44,125,181.46		459,025.00					44,584,206.46
Receivables from Nations, Partners and others	851,979.18				302,883.67		-75,000.00	1,079,862.85
Budget undercall	0.00							0.00
Receivables from other NATO bodies		34,167.21			45,620.91		-45,620.91	34,167.21
Receivables from Staff Members	957,957.29		22.95					957,980.24
Receivables from Post Employment Benefit Schemes	90,827.26							90,827.26
Bank interest accrued	194,266.45		1,320.08					195,586.53
Total Receivables	**46,220,211.64**	**34,167.21**	**460,368.03**	**0.00**	**348,504.58**	**0.00**	**-120,620.91**	**46,942,630.55**
Prepayments								
Other receivables	3,220,709.36							3,220,709.36
Total Prepayments	**3,220,709.36**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**3,220,709.36**
Inventories								
Office supplies	169,477.42							169,477.42
Supplies/maintenance	319,380.16							319,380.16
Medicine and vaccines	343,582.17							343,582.17
Munitions	30,907.00							30,907.00
Total Inventories	**863,346.75**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**863,346.75**
TOTAL CURRENT ASSETS	**115,552,371.14**	**78,940.35**	**562,545.11**	**15,017,577.46**	**348,504.58**	**0.00**	**-120,620.91**	**131,439,317.73**
NON CURRENT ASSETS								
Receivables								-
								-
Infrastructure, plant and equipment	1,035,768.68							**1,035,768.68**
								-
Land and buildings	0.00							-
								-
Intangible assets	9,041,200.87							**9,041,200.87**
TOTAL NON CURRENT ASSETS	**10,076,969.55**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**10,076,969.55**
TOTAL ASSETS	**125,629,340.69**	**78,940.35**	**562,545.11**	**15,017,577.46**	**348,504.58**	**0.00**	**-120,620.91**	**141,516,287.28**

NATO INTERNATIONAL SECRETARIAT STATEMENT OF FINANCIAL POSITION as at 31 December 2013 (All amounts in Euro)	IS	PMIS	OSS	TRUST FUNDS	PARTNER ACCOMODATION	BUILDINGS	INTER ENTITY	Current Year 31-Dec-13
LIABILITIES								
CURRENT LIABILITIES								
Payables								
Payable to Nations								
Interest	108,633.06		1,315.08					109,948.14
Lapsed credits	10,935,083.98	2,369.65						10,937,453.63
Miscellaneous receipts	315,268.95							315,268.95
US & NL reimbursables	5,022,398.28							5,022,398.28
Project accumulated surplus	0.00		355,007.84		210,539.84			565,547.68
Other payable to Nations	1,699,208.68		262.46					1,699,471.14
Total Payable to Nations	**18,080,592.95**	**2,369.65**	**356,585.38**	**0.00**	**210,539.84**	**0.00**	**0.00**	**18,650,087.82**
Payable to Staff	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Payable to NATO Bodies								
Stikker fund	95,535.77							95,535.77
Agencies	45,620.91	76,570.70					-120,620.91	1,570.70
Post Employment Benefit Schemes	0.00							0.00
Total Payable to NATO Bodies	**141,156.68**	**76,570.70**	**0.00**	**0.00**	**0.00**	**0.00**	**-120,620.91**	**97,106.47**
Payable to Suppliers								
Payable to Suppliers	10,443,145.96				117,187.02			10,560,332.98
Accrued expenses	0.00							0.00
Total Payable to Suppliers	**10,443,145.96**	**0.00**	**0.00**	**0.00**	**117,187.02**	**0.00**	**0.00**	**10,560,332.98**
Payable to Others								
Other Accounts Payable	907,066.49		221.81					907,288.30
Trust Funds				15,017,577.46				15,017,577.46
Total Payable to Others	**907,066.49**	**0.00**	**221.81**	**15,017,577.46**	**0.00**	**0.00**	**0.00**	**15,924,865.76**
Total Accounts Payable	**29,571,962.08**	**78,940.35**	**356,807.19**	**15,017,577.46**	**327,726.86**	**0.00**	**-120,620.91**	**45,232,393.03**
Unearned Revenue and Advanced Contributions								
Unearned revenue from budgetary credits	38,400,062.31		5,737.92					38,405,800.23
Unearned revenue from Annex IV - Partners' Accomoda	0.00				20,777.72			20,777.72
Unearned revenue from previous years surplus	0.00							0.00
Unearned revenue advance called for Y +1	46,717,000.00		200,000.00					46,917,000.00
Unearned revenue inventory	863,346.75							863,346.75
Total Unearned Revenue and Advanced Contributions	**85,980,409.06**	**0.00**	**205,737.92**	**0.00**	**20,777.72**	**0.00**	**0.00**	**86,206,924.70**
TOTAL CURRENT LIABILITIES	**115,552,371.14**	**78,940.35**	**562,545.11**	**15,017,577.46**	**348,504.58**	**0.00**	**-120,620.91**	**131,439,317.73**
NON CURRENT LIABILITIES								
Long-term unearned revenue from PPE	1,035,768.68							1,035,768.68
Long-term unearned revenue from intangible assets	9,041,200.87							9,041,200.87
Provisions	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
TOTAL NON CURRENT LIABILITIES	**10,076,969.55**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**10,076,969.55**
TOTAL LIABILITIES	**125,629,340.69**	**78,940.35**	**562,545.11**	**15,017,577.46**	**348,504.58**	**0.00**	**-120,620.91**	**141,516,287.28**
NET ASSETS								
Surplus/Deficit of the period								0.00
Total Net Assets								**0.00**
TOTAL NET ASSETS	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**

INTERNATIONAL STAFF

CASH FLOW STATEMENT

	IS plus Partner Bldg.	PMIS	OSS	TRUST FUNDS	INTERNAL	
CASH FLOW FROM OPERATING ACTIVITIES	2013	2013	2013	2013	2013	2013
RECEIPTS / RECETTES						
Contributions	177,007,257.63		777,875.00	1,483,383.59		179,268,516.22
Advances on Civil Budget	640,000.00					640,000.00
Other operational revenues	9,603,203.31	99,877.18	22,122.61		-131,283.09	9,593,920.01
Financial Revenues	216,281.77	239.62	521.13	18,015.56		235,058.08
Financial Revenues Y 2012	-					0.00
Extraordinary revenues	-					-
Others / Autres	15,803,466.93	75,000.00	200,000.00		-626,976.82	15,451,490.11
Partner Accomodation	1,935,899.29					1,935,899.29
Contributions paid to incorrect account	760,221.20					760,221.20
Net gain on foreign exchange transactions	64,176.76					64,176.76
TOTAL	**206,030,506.89**	**175,116.80**	**1,000,518.74**	**1,501,399.15**	**-758,259.91**	**207,949,281.67**
PAYMENTS / PAIEMENTS						
Personnel Costs (RP1)	(119,139,594.84)	(115,837.54)	(424,043.87)			(119,679,476.25)
Operating Costs (RP2)	(20,030,848.30)	(18,892.81)	(133,078.03)	(1,854,982.68)	131,283.09	(21,906,518.73)
Capital Costs (RP3)	(5,286,455.55)					(5,286,455.55)
Programmes (RP4)	(16,685,069.15)					(16,685,069.15)
Partner Accomodation	(1,795,504.16)					(1,795,504.16)
Correction of Contributions paid to incorrect account	(760,221.20)					(760,221.20)
Miscellaneous Payments	(20,051,122.73)	(934.56)	(350,521.13)		626,976.82	(19,775,601.60)
Financial Costs	(37,743.74)	(5.00)	(5.00)	(5,041.52)		(42,795.26)
Net loss on foreign exchange transactions	(118,479.61)					(118,479.61)
TOTAL	**(183,905,039.28)**	**(135,669.91)**	**(907,648.03)**	**(1,860,024.20)**	**758,259.91**	**(186,050,121.51)**
NET CASH FLOW FROM OPERATING ACTIVITIES	**22,125,467.61**	**39,446.89**	**92,870.71**	**-358,625.05**	**0.00**	**21,899,160.16**
CASH FLOW FROM INVESTING ACTIVITIES						
PURCHASE OF NON CURRENT ASSETS						-
						-
NET CASH FLOW FROM INVESTING ACTIVITIES	**0.00**					**0.00**
CASH FLOW FROM FINANCIAL ACTIVITIES						
RECEIPTS / RECETTES	0.00					0.00
PAYMENTS / PAIEMENTS	0.00					0.00
NET CASH FLOW FROM FINANCING ACTIVITIES	**0.00**					**0.00**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS OF PERIOD	**22,125,467.61**	**39,446.89**	**92,870.71**	**-358,625.05**	**0.00**	**21,899,160.16**
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**43,122,635.78**	**5,326.25**	**9,306.37**	**3,531,520.91**		**46,668,789.31**
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**65,248,103.39**	**44,773.14**	**102,177.08**	**3,172,895.86**		**68,567,949.47**
CASH FLOW FROM THIRD PARTIES						
RECEIPTS	13,975,230.31					13,975,230.31
PAYMENTS	(13,605,398.57)					(13,605,398.57)
NET CASH FLOW FROM THIRD PARTIES	**369,831.74**					**369,831.74**

With regard to the Partner Accommodation segment, the 2013 financial year resulted in a surplus of EUR 202,363.22 (deficit of EUR 54,257.70 in 2012). However, the commitments carried-forward from previous years resulted in a deficit of EUR 513.20 (surplus of EUR 31,152.14 in 2012) as the result of an under-estimation of amounts due to miscellaneous suppliers. The surplus from the previous year (i.e. end 2012) amounted to EUR 8,689.82. As a consequence, at the end of 2013, there was a surplus of EUR 210,539.84.

NOTE 19: WRITE-OFFS

Type of property	Year of purchase	Purchase value (EUR)	Reference
Furniture and miscellaneous	1959-2012	95,839	EM(IFM)(2013) 0080
Security equipment	1983-2009	76,705	2062/AC, 3541/AC and 3994/AC purchase orders that included supplier taking back written off equipment
Computer and electronic material	1977-2011	172,021	EM(IFM)(2013) 0080
1 tractor and 2 vehicles	1998-2007	53,665	EM(IFM)(2013) 0080

NOTE 20: LEASES

An analysis of lease contracts was conducted and it was considered that some of them had characteristics that could have led them to be considered as finance leases (in the IPSAS 13 sense) in particular as relates to the rent of portacabins for temporary accommodation (e.g. Buildings V, VA) and the Manfred Wörner building. However in consideration of the fact that NATO-IS will move to new premises in 2016, the rental period will be shorter than the remaining economic life of this equipment. As a consequence, all leases in NATO IS are classified as operating leases. Fees payable under these lease agreements are accounted as expenses in the Statement of Financial Performance on a straight-line basis over the relevant lease term.

Belgium has granted to NATO by way of concession a plot of land on which NATO is authorized to erect all necessary buildings and facilities needed to perform its functions. A symbolic price is paid annually for the rent. NATO is the full owner of all constructions made. Belgium remains the sole and full owner of the land, which is public domain (“domaine public”). The concession ends 180 days after NATO has left the buildings and facilities. At the end of the concession, there will be no property rights transferred to NATO. As a consequence, given the indefinite economic life of land and the specific nature of concessions, the use of the land is classified as an operational lease. The rent charged by the host nation is recognised as an expense in the statement of financial performance.

The operating leases at the reporting date can be classified into three categories for which the annual lease amount for year 2013 is set out below:

- Temporary building offices : EUR 3,894,663 (in 2012 EUR 3,914,245)
- Transport equipment : EUR 165,771 (in 2012 EUR 176,005)
- Photocopiers : EUR 328,479 (in 2012 EUR 341,974)

NOTE 21: RESTRICTIONS ON FIXED ASSETS

There are no restrictions on fixed assets.

NOTE 22: CONTINGENT LIABILITIES

A number of contingent liabilities have been identified, but the total possible obligation relating to these items is not expected to be material.

NOTE 23: CONTINGENT ASSETS

Nothing to report.

NOTE 24: EMPLOYEE DISCLOSURE

Accounting for employee benefits is accounting for any liability in relation to all forms of consideration given by an entity in exchange of service rendered by employees.

At 31 December 2013, NATO-IS had an approved Personnel Establishment of 1169 positions funded by the Civil Budget of which 1084 were occupied as of December 2013. Also, NATO-IS receives “in kind” services provided by nationally funded personnel known as Voluntary National Contributions (VNCs). During 2013, 97 VNCs worked for the IS at HQ. Another 6 civilian and 3 military VNCs worked in the SCR’s office in Kabul, 6 worked in Georgia for PASP and DPP had 14 VNCs located in Pristina, Kosovo, who man the NATO Advisory Team (NAT).

At 31 December 2013, NATO-IS had 7455 days of untaken leave. The value of this is not recognised in the financial statements.

The NATO-IS manages centrally three pension schemes, namely the Defined Benefit Pension Scheme (DBPS), the Provident Fund and the Defined Contribution Pension Scheme (DCPS), as well as the Retirees Medical Claims Fund (RMCF), covering staff employed by all NATO bodies. NATO wide financial statements are issued by the NATO-IS Office of Financial Control for the three pension schemes and the RMCF; therefore, no related assets or liabilities are recognised in these financial statements.

Three staff are affiliates of the NATO Provident Fund (the Fund), which is a defined contribution pension scheme which provides retirement benefits to civilian staff recruited by NATO before 1 July 1974 and who decided not to join the Defined Benefit Pension Scheme set up at this date. Benefits are paid upon retirement as one lump sum, being the total of the individual right acquired. Monthly contributions, paid directly into the Fund, are made by staff and NATO, being 7% and 14% respectively of basic salary.

431 staff members participate in the Defined Contribution Pension Scheme (DCPS) administered by NATO. The DCPS provides that the NATO-IS budget makes a 12% monthly matching contribution to the staff members contributions for current service. 644 employees participate in NATO's Defined Benefit Pension Scheme (DBPS): a deduction of 9% of their salaries is made and contributed to the annual financing of this Plan. In addition, the NATO-IS budget makes a monthly matching contribution of 18% to the DBPS. These contributions are expensed during the year in which the services are rendered and represent the total pension obligation of the entity. Consequently, the NATO-IS has neither DBPS nor DCPS liability for its staff members. Also, 13 staff members are employed on reimbursable basis with an agreement between NATO-IS and the United States. Their salary is paid directly by the US using national salary scales and the US is reimbursed the costs corresponding to the grade of the post occupied by the staff member (see also Note 9). Those individuals are paid and accrue pension rights under a United States pension scheme. A similar agreement exists with the Netherlands and currently applies to 1 staff member.

The contributions for pensions paid are as follows:

2012	Staff	Employer	Total
Provident Fund	30,540.60	61,081.20	91,621.80
Co-ordinated Pension Scheme	4,544,457.00	-	4,544,457.00
Defined Contribution Pension Scheme	2,283,809.40	3,264,348.91	5,548,158.31
TOTAL	**6,858,807.00**	**3,325,430.11**	**10,184,237.11**

2013	Staff	Employer	Total
Provident Fund	7,855.80	15,711.60	23,567.40
Co-ordinated Pension Scheme	4,111,835.86	-	4,111,835.86
Defined Contribution pension Scheme	2,432,014.96	3,522,959.25	5,954,974.21
TOTAL	6,551,706.62	3,538,670.85	10,090,377.47

NOTE 25: KEY MANAGEMENT PERSONNEL

The North Atlantic Council is the governing body of NATO. It approves the Civil Budget further to screening and recommendation by the Budget Committee (BC) and the Resource Policy and Planning Board (RPPB). Members of the North Atlantic Council, the BC and the RPPB are nominated by their respective national authorities. They are paid on the basis of applicable national pay scales. They do not receive from NATO any additional remuneration for their responsibilities or access to benefits.

For the purposes of IPSAS 20 implementation, key management personnel of the International Staff are the Secretary General, the Deputy Secretary General, the Director of the Private Office, the seven Assistant Secretary Generals, the Senior Civilian Representative in Afghanistan and the three Directors of Independent Offices (Security, Resources and Financial Control). The aggregate remuneration and the number of individuals on a full time equivalent basis are:

Aggregate remuneration: EUR 3,476,179
Number of persons: 14

The Secretary General is provided with accommodation at no cost in premises belonging to the Organisation. The residence is serviced by three established posts. The operating and maintenance costs of the residence are EUR 156,485 in 2013. The residence was assessed in November of 2013 as being worth EUR 10,300,000. The Deputy Secretary General is provided with an approved special allowance to contribute towards the lease of accommodation suitable for representation at the Ministerial and distinguished visitor level. The Secretary General is entitled upon departure to a special leaving allowance, equal to one year's basic salary if a full four year term was served.

On 1 June, 2013, the NAC approved changes to the Representation Allowance system. A key element was that in lieu of monthly allowances being paid out and then reimbursed by the recipients if unused, recipients now submit receipts and are then reimbursed up to the allocated ceiling. The OFC is responsible for the day to day verification, with IBAN able to disallow expenses if deemed necessary.

A total of 13 senior staff are entitled to a Representation Allowance the use of which is subject to a specific control by the OFC. This includes the Secretary General, the Deputy Secretary General, the Director of the Private Office and the seven Assistant Secretary Generals. The gross amount paid was EUR 119,611.50 in 2013. The gross amount paid in 2012 was EUR 172,501. Unused funds and disallowed expenses are returned to the Organisation, for 2012 this was in the order of EUR 14,000.

Key management staff have access to a pool of vehicles for official business.

There is no other remuneration or benefits to key management personnel and their family members. Key management personnel is entitled to receive loans which are also available to other members of the NATO International Staff.

NOTE 26: RELATED PARTIES

There have been the following related party relations.

Member Nations and NATO bodies

NATO-IS performs certain administrative support and common operating services for which in 2013 a total amount of, respectively EUR 5,769,734 (EUR 5,677,550.86 in 2012) and EUR 4,036,825 (EUR 4,151,808.91 in 2012) was charged to other NATO bodies and Member Nation delegations. These amounts come as a deduction to the budget contributions due from Nations to fund the Civil Budget.

Belgium provides military personnel in support of activities related to security (Delegation Militaire de la Sécurité Technique) and to communications (Communications Branch of the Situation Centre), for which respectively EUR 474,872.31 (EUR 382,142.63 in 2012) and EUR 1,743,873.75 (EUR 1,708,830.38.87 in 2012) were charged by the Belgian Ministry of Defence and paid by the Civil Budget.

Thirteen NATO-IS staff members are employed on a reimbursable basis with an agreement between NATO-IS and the United States. Their salaries are paid directly by the US using national salary scales and the US is reimbursed the costs corresponding to the grade of the posts occupied by these staff members (see also Note 9). A similar arrangement exists for Netherlands staff and one, individual benefits from it.

Member and Partner Nations

The NATO-IS Office of Financial Control is the Treasurer for the operations related to 32 Trust Funds which were active in 2013. The Trust Funds were authorized under NATO's Partnership for Peace Programme, the Mediterranean Dialogue Programme, the NATO-Russia Council, the NATO-Ukraine Commission and the NATO-Georgia Commission. The OFC also received financial resources on a bilateral ad-hoc basis from nations in support of specific activities conducted by NATO-IS or as a complement to the Civil Budget funding for certain activities. For Trust Funds a Lead Nation (NATO member) is normally designated. Partner nations can also participate in such additional funding. No management fees are charged by the IS to cover the related costs.

The table below analyses the payments and receipts linked to trust funds:

	Opening balances	Contributions received	Disbursements	Interest/Gain on exchange	Bank charges/Loss on exchange	Refunds of closed accts	Closing balances
TRUST FUNDS							
NTF-GEO - PROF.DEV.PGR.	383,743.62	126,908.48	217,785.54	2,358.70	1,833.05		293,392.21
NTF - GEORGIA III	325,571.92	0.00	0.00	3,463.94	5.00	329,030.86	0.00
NTF - TAJIKISTAN II	232,219.34	212,280.89	0.00	1,293.41	5.00		445,788.64
NTF - MOLDOVA III	591,191.45	473,109.37	800,000.00	1,963.49	5.00		266,259.31
NTF - BOSNIA-HERZ. II	960,226.39	503,397.56	1,000,000.00	5,660.69	23.15		469,261.49
NTF - AZERBAIJAN JCP	514,039.88	833,353.60	400,000.00	4,358.79	23.15		951,729.12
NTF - UKRAINE II PH 2	246,388.58	296,440.76	14,236.58	1,628.75	17.10		530,204.41
NTF - NATO-UKRAINE RADACT DISP	0.00	85,000.00	0.00		5.00		84,995.00
NTF - GEORGIA IV	88,690.59	220,176.81	0.00	41.83	5.00		308,904.23
NTF - JORDAN III	0.00	20,000.00	0.00		0.00		20,000.00
NTF - SERBIA IV	0.00	814,929.01	0.00		12.10		814,916.91
NTF - BELARUS - APM	22,595.97	0.00	0.00	144.99	5.00		22,735.96
NTF - UKRAINE II - SALW	14,251.75	0.00	0.00	91.39	5.00		14,338.14
NTF - KMELNITSKY	56,989.70	100,000.00	155,000.00	584.52	59.45		2,514.77
NTF - JORDAN I	419,732.02	0.00	0.00	3,187.46	5.00	422,914.48	0.00
NTF - MAURITANIA	518,898.01	261,660.14	115,000.00	4,838.06	11.05		670,385.16
NTF - JORDAN III	198,821.45	10,000.00	190,305.04	3,254.61	11.05	21,759.97	0.00
NRC - CAI PHASE III	9,957.53	0.00	0.00	152.84	5.00	10,105.37	0.00
NRC - CAI PHASE IV	82,215.58	456,452.84	250,000.00	1,125.33	5.00		289,788.75
NRC - HELICOPTER MAINTENANCE	3,406,060.60	4,003,000.00	5,425,000.00	18,280.58	5.00		2,002,336.18
NRC - HELICOPTER MAINTEN. (USD)	316,800.77	0.00	85,988.88		4,318.18		226,493.71
NRC - DISP EXCESS AMMUNITION	0.00	50,000.00	0.00		0.00		50,000.00
NRC - HELICO MAINTENANCE II	0.00	4,085,000.00	1,500,000.00		0.20		2,584,999.80
NRC - AFGHAN. & ASIA (USD)	198,365.48	941,443.01	1,061,646.36		4,886.73		73,275.40
NRC - CAI PHASE II	48,570.39	0.00	0.00	383.31	5.00	48,948.70	0.00
NRC - TMD III	24,893.06	0.00	0.00	159.75	5.00		25,047.81
NATO CNAD VNCF	299,600.00	123,875.21	50,000.64	190.11	11.05		373,653.63
Sub-total 2013	8,959,824.08	13,617,027.68	11,264,963.04	53,162.55	11,271.26	832,759.38	10,521,020.63
NATO MANAGED TRUST FUNDS							
CRISIS MGMT IN MAURITANIA	0.00	606,618.78	0.00		0.00		606,618.78
JWGDR	309,877.57	74,792.81	132,696.86	2,213.37	380.10		253,806.79
NTF BLDG INTEGRITY	1,165,436.03	297,164.40	307,583.83	5,957.48	612.53		1,160,361.55
NRC - WEB SITE	55,840.49	3,500.00	44,998.32	242.01	5.00		14,579.18
NATO EXPLOSIVES DET.	1,853,738.74	0.00	916,800.66	9,602.70	5.00		946,535.78
NATO SILK AFGHANISTAN (USD)	146,628.08	501,307.60	452,903.00		4,038.89		190,993.78
Sub-total 2013	3,531,520.91	1,483,383.59	1,854,982.67	18,015.56	5,041.52	0.00	3,172,895.86
TOTAL 2013	12,491,344.99	15,100,411.27	13,119,945.72	71,178.11	16,312.78	832,759.38	13,693,916.49

Employee Benefits

NATO-IS is responsible for the management at the NATO-wide level for the three pension systems (Provident Fund, Defined Benefit Pension Scheme, Defined Contribution Pension Scheme) and the Retirees Medical Claims Fund. Separate financial statements are issued by the NATO-IS Office of Financial Control. No management fees corresponding to the related costs incurred by NATO-IS are charged to these entities.

Staff Centre

In October 2013, Nations approved a new mandate for the Staff Centre under C-M(2013)0054 with a view to transitioning to a fully customer funded model in 2016. An Executive Board was established in 2013 to provide oversight of Staff Centre operations. The Chairman of the Board is nominated by the

Secretary General and is currently the ASG EM. Other members of the Board include other Executive Management staff, the IMS Executive Officer and the Director of the Staff Centre. Two members of the Budget Committee attend ex-officio.

Appendix 1 Annex 1 of the C-M outlines under the heading of Category A, all activities that can receive Civil Budget funding. The total amount of expenditures paid by the Civil Budget in that respect amounted to EUR 995,856 in 2013 (EUR 1,127,020.25 in 2012).

In addition, NATO-IS provided administrative support and common operating services to the Staff Centre in an estimated amount of respectively EUR 274,145 and EUR 643,107 (EUR 272,607 and EUR 648,093 in 2012).

With regard to the principle of consolidation of Morale and Welfare Activities, the recent decision by the Council (C-M(2013)0006) adopting a way-ahead on the implementation of IPSAS states that, "NATO entities should capture financial information in support of morale and welfare activities by way of a note disclosure to the financial statements and not consolidated in the Financial Statements". This Council decision applies as from reporting year 2013.

The Staff Centre has its own financial statement.